Severn Trent Water Limited
Report and financial statements
For the year ended 31 March 2024

Company number 2366686

Severn Trent Water Limited

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Contents

HIGHLIGHTS

Turnover
£2,122.0m (2022/23: £1,965.9m)

Profit before interest and tax
£496.4m (2022/23: £482.7m)

Households and businesses served
4.6 million (2022/23: 4.6 million)

Litres of drinking water supplied each day
1.9 billion litres (2022/23: 2 billion)

Litres of wastewater treated per day
3.3 billion litres (2022/23: 2.8 billion)

Employees[1]
7,942 (2022/23: 6,998)

1. Average employees during the year.

OUR PR24 BUSINESS PLAN

Every five years, water companies in England and Wales put together their plans for the future. We talk to our regulators, Government and, most importantly, our customers to find out what's important to them. Our PR24 Business Plan covers 2025-30, but the changes we're making will have an impact for decades to come.

Find out more about our PR24 Business Plan on pages 7 to 9.

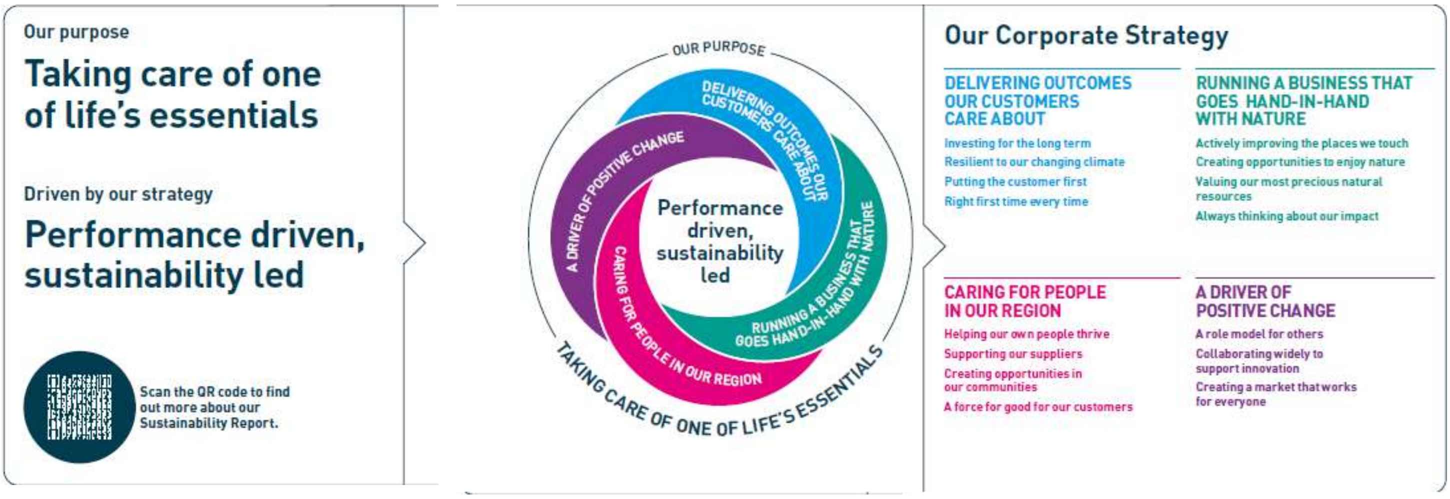
SEVERN TRENT AT A GLANCE

INTRODUCTION TO OUR STRATEGY

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.

We are one of the 11 regulated water and wastewater businesses in England and Wales. Our regulated business provides essential services to over 4.6 million households and businesses.

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. There are more conurbations than any other water company’s region, yet we also serve predominantly rural counties and communities. It is a region which is characterised by, and benefits from, its diversity.



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.

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, 11 also provide wastewater services, including Severn Trent Water Limited.

How we plan for the long term

We recognise that the future is uncertain and that we cannot predict with accuracy what will happen. Therefore, we employ a strategic planning process to understand the risks we may face and identify the most appropriate response.

Key trends

By considering what the most influential trends might be, we can assess the different drivers of change and start to visualise how the future may look and respond to any opportunities that arise from a rapidly shifting sector.

1. **Horizon Scanning**

Considers key trends and their implications, together with potential market developments, to identify and model alternative versions of the future and the pathways to them.

2. **Future Priorities**

Describes our future priorities based on the challenges posed by key trends, together with our organisational purpose, the needs of our customers and other stakeholders, and current performance.

3. **Enablers**

Identifies the enablers which underpin our future priorities, and the level of ambition appropriate for each one. Allows us to look holistically across our business and ensure we have a coherent plan, which balances the needs of different stakeholders.

4. **Delivery Plans**

Creates a plan for each priority area and enables us to deliver on our ambitions, reflecting current commitments and delivery capabilities. Plans include reference to the implications on our people and technology systems as well as major infrastructure assets.

	Key trends and challenges	How we are responding	Principal Risk
Climate change	Climate change will continue to impact global weather patterns and create more extreme weather events such as flooding and drought. We anticipate further interventions around decarbonisation and a focus on reducing carbon emissions.	In response to climate change, we will improve the resilience of our network and infrastructure, whilst maintaining a safe and high-performing culture. We will continue to focus on reducing our carbon footprint and that of our supply chain. We have committed to being net zero on our Scope 1 and Scope 2 operational emissions by 2030.	11 and 12

Environmental change	Change in land use as a consequence of demographic change (such as more housing developments) and climate change (extreme weather) has potential to impact the environment and ecosystems. Awareness of environmental issues and the value and role of our natural environment is increasing in society.	We will identify, design and adopt more sustainable practices to support the natural environment in response to these challenges. We have invested £1.2 billion this year, bringing the total investment this AMP to over £3 billion, improving our network resilience. We will minimise waste and support the principles of a circular economy wherever possible.	11 and 12
Demographic and social change	The UK population is expected to grow over the next 25 years. Our population is expected to have a higher proportion of single occupancy households and an increasingly ageing population. This growing population is likely to result in a higher demand for water, pressure on existing housing and a greater need for food and subsequent demand for water in agriculture.	Given the increased demand for water, we have made significant investments to bolster our resilience to source and deliver water and help our customers to become more water conscious. We will continue the move towards digital channels to allow our customers to contact us in the most convenient way to them.	10
Affordability challenges	The impacts of future recessions and periods of economic growth will not be shared equally, with impacts unevenly spread across our household and non-household customers. Responding to future environmental and social change will require investment by water companies, which will need to be balanced against the impact on customer bills.	In AMP8 we are increasing our affordability support to £550 million. We will continue to review our systems and processes to support our customers, and deliver a high-quality, affordable service. We will work with our communities to make a positive social difference, including building skills capability and employment opportunities in our region.	4
Maturing technologies	The increasing use of developing technologies is likely to result in the greater use of smart devices, Artificial Intelligence (‘AI’) and machine learning, automation, data and cyber security technologies.	To support future resilience, we will continue to invest in our physical assets and also utilise new technologies to ensure we can run those assets efficiently and safely, especially at times of stress. Combining AI and machine learning will enable us to combine real-time sewer data with historical performance and meteorological data to predict network performance and identify problems before they materialise.	6

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.

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’) regulates and 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.

Ofwat is the economic regulator for the water and wastewater 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.

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.

Ofsted, the regulator for education, children’s services and skills, since our Academy became accredited.

The Department for Environment, Food & Rural Affairs (‘Defra’) in England provides strategic and policy direction for the industry and our regulators.

A key year in our regulatory cycle

Every five years, Ofwat reviews the prices we charge for the forthcoming five-year period. They also review our Plan setting out how we intend to deliver for customers and the environment. In October 2023, we submitted our Severn Trent Water Business Plan for AMP8, which run from 2025-30. Further information about our Severn Trent Water Business Plan is available on our website.

OUR PR24 BUSINESS PLAN

Planning in a changing world

Every five years, water companies in England and Wales put together their plans for the future. We talk to our regulators, Government and, most importantly, our customers to find out what is important to them. Our Business Plan (our 'Plan'), submitted in October 2023, is the most ambitious in our history. It is built on a strong track record and developed in consideration of over 68,000 customers' views and feedback. It shows we want to play a leading role in restoring our sector's credibility today, whilst also making significant investment for sustainable change for future generations.

Subject to regulatory approval, this ambitious Plan looks to invest £12.9 billion to deliver benefits for our customers and communities, the environment and all stakeholders.

Investment

Our Plan proposes £12.9 billion of total expenditure across our network, including £5 billion of investment focused on enhancing capacity and service beyond current levels, almost all of which is focused on the environment. Our Plan seeks to invest over £1 billion of capital expenditure each year, over five years, the scale of which means that for every household we serve, we will invest £2,400 back into the region, delivering a further step change in service for more than four million customers across the Midlands.

In line with over 68,000 customer views that we sought as part of our Plan's development, our investment will deliver improvements on the measures that our customers care about most, including a 16% reduction in leakage and a 30% reduction in spills from storm overflows, putting us firmly on track to deliver the Government's 2050 targets at least five years early. We will also build on our industry-leading environmental performance, as demonstrated by securing 4* EPA status for four consecutive years, by driving a further 30% reduction in pollutions. We will invest £5 billion across 11 enhancement cases, as follows:

– Transforming the natural environment (Water Industry National Environment Programme ('WINEP')).

– Protecting raw water quality.

– Meeting future water needs.

– Our journey to net zero – reducing process emissions.

– Alternative water supplies.

– Physical security.

– Enhancing cyber security.

– Reservoir safety.

– Water resilience.

– Urban catchments of the future.

– Reducing lead pipes.

Our Plan is expected to create up to 7,000 jobs directly in the business and our supply chain and will also enable thousands of new work experience placements, apprenticeships and internships.

Our Plan has been developed to balance the need for scale investment and sector-leading ambition while committing to keep bills affordable. We recognise that while increases to bills are spread over a long period, this is a difficult time for some of our customers. That is why we have included a £550 million financial support package as a core part of our Plan. But we're not waiting for AMP8 to make a difference. We're making the right investments now, with at least £450 million additional expenditure accelerated into AMP7 to get a head start on our targets and enhance our current performance. We have a strong track record on deliverability, supported by our robust governance procedures, effective organisational structure and strong talent and expertise. This ensured we achieved the required AMP8 run rate in 2023/24 and we are on track to do so again in 2024/25, demonstrating that we can deliver the levels of investment required in AMP8. Our full Plan is available on the Severn Trent Water website at stwater.co.uk/about-us/our-plans-2025-30.

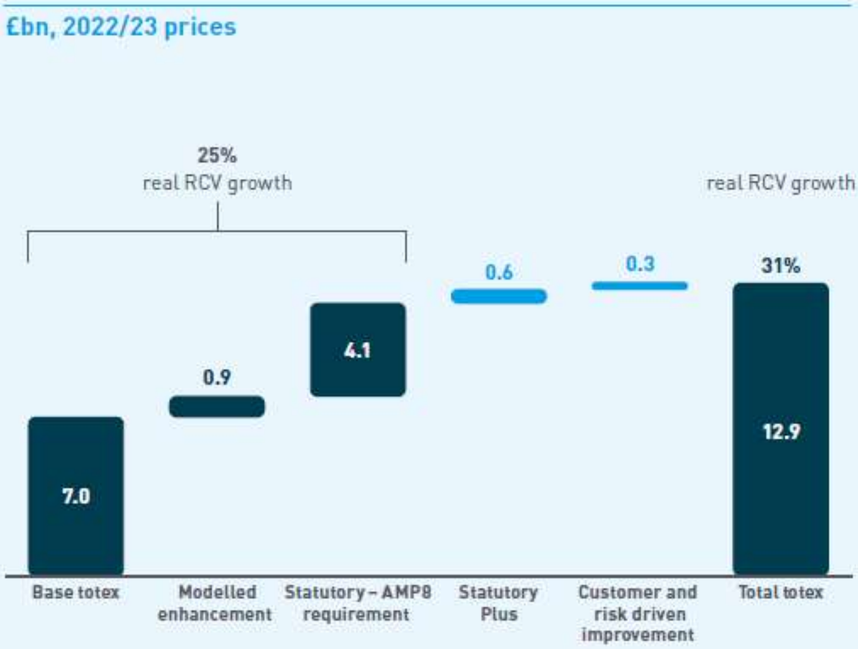
Investment

Base total expenditure ('totex') and modelled enhancement – The running costs of our business, driven primarily through econometric models.

Enhancement totex: Statutory AMP8 requirement – This enhancement investment is to meet statutory targets by 2030 or earlier. This is non-discretionary spend and represents 82% of the £5 billion of enhancement cases.

Enhancement totex: Statutory Plus – This enhancement investment is required in order to meet statutory targets beyond 2030, which we are choosing to accelerate in order to deliver benefits to customers and the environment earlier than required.

Enhancement totex: Customer and risk driven – This enhancement investment goes beyond our statutory requirements and is driven by our assessment of customer requirements and risk mitigation, supported by comprehensive business cases.



Our key areas of focus

Our Plan will deliver across the three pillars that our customers have told us are important to them:

1. High quality and reliable
A high-quality, reliable service that can be depended on no matter what, where our customers know they are valued.

2. Sustainable
Confidence we are doing the right thing for the environment, society, and future generations.

3. Affordable
Water should be affordable for everyone – so that no person or generation is left behind.

Affordability and support

Our bills are £29 a year lower than the industry average, and £85 a year lower than the highest. We've worked hard to ensure we aren't passing on unnecessary costs to customers, building on our strong track record of delivering our totex programme efficiently. The scale of the investment we're proposing means that bills will need to go up between 2025 and 2030 by an average of £2.32 per month, over the next five years. With other water companies also planning large investment programmes, we anticipate our bills will stay amongst the lowest.

We recognise and understand that our customers are feeling the effects of economic uncertainty and cost of living pressures. Our Plan challenges us to keep driving efficiency further, to minimise the impact of our increased level of investment on bills and we are committed to the principle that customers won't pay for the same thing twice.

Our sector-leading affordability package will build on our existing programme of support and will help c.700,000 customers who need help paying their bill each year by 2030, the equivalent of one in six customers.

The number of our customers expected to benefit from financial support exceeds those forecast to be in water poverty by 2030. This includes those who may be at risk of falling behind with their bills, or experiencing short-term challenges, by offering payment breaks and payment plans, while offering a range of other support options tailored to our customers' needs, including support in increasing water efficiency, backed by our extensive metering programme.

Alongside our affordability package, we have also developed our Customer Vulnerability Strategy during the year to ensure our support is accessible to customers who need it now, and in the future.

OUR BUSINESS MODEL

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, regulators and Government, 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, Showing Care, Taking Pride and Embracing Curiosity 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 resources and relationships

Physical assets

We maintain over 50,000 km of clean water pipes, over 93,200 km of sewer pipes, and c.130 water and c.1,000 wastewater treatment works.

Principal Risks: 2 and 3

Strategic objectives:

Natural resources

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

Principal Risks: 2, 3, 11 and 12

Strategic objectives:

Financial capital

Our shadow RCV is in excess of £12 billion.
Our net debt represents 59.7% of our shadow RCV.

Principal Risks: 8 and 9

Strategic objectives:

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 Risks: 4, 6 and 10

Strategic objectives:

Our people and culture

We look to attract, develop and retain talented people from all backgrounds. We directly employ c.7,000 people.

Principal Risks: 1 and 13

Strategic objectives:

Suppliers and partnerships

We work with over 1,600 direct suppliers. 100% of contracted suppliers have signed up to our Sustainable Supply Chain Charter.

Principal Risks: 5

Strategic objectives:

What we do

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

1 Collect raw water

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

2 Clean raw water

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

3 Distribute clean water

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

4 Customers enjoy our services

4.7 million households and businesses use our services, delivered by a team of over 9,000 employees, and supported by our contact centres, always ready to help.

5 Collect wastewater

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

6 Clean wastewater

Wastewater is carefully screened and treated in our wastewater treatment works to meet stringent environmental standards.

7 Recycle water to the environment

We safely return treated water to rivers and watercourses.

8 Green energy

The green energy we generate through our Business Services activities contributes to meeting our net zero targets and keeping our energy costs down.

The value we create for all stakeholders

Our customers

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

How we measure this
ODI performance (% of targets/measures met or exceeded target)

2023/24	76%
2022/23	79%

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
Employee engagement score (out of 10)

2023/24	8.6
2022/23	8.4

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
Severn Trent Community Fund (£m donated to charitable projects in our region)

2023/24	2
2022/23	2

Our suppliers and contractors

Strong supplier relationships ensure sustainable, high-quality delivery for the benefit of all stakeholders, supporting our business operations in line with our Code of Conduct and Modern Slavery commitments.

How we measure this
Average time to pay suppliers (days)

2023/24	33
2022/23	31

Regulators, Government and NGOs

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

CHAIR'S STATEMENT

Serving our stakeholders, now and for the long term

Severn Trent has a long history of industry-leading operational and environmental performance and strong financial resilience. The last 12 months have re-emphasised the importance of these critical pillars, whilst at the same time highlighting the need for us to demonstrate consistent leadership beyond the day-to-day running of our business.

Our sector has been subject to heightened public interest and we must, as a whole sector, respond to this by stepping up to the challenge that this brings to rebuild trust and meet the expectations of our customers and wider stakeholders, both now and for the long term. I am proud of the role Severn Trent has played in forging a path to meet these expectations – by setting bold ambitions, accelerating investment, and embodying the social purpose we so passionately believe in. At the same time, we acknowledge that there is more to do in the areas that matter most to our customers and wider stakeholders.

Planning for the future

Our Business Plan for 2025-30 (our 'Plan') will support this through an investment proposal of £12.9 billion to secure water resources for the future, transform river health in our region and deliver operational net zero by 2030. Our investment will also deliver improvements in the service we deliver for our customers, with a planned 30% reduction in combined sewer overflow ('CSO') spills and pollutions, and a further 16% reduction in leakage over the course of AMP8.

Underpinning our ambitious Plan are a number of core pillars. As a Board, we developed the strategy that underpins our Plan and spent time considering detailed updates throughout its development ahead of our Plan being submitted, with a particular focus on:

- **Ambition** – through challenging our own ambitions to drive better outcomes for our customers, communities and the environment both now and over the long term;

- **Deliverability** – ensuring we have the people and supply chain in place to deliver our investment. The Board scrutinised the Company's approach to AMP8 deliverability to ensure that robust governance procedures are in place, supported by an effective organisational structure and strong talent and expertise within the Company and its supply chain;

- **Affordability** – offering a comprehensive package of support for customers who might struggle to pay their bill. The Board scrutinised the Company's affordability and societal approach – with detailed consideration given to potential impacts to customer bills in view of our existing commitment to keep absolute bills as low as possible for all customers whilst also delivering improved resilience, sustainability and customer outcomes. Alongside our affordability activity, the Board also oversaw the development of our Customer Vulnerability Strategy, which seeks to outline the support and services offered to customers in vulnerable situations, particularly those who need extra help accessing our services. The Board also considered the vital role that we play in our communities to drive positive change and leverage our resources to make a positive impact across our region. This is best embodied by our 10-year Societal Strategy which you can read more about in the pages that follow;

- **Transparency** – to provide all of our stakeholders with confidence that our strategy for data assurance and governance processes support high-quality data across all aspects of our Plan;

- **Resilience –** to ensure that our Plan will deliver operational, financial and corporate resilience over the next control period and long term; and

– **Financeability** – securing the appropriate funding to safeguard our financial resilience.

I would like to express my thanks to the 68,000 customers we consulted with in the development of our Plan. It was useful to meet our customers and members of our communities to discuss their priorities, through attending our customer focus groups and 'Your water, your say' sessions, which provided insight on their views and the challenges they face. I am confident that the Plan we have developed and submitted fully reflects customer expectations.

Climate resilience

A key theme of our Plan is resilience and the last two years have reinforced the need for resilience today and for the long term, with one of the driest years on record being followed by one of the wettest. Increasing weather extremes such as extended periods of hot and/or wet weather are expected to become more commonplace as we feel the impact of climate change. We must therefore find innovative ways to ensure we continue to deliver our essential services, whilst also safeguarding the environment.

Our teams have worked determinedly to manage the challenging conditions of the last 12 months, which have seen 10 named storms from September to March. From the leadership team through to the frontline, the hard work and commitment shown to continue to deliver strong operational, environmental and financial performance has been evident.

To bolster our preparedness for the future, the Board has overseen the Company's management of storm events, incorporating learnings from our established Summer Readiness and Winter Readiness approaches. In response to Storm Babet, we oversaw the Company's approach for future storm events, focusing on proactive measures to be implemented in anticipation of storm events, prioritisation of resources, communications with customers and communities and reactive actions to be deployed to mitigate the impacts to the greatest extent possible.

More fundamentally, we are investing in our long-term resilience. Our 25-year Long-Term Delivery Strategy ('LTDS') indicates that, without investment, by 2050 we face a 600 million litres per day ('Ml/d') deficit of clean water, and 45% more homes would be at risk of internal flooding. Our Plan includes scale investment to mitigate these risks, with 99% of our proposed £5 billion enhancement spend categorised as either no or low regrets under all of the scenarios we have modelled, giving the Board confidence that we are investing in the right areas for the long-term resilience of the business.

As well as adapting to climate change, we must also play our role in mitigating it. We launched our Net Zero Hub at Strongford wastewater treatment works in May 2023. Our £40 million investment, supported by the Ofwat Innovation Fund, is enabling us to implement a range of new, innovative technologies, that combined will completely mitigate the site's annual operational emissions. The learnings from our Net Zero Hub will enable us to meet our goal of operational Net Zero by 2030 – one of the three commitments in our Triple Carbon Pledge.

Environmental performance

Another area of significant customer and wider stakeholder focus is environmental performance.

It is pleasing to see this investment reflected in our EPA performance, as we achieved EPA 4* for the fourth consecutive year for our 2022 performance, and we have had no serious pollutions this year. This is an area of significant focus for the Board. We are highly confident that we will achieve EPA 4* for a fifth consecutive year for our 2023 performance – something no other company has ever achieved. We have also reduced our share of Reasons for Not Achieving Good Status ('RNAGS') to 14% as our Get River Positive programme drives long-term improvement in river quality.

However, this year has highlighted that, despite the performance improvements made in some areas, we know there is more we can do to improve. We want to deliver faster improvements on areas such as CSOs and pollutions, where we have set bold targets to drive performance improvements. Our sustained investment has driven a number of improvements, which makes the Barlaston pollution particularly disappointing. There was Board-level oversight of the pollution, and you can read more about our environmental performance and, in particular, our response to the Barlaston pollution and action taken to implement lessons learned to bolster our preparedness for similar pollutions in the future on pages 28 to 30. You can also read more about the significant, scale investment we are making on CSOs on pages 50 to 55.

Delivering for all stakeholders

The past 12 months have re-emphasised the role that our company and our sector must play in society, particularly for the customers and communities we serve, and the importance of delivering our social purpose ambitions.

As a Board we recognise the vital role that our company plays in our communities and are committed to driving positive change, leveraging our resources to make a positive impact across our region. This is best embodied by our 10-year Societal Strategy which aims to support 100,000 people in, or at risk of, poverty to provide them with the opportunity and skills to improve their life chances through access to high-quality employment-related experience and training. This important work extends beyond our extensive package of affordability support, through tackling the long-term drivers of poverty. We have made good progress in the first 18 months of the programme, supporting around 9,000 people and have generated more than £2 million of Social Value, as measured under the National Themes, Outcomes and Measures ('TOMs') Framework. The partnerships and projects we have established provide a firm foundation to inform our programme and expand into more areas of our region where our help is needed. To reflect the strategic importance we place on our social purpose commitments, we have incorporated Social Value into our proposed Remuneration Policy.

Social purpose is part of our culture at Severn Trent. The interests of our stakeholders – our customers, communities and employees – are strongly aligned. The majority of our colleagues live in our region and are also our customers. This strong link with our communities means that our people care deeply about the role we play in their communities, and our Societal Strategy has energised our organisation, with many volunteering to support in a variety of ways.

Our people are more engaged than ever before, with our most recent annual employee engagement survey score of 8.6 out of 10 placing us in the top 3% of utilities globally. Moreover, every single directorate in the Company scored at least 8.5 out of 10, which is a testament to the leadership and passion demonstrated at every level of the organisation. As well as reviewing the results of the annual engagement survey, the Board seeks regular and direct feedback from our people, with regular attendance at the Company Forum, visits to our operational and office-based sites, and recently our first in-person 'Meet Our Board' session which was attended by graduates and apprentices from across the organisation, enabling a two-way feedback process.

Our role is to create and maintain a culture that enables our people to bring their best selves to work every day and contribute to our sector-leading performance, which our people work hard to deliver every day. It is also critical that our people feel safe and secure to raise any concerns and we have extensive support in place to ensure that they can, at all times, do the right thing.

Finally, on delivering for stakeholders, the Board has considered a range of factors in recommending our dividend this year, including the Company's performance delivery for customers and the environment, both now and over time, the broader performance of the Company and the long-term financial resilience of the Company. You can read more about the process that the Board undertook to assess the Company's performance in the round in the Severn Trent Water Limited Annual Performance Report.

Leadership and the year ahead

The next 12 months are pivotal, as we close out the last year of AMP7, including our £566 million (2017/18 prices) Green Recovery Programme, and work hard to deliver our 2025 commitments, whilst readying ourselves for the significant investment period ahead in AMP8.

The Board is well prepared for the challenges and opportunities ahead. Following the retirement of James Bowling, Helen Miles has seamlessly assumed the role of Chief Financial Officer, demonstrating the strength of our succession planning. We also welcomed a new member to the Board, Richard Taylor, in April who brings a wealth of experience in strategy, corporate finance, risk management and M&A. I am confident that we will deliver the commitments we have made and continue to demonstrate exemplary leadership both within our organisation and across the broader sector.

We are at a critical and exciting point in our history. We must step up to meet the increasing expectations of our customers and broader stakeholders, which will require more investment, ambition and leadership than ever before. We have strong foundations in place to achieve this and I look forward to seeing the positive change we can deliver in the next year and beyond.

Christine Hodgson

Chair

CHIEF EXECUTIVE'S REVIEW

Progressing against bold ambitions

I'm pleased to share my Chief Executive's Review for 2023/24 in which I will highlight some important moments from the year and provide an update on our performance over the last 12 months. We have delivered a good set of results in 2023/24 and I'm pleased with the progress we have made in key areas.

Accelerating our Capital Programme

We have delivered all of our commitments under the Water Industry National Environmental Programme ('WINEP') in the year and have made significant progress in our Green Recovery Programme which is already delivering benefits for our customers and the environment.

To bring to life one of our projects, in Stroud we will shortly complete a £25 million project to upgrade the sewer network and have already installed a new concrete storm tank that uses smart controls to hold up to 7.4 million litres of wastewater back during severe weather events before returning it to our treatment works when rainfall has subsided and capacity to treat it is available.

Delivering operational excellence

The long-term investments we have made over recent years have enabled us to deliver sustained improvements on operational performance and I'm pleased to report that we have met 76% of our performance commitments for this financial year.

And crucially, we're continuing to deliver improvements in areas our customers tells us they really care about:

- We've delivered our best ever leakage performance, reflecting an increase in the number of jobs completed in our network, and a reduction in the time to complete our most significant customer reported jobs to an average of 3.3 days, which includes the time to reinstate and clear site.

- Our customers were off supply for 6 minutes and 40 seconds – whilst this is still above our Final Determination target, it reflects a reduction of 27% on last year and our best ever performance.

- We have delivered our best ever low pressure complaints performance, thanks to targeted investment across a range of capital schemes.

- Blockages in our network have reduced by 17% year on year, 30% ahead of our target, benefitting from our extensive cleansing programme and customer education on correct sewer use.

Focused on the environment

We are highly confident that we will achieve EPA 4* for a fifth consecutive year for our 2023 performance – something no other company has ever achieved. The EPA is a rigorous measure of our performance, consisting of seven individual metrics which become progressively more stretching every year.

Our performance this year includes no serious pollutions, defined as pollutions which could have a significant impact on the environment. Preventing serious pollutions is a priority for every single person in our organisation and while pleasing to have achieved zero serious pollutions this year, it is something we remain absolutely focused on maintaining.

More broadly on river health, our overall impact is best measured by the RNAGS attributable to us, as recorded by the Environment Agency. Our assessment of this data supports that we are now responsible for 14% of all RNAGS in our region. We're working hard to reduce that share to 10% this year.

Engaging our people
One of my personal highlights for the year was embarking on an all-employee roadshow to share our PR24 Business Plan (our 'Plan'). Through these visits I was able see first-hand just how engaged our people are, driven to deliver for the communities they live and work in, and I was delighted to see this reflected in the results of our most recent employee engagement survey score of 8.6 out of 10 which places us in the top 3% of utilities globally.

We know that a key driver of engagement for our people is their connection to our communities. We're proud as an organisation to donate 1% of our profits to local charities in our region, and this year we donated over £2 million to over 100 organisations in our region. Our people are already playing an active role in our 10-year Societal Strategy, and it has been inspiring to see the strong connection they have with the region they live and work in. Further detail can be found in the Chair's Statement.

Performance focus areas
Our achievements this year have been delivered against a backdrop of some truly challenging weather conditions; this year was 35% wetter than last, with 10 named storms between September and March and nearly 30% of river gauging stations in our region recording their highest ever levels.

This weather undoubtedly contributed to a disappointing performance on some critical waste measures. In particular, I was disappointed by our performance in three areas:

- Total pollutions – despite having no serious pollutions this year, a 24% increase in the number of Category 3 pollutions meant we missed our pollutions target for the first time since Performance Commitments were introduced in 2015.

- Sewer flooding – a significant increase in hydraulic flooding resulted in more external sewer floodings, meaning we missed our stretching target again this year.

- Spills from storm overflows – greater utilisation of overflows was not unexpected given the higher levels of rainfall, however we were still disappointed in the increase.

While we've felt its impact, weather cannot be an excuse for us or our sector – climate change is something we must all adapt to, and it is our job to protect our customers and the environment from its impact on our operations. The unprecedented weather this year has highlighted that we need to go further, move quicker, and find more creative and innovative solutions to meet the expectations of our stakeholders, in particular on combined sewer overflow ('CSOs').

In our investment plans for the next five years we set ourselves the most ambitious targets in the sector for minimising the use of CSOs, with targets that go further and faster than the Government's Storm Overflow Discharge Reduction Programme ('SODRP').

Meeting our target of an average of 20 spills by 2025 is a priority, and we are determined to achieve our stretch ambition to halve our number of spills between now and 2030. Our whole organisation is energised and focused on this activity, and we are now finalising the procurement of thousands of assets, to help us accelerate our five-year investment plan. This investment will have a dramatic reduction on the use of CSOs once installed this year. Overall, we expect these capital works to benefit 900 sites, representing over 40% of all CSOs that spilled last year.

To ensure we make demonstrable progress on our investment programme, at the pace our stakeholders expect, on 17 May 2024 we announced our accelerated programme of capital investment to deliver almost 1,000 improvements across c.900 storm overflow sites by the end of the year. Our ambitious plan is summarised below and full details are presented on pages 50 to 55. We have assembled a dedicated team of hundreds of people working across hundreds of sites. By the end of this year we will deliver a combination of solutions as follows:

- over 700 storage solutions at our treatment works and network assets. These will allow us to capture and store more flows during periods of high rainfall and dramatically reduce spills at those sites;

- 25 submerged aerated filter ('SAF') treatment units that will enable us to expand the treatment capacity through the additional processes, dramatically reducing spills into the environment;

- over 70 reed beds that will provide for nature-based treatment of sewage at the storm route for smaller sites, which would eliminate untreated sewage entering rivers;

- nearly 200 enhancements at specific CSOs on our network, which will enable us to increase the flow of sewage to our treatment works, reducing the potential for a spill into the river;

- over 100 flap valves that will prevent river ingress into our network, which would otherwise overload the capacity of our sewers with river water; and

- over 8,000 water butts in 10 communities to trial at-scale surface water separation.

Everyone in Severn Trent is committed to this programme and reducing our usage of storm overflows, which is why every employee in the organisation is incentivised through our annual bonus - 15% of which is linked to delivering CSO enhancements at pace and reducing their usage. We have made excellent progress since our announcement in May, a summary of our progress to date is set out below, including case studies of schemes completed to bring the scale and pace of our activity to life.

Over 250 interventions have been completed so far including:

- more than 20 enhancements at specific CSOs to increase the hydraulic capacity of our network, reducing the potential for spills;
- over 100 flap valves have been installed that will prevent river ingress (fluvial flooding) into our network when river levels are high;
- twenty new storage tanks have been delivered
- c.150 enhancements at sewage treatment sites to repurpose existing assets, optimise pumps and assets to increase the hydraulic capacity and increase storage capacity at our sites during periods of heavy rain.

In addition to this activity, over 500sites have been surveyed for enabling work to accelerate the installation of storage and treatment enhancements. In readiness for this activity:

- over 550 storage tanks have been sourced and we are resourced to install a peak of 50 tanks per week
- we have identified over 35 sites where Submerged Aerated Filters ('SAFs') can be deployed. Manufacture and delivery of these units is underway; and
- ordered 30 new reed beds to provide nature-based treatment of sewage at the storm route for smaller sites.

When installed, these enhancements will increase the storage capacity and allow us to treat more during periods of heavy rain.

Innovation is playing a key role in our ambitious programme, we are installing smart water butts at customer homes in key areas and the use of AI and smart control panels, designed and developed in house, are helping us enhance the operation of our network.

This complex, scale activity is overseen by our dedicated CSO programme, that reports directly into my weekly Executive Committee meetings, to ensure we maintain absolute focus on delivery of our investment plan as quickly as possible. We intend for all these solutions to be installed by the end of the year, enabling us to rapidly reduce the use of CSOs once in operation. Alongside this, we launched our Storm Overflow Map in April, showing the status of all storm overflows in our region. I look forward to sharing with you our progress on this vitally important activity next year.

Barlaston pollution
This year also saw the Company fined £2 million for a serious pollution that occurred in 2020, following a pollution at our wastewater treatment site in Barlaston. Our operational failings meant that there was a risk of environmental harm, and that is unacceptable to me, my team and everyone at Severn Trent.

We took valuable lessons from this pollution and have put in place measures to prevent pollutions of this nature happening again. To demonstrate how seriously we take this pollution, we have included a dedicated section within this report which sets out our response, lessons learned and action taken to prevent similar pollutions in the future.

Strong platform to drive positive change
As I look forward to the year ahead, I am excited by the opportunity it presents. We are on track to meet our 2025 commitments and close out AMP7 stronger than ever, with the foundations in place to push further, faster, to meet the needs of our stakeholders and deliver sustainable change for future generations. I especially look forward to seeing the impact of:

Expanded capital delivery capabilities – By the end of this year, we expect to have accelerated £450 million of investment, delivering benefits more quickly and smoothing our transition to the next AMP. Building on the work undertaken over AMP7 to diversify our supply chain and foster excellent working relationships, we have bolstered our in-house capabilities, expanded our digital expertise and implemented automation to significantly reduce the time taken to design projects. We've also developed an innovative approach to delivery using the concept of Plug and Play, which has the potential to deliver assets much faster than ever before.

Investing in insourcing – While we remain a sector leader in waste, we know that we have the ability to push the frontier further, securing our position as operational leaders for years to come. A key enabler of this is the insourcing of around 400 people into our Waste Networks teams, which was completed in the past year. Insourcing of this scale is an organisational challenge, requiring the investment of substantial resources to ensure success, so it's pleasing to have delivered this programme in advance of the next AMP. As our new colleagues embed into the organisation, we anticipate seeing benefits in our waste performance in the next 12 months.

Innovation in customer platforms – In October 2023, we announced that we would be migrating our customer platforms to Kraken – an innovative, world-class system that we expect to deliver significant benefits across multiple business areas. Enabled by the installation of more than 400,000 smart meters this AMP, and a further one million smart meters in AMP8, Kraken will support customers to actively manage their consumption and help us to pinpoint leaks more quickly and accurately than ever before. Smart technology in-built into the system will also allow water specialists in our contact centres to focus on delivering the best possible customer service. We expect to have four million customers in Kraken by the end of the year.

Our net zero blueprint – Over the past year we have invested £40 million in transforming one of our largest sites, Strongford, to be a Net Zero Hub. All of the exciting new technology is installed and operational, and we expect it to be fully commissioned by the Summer. Our Plan includes a proposal for £430 million to roll out the blueprint that Strongford has provided across our estate, to achieve our operational net zero by 2030 commitment. We've also invested in increasing our energy generation capabilities, with the equivalent of 60% of our total consumption self-generated in the last 12 months.

Final reflections and thanks

Reflecting on the past year, it has been one of considerable challenge, as we felt the impact of climate change on our operations, and continued to face heightened scrutiny as a sector, but it has also been one of considerable progress. We have delivered our biggest ever capital programme, achieved our best ever performance on a number of critical measures, met key milestones needed to deliver our long-term commitments and submitted a Plan that has the power to transform our business.

We know we have much more to do to ensure we are delivering the best possible service for our customers, and the environment. The Plan we submitted in October 2023 is a key enabler of progress, and I look forward to seeing the final outcome of our Plan later this year.

Meeting the challenges of the future goes beyond our regulatory plans – we must go further than what is simply required of us to meet the expectations of our stakeholders. It will need leadership, hard work and determination, meaning our people are absolutely critical to our success.

And finally, I'd like to take this opportunity to thank my c.8,000 wonderful colleagues who inspire me every day with their tireless commitment to taking care of one of life's essentials. With an average tenure of nearly a decade, I am thankful for their loyalty and for their endless enthusiasm for our ambition to lead the field.

I'm grateful to my brilliant leadership team for their relentless passion, drive and determination, and their ability to continue stepping up to every challenge that comes our way. And, to Christine and the Board I am appreciative of the continued guidance, stewardship and challenge, which supports our success today and for the long term.

Liv Garfield

Group Chief Executive

OUR PERFORMANCE AND KEY PERFORMANCE INDICATORS

OUTCOMES

Water quality complaints
(number of complaints)

2023/24	7,696
2022/23	7,467
2021/22	8,123

7,696 ↓
(ODI target: 9,500)

Definition:
The number of complaints about taste, odour and appearance that we receive

Stakeholders: Remuneration:

Customer Measure of Experience
('C-MeX') (Rank)

2023/24	11th
2022/23	9th
2021/22	8th

11th

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

Stakeholders: Remuneration:

Inspiring our customers to use water wisely
(number of commitments)

2023/24	172,260
2022/23	122,159
2021/22	80,656

172,260 ↑
(ODI target: 31,050)

Definition:
Number of customers agreeing to change one or more of the three target behaviors after participating in an engagement session as part of our education programme

Stakeholders: Remuneration:

Water supply interruptions
(average number of minutes)

2023/24	6:40
2022/23	9:10
2021/22	12:39

6min 40 sec ↓
(ODI target: 5:23)

Definition:
The average number of minutes lost per customer

Stakeholders: Remuneration:

Compliance Risk Index
('CRI') (index)

2023/24	6.19
2022/23	5.65
2021/22	2.43

6.19
(ODI target: 0.00)
(Deadband: 2.00)

Definition:
A calculated score for each compliance failure

Stakeholders: Remuneration:

Internal sewer flooding
(number of incidents)

2023/24	710
2022/23	698
2021/22	677

710 ↓
(ODI target: 615)

Definition:
The number of sewer flooding incidents that occur inside customers' properties

Stakeholders: Remuneration:

Leakage (three-year average)
(Ml/d)

2023/24	398
2022/23	405
2021/22	411

398 Ml/d ↑
(ODI target: 399 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:

Developer Measure of Experience
('D-MeX') (Rank)

2023/24	1st
2022/23	3rd
2021/22	2nd

1st

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

Stakeholders: Remuneration:

Pollutions
(number of incidents)

2023/24	239
2022/23	193
2021/22	204

239 ↓
(ODI target: 209)

Definition:
The number of pollution incidents that occur from our activities

Stakeholders: Remuneration:

PEOPLE

External sewer flooding
(number of incidents)

2023/24	6,721
2022/23	5,353
2021/22	4,526

6,721 ↓
(ODI target: 3,456)

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

Stakeholders:
Remuneration: ✓

Public sewer flooding
(number of incidents)

2023/24	1,831
2022/23	1,526
2021/22	1,296

1,831 ↑
(ODI target: 1,915)

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

Stakeholders:
Remuneration: ✓

Employee engagement
(score out of 10)

2023/24	8.6
2022/23	8.4
2021/22	8.2

8.6

Definition:
Top 3% of energy and utility companies globally

Stakeholders:

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

2023/24	9.2
2022/23	7.7
2021/22	5.7

9.2 ↑
(ODI target: 8.9)

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

Stakeholders:
Remuneration: ✓

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

2023/24	0.08
2022/23	0.11
2021/22	0.14

0.08

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

Stakeholders:
Remuneration: ✓

Value for money
(% score)

2023/24	60
2022/23	64
2021/22	65

60 ↓
(ODI target: 64)

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

Stakeholders:
Remuneration: ✓

NATURE

Biodiversity
(number of hectares ('ha'))

2023/24	11,554
2022/23	7,728
2021/22	4,696

11,554 ha ↑
(ODI target: 831 ha)

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

Stakeholders:
Remuneration: ✓

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

2023/24	56
2022/23	52
2021/22	48

56 ↑
(ODI target: 42)

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

Stakeholders:
Remuneration: ✓

Key:

Strategic objectives: Outcomes, Nature, People, Change

Performance against target: ↑ Outperformance against target; ↓ Missed target

DELIVERING OUTCOMES OUR CUSTOMERS CARE ABOUT

Our services are an essential part of customers' lives. We take this responsibility seriously and strive to keep water flowing and continuously take wastewater away, whilst working with customers to manage demand.

Customer experience

Everyone in Severn Trent, from the frontline to the boardroom, is focused on ensuring the very best experience for our customers whatever the circumstances. Our ambition is to ensure that every customer interaction is dealt with in a timely manner and that we deliver an outstanding experience for them.

Whilst we are making many improvements, it has been a mixed year on customer experience, and we are disappointed that our C-MeX score ranked us 11th in the sector this year (2022/23: ninth). We recognise there is more to do and have set ourselves an ambition to achieve a top three C-MeX position. To achieve this ambition, we have made significant investments as follows:

Customer innovation - In October 2023, we announced our exciting new partnership with Kraken Technologies to implement its industry leading platform to drive improvements in customer experience, particularly billing. We're confident that partnering with Kraken Technologies will help to accelerate the timeline for meeting our AMP8 customer experience priorities and help to revolutionise how we deliver our billing service to our customers.

Waste insourcing - Insourcing of around 400 people into our waste networks teams to improve our operational performance for years to come. Insourcing of this scale is an organisational challenge, so it is pleasing to have delivered this programme in advance of the next AMP. As our new colleagues embed into the organisation, we anticipate seeing benefits in our waste performance in the next 12 months.

Customer Inspector Programme within water - A dedicated programme that will focus on providing quality advice and support to our customers – helping them reduce their water usage, reduce their bills and support our plan to reduce household water consumption. We are now the highest-ranking water company on Trust Pilot, at 4.6 and Excellent.

County Cup - In January 2024, we launched our Severn Trent County Cup Champions initiative for all Severn Trent Water employees. The County Cup is an organisation wide initiative that allocates every one of our c.8,000 employees to a county team, with the objective of improving customer experience by having a regional focus and, in doing so, achieving sustained improvements in customer service.

By focusing on measures we know are important to our customers, all of our employees will be able to play their part in improving services provided to our customers and communities. This activity is supported by a local customer engagement approach, including local media and social media coverage, so we can tailor our communications to the communities we serve.

We continue to deliver upper quartile performance in Developer Services, having returned to the top of the podium as the industry leading company on D-MeX, with our best ever score in 2023/24.

Water always there

Working hard to reduce supply interruptions for our customers

Reducing supply interruptions remains a priority given the direct impact any loss of supply has on our customers, particularly our vulnerable customers. We are pleased that our significant investment over the past few years has helped us deliver our best ever performance at 6 minutes and 40 seconds. Whilst this is above our Final Determination, it reflects a 27% improvement from last year.

Similarly, our investment in our water network and our culture of continuous improvement enabled us to navigate the hot weather conditions last summer with zero hot weather-related supply interruption events. We are applying learnings to other areas of our business, including our approach to storm events.

Last year, we achieved a significant improvement in the impact from outlier events (events causing over 15 seconds of impact) and we have sustained the reduction this year with outlier events causing a much smaller impact to overall performance compared to the first two years of the AMP.

The growth of our Network Response Team and Trunk Main Repair 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.

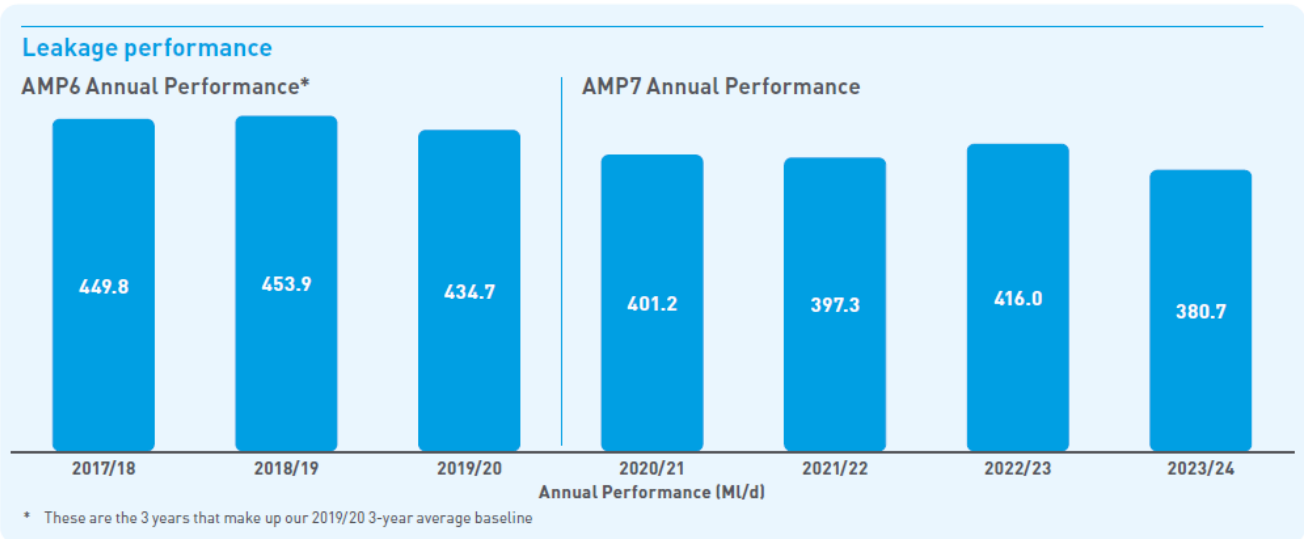
Lowest ever annual levels of leakage
Alongside our supply interruptions activity, we have also been working hard on our supply capacity. We are delighted to have delivered a 10.8% reduction over AMP7 so far and we are currently at our lowest ever annual levels of leakage of 380.7 Ml/d.

We are incredibly proud of our performance in this area, having achieved our target for 12 out of the last 13 years, putting us on track to achieve our commitment to reduce leakage by 15% by 2025 and 50% by 2045 (from our three-year average baseline set in 2019/20).

We are finding and fixing more leaks than ever before which is helping us drive down leakage and in 2023/24 we fixed around 10,000 more leaks than we did in 2022/23. We are now repairing significant visible leaks faster than ever before with an average time to complete the full end-to-end job of 3.3 days. This includes the time it takes to reinstate and clear site after the leak is fixed. We continue to deliver pressure management schemes to improve network stability, which reduces the number of leaks caused by high pressure by optimising pressure-reducing valves.

Our leakage reduction activity is supported by our smart metering 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 and we're on track to install more than 400,000 smart meters this AMP.

Our ongoing engagement with customers to reduce their demand also continues to yield positive results. We continue to build on our use of acoustic loggers and we are trialling new technologies, including hydrophones.



Drones Team spotting leaks from the sky

Our Drone Team is helping detect leaks earlier from the skies using the latest technology to help customers and the environment. Our flying fleet, which photographs and maps our sites including reservoirs and treatment works, is fitted with thermal imaging, which can detect drops in temperature on land below – indicating a below-ground water leak.

Drones are regularly used in live leak scenarios to determine what extra resources or repairs are needed on site to help ensure a rapid resolution. In urban areas, drones are used to quickly map bursts and relay information (such as pictures and videos) to our Incident Team to support decision making and equipment prioritisation.

Working in partnership with our customers to reduce demand
We maintain a positive, continual dialogue with our customers, engaging with them directly on demand management through our water efficiency programme. With the help of our customers, our aim is to achieve Per Capita Consumption ('PCC') of 122 litres per day by 2038 and 110 litres per day by 2050 against our current performance of 126.2 litres per person, per day.

Our water efficiency programme has delivered a number of customer benefits this year, including water efficiency advice through nearly 22,000 home water efficiency visits; delivering water efficiency products, such as water saving shower heads; and over 22,500 customers have signed up to our water survey platform ('Get Water Fit') this year alone.

Our teams engage with thousands of customers every year to make them aware of how they can save water and reduce their bills, educating them on the correct use of their drains, in the context of sewage treatment processes, and sharing how 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. Using our interactive Wonderful Water Tour vehicles, the 'digi-bus' and the 'experi-bus', we introduce children to everything water and wastewater 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, this year, we once again collected a record number of behavioural change commitments. Over 170,000 commitments were made, the highest ever number of pledges we've had in a single year, bringing our AMP7 total to over 400,000. As well as our core education offer, our Education Team led our Societal Strategy school programme, engaging with thousands of children, and has taken our Wonderful Water Tour around the region, popping up at our visitor sites and at numerous community events in our region.

Good to drink

Strong performance on water quality complaints
In 2023, we had a total of 7,696 drinking water quality complaints, which was less than our regulatory target, meaning we've now achieved our target for every year of AMP7. We remain confident that we can achieve our end of AMP target of 9,500.

Our mains cleansing and flushing programme continues to progress well and we have stepped up our activity this year having flushed 1,256 district metered areas (a 25% increase on last year). We have also developed automated designs using network analytics, meaning we can produce instant flushing plans during water quality events to reduce impacts for customers, and deliver proactive messaging to customers when undertaking flushing in their area. We're also providing more guidance for customers to self-diagnose issues on our website.

We have ambitious plans to improve our performance and in 2024 we are undertaking a new strategy to target aeration issues to prevent complaints that might not otherwise be resolved by flushing. We'll do this by installing newly designed air valves in problematic areas within our region.

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.

Water quality standards in the UK are some of the highest in the world and whilst our performance benchmarks well against global peers, we are disappointed to have missed our Compliance Risk Index ('CRI') score this year, driven by asset failures at our largest water treatment works, Strensham. An internal incident team has been established to identify root causes and implement mitigation activities, including the deployment of ultraviolet ('UV') technology at Strensham, as well as reviewing options to accelerate longer term asset and process improvements.

Total sample failures are down nearly 13% from last year (122 from 140), our lowest ever number of sample failures in a calendar year since the beginning of CRI in 2014 (excluding COVID-19 years). We continue to benchmark brilliantly globally.

Our work to understand bacteria within our processes, using online flow cytometry, which provides live data on water quality, has enabled us to deliver improvements at our distribution service reservoirs. We have recently refreshed our dedicated improvement plan, Compliance Risk Index Sustainability Plan ('CRISP'), with the objective of eradicating high-impacting events in our water network and addressing bacteriological risk at water treatment works.

Wastewater taken away safely
Every day, we take over 3 billion litres of wastewater away, ready to be made safe before returning 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 reduce our impact on the environment.

The last 12 months have seen some of the most challenging weather conditions in our history, as reflected in the significant increase in wastewater volumes this year. For example we treated 3.3 billion litres of wastewater per day compared with 2.8 billion litres per day in 2022/23 – driven by the increase in rainfall in our region over the year.

Our teams have worked determinedly in particularly challenging conditions this year to keep our services operating efficiently and reduce the impacts on our customers and the environment. However, we recognise that there is more we can do to deliver the improvements our customers expect.

Internal and external sewer flooding and blockages
Sewer flooding remains a key focus, and we are disappointed not to have delivered against our stretching targets this year. Hydraulic flooding incidents are significantly up year on year due to the sustained rainfall and flash floods which occurred in our region.

Our teams worked determinedly to keep our services operating efficiently and minimise the impacts felt for our customers and the environment. This year we implemented a 'first responder' strategy to enhance our capacity for handling incidents promptly; and a new vulnerable customer process, to ensure we are proactively identifying and prioritising our most at-risk customers.

Following Storm Babet, we applied learnings for future events including a documented Storm Readiness approach, focusing on proactive measures to be implemented in anticipation of storm events, prioritisation of resources (including people and tankers), communications with customers and communities, and reactive actions to be deployed to mitigate potential impacts to the greatest extent possible. These changes were applied in preparation for Storm Ciaran but did not need to be executed.

We have outperformed our public sewer flooding target every year in AMP7 since the creation of the measure and this year we've outperformed our target by over 4%.

We've achieved our best ever performance on blockages of 28,547, outperforming our 2023/24 target by 30%. This is a 17% improvement from last year and a 34% improvement from the end of AMP6. Our performance will also be helped by the insourcing of our waste operational teams, benefiting from greater internal control over the quality of work delivered. The insourcing will also help us benefit from an improved time to attend blockage jobs which will reduce the likelihood of blockages causing flooding as we're able to take action before our customers are affected by internal or external flooding.

We are continuing to work in partnership with food service providers in our region to prevent fats, oils 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.

Worksop wastewater treatment works

Our pollutions performance

Our pollutions management approach ensures oversight of our business performance and service delivery for customers, the environment and wider stakeholders in order that activity can be prioritised within the organisation, action taken in response and learnings from events used to improve our approach moving forward.

Whilst we achieved zero serious pollutions this year, the unprecedented weather has driven an increase in Category 3 pollution incidents: 239 this year compared with 193 in 2022. A serious pollution is defined as a Category 1 or 2 incident.

Having consistently delivered on our total pollutions targets for the last eight years, we are disappointed not to have met our total target on pollutions this year with our 2023 performance reflecting a year-on-year increase of 24%.

We know there is more we can do and we are confident that our substantial investment in our network over recent years will improve our performance.
Our new pollutions training river opened at the Academy in 2023, enabling frontline operatives to get hands-on experience during their training on how to deal with certain types of pollution incidents in order to manage events effectively and minimise potential environmental impact.

We continue to use detailed data and analytics to identify hot spots and high-risk areas where we can target our cleansing work to keep the sewerage network clear of obstructions and blockages. By using the information provided by our network monitors we have a greater understanding of the real-time conditions allowing us to act to prevent problems occurring.

Our Pollution Focus Group is in place to optimise current ways of working, and to implement improvements. Our approach ensures that events are prioritised and assessed at the right level within the organisation, to ensure a consistent approach, prompt action taken and that potential learnings from events are cascaded throughout the Company in an expedient manner.

Our impact on the environment is closely regulated by the EA and we report our performance against Category 1, 2 and 3 events in the Environmental Performance Assessment (‘EPA’), Category 3 being minor or minimal in its impact on the environment.

The EPA undertaken by the EA assesses and compares the performance of water companies in England against the metrics set out below. Despite the year’s challenges, we are pleased to have had no serious pollution incidents this year. We are highly confident that we will achieve EPA 4* for a fifth consecutive year for our 2023 performance – something no other company has ever achieved.

EPA metrics

	EPA Green Target	**Our 2022 performance**	**Our 2023 performance***
Serious pollutions	2	1	0
Category 1-2 waste pollutions	201	193	239
Discharge permit compliance	99%	99.3	99.5%
Self-reported pollutions	80%	87%	89%
Water Industry National Environment Programme (‘WINEP’) delivery	100%	100%	100%
Supply Demand Balance Index	100	100	100
Satisfactory sludge use and disposal	98.2%	100%	100%

*subject to Final Determination by the EA.

Our EPA performance for AMP7 to date is summarised below:

Calendar year	2022	2021	2020
EPA rating*	4*	4*	4*

Barlaston pollution

In February 2024, Severn Trent Water Limited was fined £2 million for a pollution that occurred at our wastewater treatment works in Barlaston in 2020. Our operational failings meant there was a risk of environmental harm, and this is unacceptable to everyone at Severn Trent, from the boardroom to the frontline. The pollution occurred during storms and when the neighbouring river was in flood and, as a result, the actual level of environmental harm was low. We correctly reported the pollution to the EA and the EA agreed with the assessment at that time. The pollution was therefore included as a Category 3 pollution in our 2020/21 financial year reporting.

When the pollution was later prosecuted in February 2024, the Court, applying its sentencing guidelines, classified it as a Category 2 pollution based on the potential harm that could have arisen from the pollution whilst accepting there was no evidence of actual harm.

We took valuable lessons from this pollution and we have analysed in-depth the cause, and implemented a host of solutions, which has included additional investment. Throughout their investigation we worked with the EA and delivered a number of improvements to prevent pollutions of this nature occurring in the future.

There was Board-level oversight of the pollution, including oversight of action taken and implementation of lessons learned to improve our approach moving forwards. To bring this activity to life, this case study sets out the high-level sequence of the pollution, our response to it and action taken to implement lessons learned to improve our preparedness for, and minimise the likelihood of, similar pollutions in the future.

Screw pumps at Barlaston

The site is equipped with three large screw pumps which lift wastewater flows into the works to an elevated position to facilitate gravity flow to the rest of the works. They operate on an industry standard ‘duty/assist/standby’ arrangement, meaning there is one pump for normal flows, another available for times of heavy flow and a spare third ready-installed in the event of a pump failure.

22 December 2019
One of the three screw pumps at the site failed. Our duty/assist/standby pumping arrangement meant there was no impact on our ability to deal with permitted flows. A request for a new gearbox for the failed pump was immediately made, with a delivery date of 4 March 2020. Contingency plans were subsequently initiated in the event of a second pump failure, although as we note below they proved to be insufficient.

14 February 2020
A second screw pump failed. We immediately contacted our reactive pump supplier for assistance and subsequently discovered that they did not have the necessary equipment that we required and expected. We recognise that our contingency planning was insufficient and this has been part of our post-incident lessons learned. We informed the EA and they attended the site for inspection later that day and undertook sampling of the river. When the second screw pump failed, we also identified that over the period 25 November 2019 to 14 February 2020 the weir that controls full flow treatment (‘FFT’) was set between 3 and 5% lower than permitted, diverting some of the flow to the site’s storm tanks in order to manage an on-site flood risk. Whilst this had been done with good intentions, it was done outside of our operating procedures, without the knowledge of senior management and should not have happened. This breach of the site’s permit meant that in wet weather the site’s storm overflow will have discharged to the environment earlier than would otherwise have been permitted. We informed the EA of this issue as soon as it was identified.

15 February 2020
Temporary diesel pumps were installed as a mitigation measure, while we awaited delivery of the new gearbox. Storm Dennis then hit our region, bringing significant, heavy rainfall and severe flooding.

17 – 18 February 2020
By 17 February one of the larger over pumps had been received, installed and was operational, enabling the site to receive approximately 2,600l/s, just below full FFT.

On 18 February, an engineer attended the site to programme the temporary pumps. This enabled complete control of the temporary pumping system, alongside the single screw pump. The works were thereafter capable of achieving FFT.

In immediate response to the pollution, we commenced an investigation which supported the EA’s testing that the environmental impact had been minimal. An independent expert instructed for the court case provided a report to further support this.

We take all pollutions of this nature very seriously, at all levels of the Severn Trent Water Group, from the frontline to the boardroom. We pleaded guilty at the first available opportunity and accepted responsibility for the failures. We have spent time reflecting deeply on the prosecution, including a review of prior investment, our processes and training, and actions that can be taken to ensure that pollutions of this nature do not occur in the future.

A summary of the interventions and activities put in place in response to the pollution are outlined below. All actions and remedial investment have been delivered.

Site learnings	Training	Management systems
Installed condition-based monitoring on screw pumps to proactively detect any potential issues emerging, allowing intervention before failure.	Dedicated lessons learned stand-down for all wastewater treatment employees, supported by training and ‘toolbox talks’ on flow management.	Implementation of an updated ‘assets out’ process, which triggers a risk assessment and mitigation plan from site managers in the event assets are out of service, with escalation to senior leaders and process scientists.
Bolstered critical spares supplies for screw pumps on site, including spare motors, gearboxes, bearings and Programmed Logic Controllers, to reduce repair timeframes.	Guidance, flow standards and mandatory e-learning cascaded to the whole operational business.	Implementation of dedicated proactive maintenance management, with a focus on reducing asset failures and increasing asset reliability.
Mandatory enhanced asset care package implemented to standardise routine operation and maintenance tasks.	Dedicated Continual Professional Development events held for team managers and business leaders.	New ‘Asset Golden Measures’ standard introduced for all wastewater employees, whereby each process stage is assessed against our asset standard and recorded. All issues and feedback are managed as part of our established comm cell system.
Bolstered contingency plans for temporary submersible pumping and tested the new arrangements.	All wastewater teams taken through a dedicated knowledge assessment, facilitated by our in-house Academy team.	
Deployment of new leadership at Barlaston, with responsibility for training the site team on contingency plans, escalation processes and expectations.	Updated competency framework for all operators and maintenance personnel, cascaded to relevant teams.	Installation of additional flow-related alarms and analytics, overseen by a dedicated Flow Process Team and Waste Network Control team with visibility of performance across our estate.

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. 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 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 want to nurture an environment where everyone can feel comfortable to bring their whole self to work.

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'.

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. For a fifth consecutive year we have achieved our best ever Lost Time Incident ('LTI') rate with a total of 14 LTIs this year (2022/23: 16). Notwithstanding this excellent performance, 14 of our colleagues getting hurt while working is still too many, and we continue to focus on improving our performance. Since we refreshed our Goal Zero strategy in 2018/19, we have seen consecutive year-on-year improvements (with a 63% reduction in our LTI rate to date), giving us confidence that our strategy is working and will continue to drive improvements.

Although this year's results are promising, we are not at all complacent and continue to strive for improvements across all aspects of our operations, for example we collaborate in external Health and Safety forums, ensuring our approach incorporates best practice from a range of companies and sectors.

Employee support
We continue to raise awareness of the different types of support available to employees and have a team of dedicated Mental Health First Aiders and Champions, who wear yellow lanyards to be easily identifiable and are available to provide in-the-moment support.

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. This is a confidential service 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 ongoing cost of living challenges are having on our employees and we continue to do everything we can to help support our people. We were delighted to have agreed a competitive two-year pay deal for all of our employees in 2023, giving our people certainty on their pay increases during a period of ongoing cost challenges. The pay deal was recommended by all three of our Trade Unions.

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.

Developing our people
We remain focused on driving business performance facilitating talent progression and building long-term technical skills resilience. We work to ensure that we can recruit and

retain the talent and skills needed to deliver our performance today and have plans in place for the skills needed in the future.

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. The Academy training syllabus continues to evolve and now contains a suite of over 600 training interventions across multiple disciplines, including the launch of our first water treatment apprenticeships on our in-house programme. Our Academy was subject to its first Ofsted inspection during the year, and we were delighted to receive an overall Good rating and an Outstanding rating in the personal development theme, after just over two years delivering our operational apprenticeships.

Throughout 2023/24 we have delivered 3,637 learning events, accounting for over 170,000 hours of instructor-led training. This training has ranged across all five learning streams, as well as development days for teams from across the business, and communities and schools' discovery events.

Talent management and succession
Our Inspiring Great Performance and Talent Calibration approach continues to inform our talent management approach across the business, providing clarity on employee expectations, feedback on performance and reflections on achievements and learning opportunities. Understanding potential for progression remains a key output of these conversations which then drive succession planning and individual development interventions.

Currently half of our vacancies are filled internally and we have a strong track record of developing internal talent, as evidenced by recent Executive Committee appointments from internal talent pipelines. Supporting internal promotions and succession forms the foundation of our approach to building skills and leadership resilience in our organisation. In the last two years, 27% of employees have progressed to a broader role or been promoted, with nearly 400 of these colleagues moving from frontline or advisory roles to Team Manager or Technical Expert level, and over 60 promotions to Business Lead or Senior Professional level roles.

As important as the range of opportunities provided is how our people feel about them. We continue to ask colleagues, through our annual employee engagement survey, several questions relating to their perceptions of learning, careers and growth at Severn Trent. All of these measures have improved year on year, recognising our delivery in these areas.

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.

In September 2021, we launched 'Wonderfully You', our diversity and inclusion ('D&I') ambition to ensure our organisation continues to reflect the communities we serve.

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

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

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

We are proud of our track record on gender diversity, and we were delighted that Severn Trent achieved first place as the best performing FTSE100 company for representation of women on the Board in the FTSE Women Leaders Review 2024. Following Helen Miles' appointment as Chief Financial Officer in July 2023, Severn Trent became the first company in the FTSE100 to have a female Chair, CEO and CFO.

PRINCESS ROYAL TRAINING AWARD 2023

We're thrilled that in November 2023, our Academy received a Princess Royal Training Award from The Princess Royal, President of the City and Guilds of London Institute, recognising our exceptional commitment to learning and development through our two Apprenticeship Standard Technical Development programmes. City and Guilds CEO, Kirstie Donnelly MBE, complimented our "unwavering dedication to training and the remarkable positive impact it has had on our organisation and people".

RACE EQUALITY MATTERS

BRONZE TRAIL BLAZER

We were delighted to be awarded the Race Equality Matters Bronze Trailblazer Status during the year, which recognises how we're driving change when it comes to race equality.

As at 31 March 2024, our Executive Committee comprised four female and five male members (44.4% and 55.6% respectively). 22 (42.3%) of our senior leaders (including our Executive Committee) were female and 30 were male (57.7%). Female representation in the Group was 28.1% (2,582 women), with male representation at 71.9% (6,610 men). Six members of our Board were female (75%) and two were male (25%).

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 2024.

Gender representation
as at 31 March 2024

	Directors	Senior leaders	Graduates and apprentices	All employees
	Number %	Number %	Number %	Number %
Female	4 44	16 41	62 21	2,413 29
Male	5 56	23 59	231 79	5,999 71

Ethnicity representation
as at 31 March 2024

	Directors	Senior leaders	Graduates and apprentices	All employees
	Number %	Number %	Number %	Number %
Asian/Asian British	1 11	2 5	62 21	623 7
Black/African/Caribbean/ Black British	-	-	18 6	196 2
Mixed/Multiple ethnic group	-	-	11 4	153 2
Other ethnic group	-	-	1 0	35 0
Not specified/prefer not to say	-	-	14 5	881 10
White British or other White (Including minority-White groups)	8 89	37 95	187 64	6,524 78

With the launch of 'Wonderfully You' we publicly set long-term gender and ethnicity targets. We also committed to reviewing these when the latest census data was released, and this has resulted in our ethnic diversity target increasing from 14.1% to 18.9% to better reflect the communities we serve. Recognising the make-up of our existing workforce and low attrition levels, particularly in frontline and operational teams (the largest part of our business), our new female hires continue to exceed our ambitions.

We continue to engage in a series of outreach and employability initiatives for underrepresented groups within our communities, to break down perceived barriers which may prevent people from considering a career with us. We recognise that there is no quick fix, and that a sustained and consistent approach is needed over a long period of time. We continue to focus on increasing additional diversity data sharing beyond gender and ethnicity of which c.88% are sharing, including data on disability, sexual orientation, gender identity, trans and socio-economic background, and 59% of colleagues are now sharing some or all of this data, up from 19% three years ago.

We measure progress on inclusion primarily through our annual engagement survey, and we are delighted that our scores continue to remain strong and well ahead of benchmark. Our equality score of 9 out of 10 for the question ‘People from all backgrounds are treated fairly at Severn Trent’ places us in the top 5% for energy and utilities.

Gold Award for Employees’ Recognition Scheme with the Armed Forces Covenant

Our commitment to the Armed Forces has been recognised by the Armed Forces Covenant, after receiving a Gold Award for Employer Recognition Scheme in 2023.

The prestigious award – the highest available – recognises the important and positive role that organisations can play in supporting the Armed Forces community.

Severn Trent’s internal Armed Forces Network was set up in 2021, and since then has been a big driver in support for ex-military colleagues and their families with settling back into the community, while also providing skills and training to help ex-military members find work.

We continue to have a strong presence in D&I indices, including:

Eighth
on the Social Mobility Index, placing us in the top 10 for the fifth year running

Level 2
Disability Confident employer

23rd
in the Stonewall Workplace Equality Index and a Gold employer for our commitment to being a truly inclusive LGBTQ+ employer 2023

4.5/5
Glassdoor score continues to perform well

Building our future skills through diverse new talent
An inclusive environment is the foundation of a truly diverse organisation, with all of the rewards that brings. Having the right people with the right skills to deliver positive outcomes for our customers and the environment today, and for the future, is a core part of our approach to building future skills.

The launch of our Societal Strategy and continuation of our outreach activities, internships and new talent programmes are critical to our success in attracting diverse candidates from under-represented groups, removing barriers to entry and creating a level playing field, whilst still recruiting the best

person for the job. Our graduate programmes remain the most successful gateway into the organisation and have a successful track record in onward progression, with one in five being promoted to Business Lead or above. Our graduate programmes include tailored placements and projects that help individuals to develop the knowledge and skills to become our future technical experts and leaders. They typically last 27 months and are made up of three placements across our business. We currently have a number of graduate programmes, including Technology, Cyber Security, Finance, Engineering, Strategy and Regulation and the Graduate Leadership Programme.
This year we also launched our new Operational and Environmental Leadership Programme, with the aim to develop our operational team managers of the future.

The 2023 cohort of those on graduate programmes and Year in Industry placements.

Our vision as an apprenticeship provider is to develop the most skilled teams in our industry through outstanding technical development programmes. We currently offer two Apprenticeship Programmes for new starters and New Talent apprentices in frontline operational roles. These are water treatment
and wastewater. We remain one of only three water companies that are fully accredited and delivering apprenticeships as an employer apprenticeship provider.

Applications opened in 2024 for our second biggest ever intake of 110 apprentices, with roles available right across our region, ranging from level 2 (equivalent to GCSEs) to level 7

(equivalent to a degree) apprenticeships across Operations, Commercial, HR, Customer Service, Business Administration and Engineering. We have two colleagues on our 'Apprentice Sales Executive' scheme who started in August and September 2023. We are also in the early stages of obtaining centre recognition for functional skills delivery. This will enable us to take a more flexible approach
to the delivery of Maths and English tuition and testing, which will be better suited to our learners' and operational business needs.

According to the Institute of Student Employers, on average employers retain 71% of school leavers and 72% of graduates after three years. At Severn Trent, we are significantly over-achieving this: since 2014 we have had 581 apprentice joiners and 81% are still with us today.
We are delighted to have welcomed four new interns from Derwen and Hereward Colleges this year to gain first-hand work experience. By having partnerships with the colleges, it means we can support students with special educational needs and disabilities ('SEND') and make a huge difference to their futures.

Around 23% of the working age population have a disability and the proportion of adults with a learning disability in paid employment has decreased over time. Due to this, the Employability Working Group was established to foster a collaborative approach with colleges, aimed at enhancing the prospects of securing employment for students once they complete their college education and internship with Severn Trent.

Severn Trent scoops top award at the Multicultural Apprenticeship Awards
In October 2023, we were proud to gain national recognition at the Multicultural Apprenticeship Awards for our work and investment in nurturing talent through our apprentice scheme, which was
awarded Engineering & Manufacturing Employer of the Year. Additionally, two of Severn Trent's apprentices were shortlisted under the Management, Legal & Professional Apprentice of the Year and the Judges' Choice Apprentice of the Year categories.

The Multicultural Apprenticeship Awards recognise talent and diversity within multicultural communities through the celebration of individuals who have overcome adversity to achieve their goals through apprenticeships. They also highlight the achievements of apprentices and the contribution of employers and learning providers who have assisted them along their journey.

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 and we were pleased that in June 2023, the Company's pay offer was accepted by members following the recommendation by the Joint Trade Unions.

All of our people share in our success by participating in our all-employee bonus plan, ensuring all employees are aligned with the same measures and rewarded for achieving our key objectives. Additionally, we offer a market leading defined contribution pension scheme and double any contributions that employees make (up to a maximum of 15% of salary).

In March 2024, we published our second combined Gender and Ethnicity Pay Gap Report, highlighting a decrease in both the median and mean gender pay gaps between women and men, with both now at the lowest level seen in the seven years that we have been reporting. The Report shows a median pay gap of 7.8%, down from 9.4% in 2022, and a mean gender pay gap of 2.0%, down from 2.9% in 2022.

We know that to improve our gender balance, we need to place focus on recruitment and retention and provide everyone with the best possible opportunities to learn and grow their careers with us.

Our median ethnicity pay gap is 6.3% (2022/23: 4.1%) and our mean gap is 7.2% (2022/23: 5.7%). This year there has been a slight increase in both compared to last year, despite an increase in the hourly rate for employees. Although we have seen an overall increase in representation of colleagues from minority ethnic backgrounds, up to 12% from 10% last year, we are now placing more focus
on our senior roles, to better represent our communities at all levels of our organisation.

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 .

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 remains one of the lowest in the country, and we will continue to offer one of the lowest bills for the remainder of the AMP. 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 £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. 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. Approximately 260,000 of our customers are benefiting from support on their bills already.

We recognise the importance in building more partnerships to ensure we are finding customers who really need our support. We are working closely with local authorities, securing c.£500,000 of arrears support through the Government's Household Support Fund and the introduction of our care leaver's support package. We have signed 12 partnership agreements to either signpost or passport customers to our Big Difference Scheme.

We have also reviewed our Trust Fund, which has historically supported customers through an annual grant of £3.5 million, to maximise the support this can provide to our customers. Over 80% of successful Trust Fund applicants were also receiving support though our Big Difference Scheme. As such, we saw an opportunity to amalgamate the Trust Fund and Big Difference Scheme processes, reducing barriers to customers receiving support and reducing the costs associated with supporting customers. We subsequently announced our Big Difference Scheme Plus offering, which has been received positively by customers.

Supporting our vulnerable customers
We aim to reach out to as many customers as possible to find those who might need additional support from us and we now have over 9% of our customers signed up to our Priority Services Register ('PSR'), an increase of around 20% 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.

A hassle-free winter

We know that winter can be hard for lots of our customers, so we launched our winter campaign – 'Weather the winter together' – a joint campaign across water, waste and affordability which ran until the end of March 2024.

Our customers received an email, with messages also shared through our social channels, outlining information and tips for the colder months, such as supporting those who are worried about paying their water bill, protecting customer pipes from freezing and saving money around the home.

CREATING OPPORTUNITIES IN OUR REGION

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 water poverty. Our 10-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. This section showcases some of the progress we have made over the past year.

Over 10 years, we want to give 100,000 people in, or at risk of, poverty the tools to improve their life chances, through access to high-quality employment-related training and career opportunities.

Our Societal Strategy Ambition One Year On

Our Commitment	Progress	
Education and Skills 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, Derby and Coventry, meaningful work experience consolidates and brings to life the employability skills training that pupils receive in schools as part of our new schools offer.	**5,413** students engaged with in schools **94** students on short-term work experience (1 – 2 weeks) **79** students on long-term work experience (1 – 3 months)	**Student, Discovery Day** “Thank you so much for the opportunity to attend and be a part of the Discovery Days. I found it very informative and definitely enjoyed it – everything was so well organised. All the staff were very welcoming and gave me a positive insight on what it’s like to work for you and the different roles in which I could do that. I look forward to applying for an apprenticeship role after completing my A-Levels.”
Employability We are working with community groups in East Birmingham, Derby and Coventry providing free employability skills sessions including CV and interview advice workshops. We run training sessions for people out of work or seeking a career 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.	**1,629** people attending Big Boost careers fairs **1,455** people attending employability events	**Riordan Knott, careers fair attendee** “The Severn Trent Team quickly made me feel welcome and comfortable. I had an engaging talk with Surinder and her team discussing job and development possibilities at Severn Trent. This lifted my spirits and made me feel included and welcome and in turn was the catalyst for me applying then and there. I look forward to the career I can build at Severn Trent.”

Mentoring Young People In parallel with our place-based approach in East Birmingham, Derby and Coventry, we are working with a specific group of young people not in education, employment or training ('NEET'). In partnership with charity Trailblazers, Severn Trent staff mentor young people weekly for their last six months in prison and up to 12 months post release in the community. This work complements our existing work with NEETs, such as our apprentice and internship offer. As part of our mentoring sessions, we provide employability workshops to encourage and support prison leavers into work post release and reduce the risk of re-offending.	**16** people mentored through the Trailblazers programme	**Nathan Worton, Trailblazer** "For the first mentoring visit I was accompanied by a member of the Trailblazer's team and subsequently I attended HMP Brinsford weekly. This was an incredibly rewarding experience, offering real personal growth, and I am pleased that since release my mentee has applied for an apprenticeship with Severn Trent and I wish them every success during the assessment process."
Volunteering At Severn Trent, we're big believers in volunteering, which is why we encourage and empower our employees to get out and about in local communities with two days paid volunteering leave per year. We encourage volunteering that supports the environment, biodiversity, tree planting and water efficiency, and work in partnership with a number of key partners across our region to deliver this.	**464** students on Discovery Days **7,895** hours of volunteering	**Sonia Pengelly, Warwickshire Wildlife Trust** "They all did an incredible job, working very hard to achieve excellent results. Many hands do make lighter work and their efforts have made a huge contribution to the area. The people I worked with on the day were a really friendly group, easy to work alongside and a pleasure to chat to, and I hope they can all join us again in the future."

Social Mobility Index
We've officially been named one of the country's top performing companies for improving social mobility. For the fifth year running, we've landed in the top 10 on the Social Mobility Index, coming in at eighth place out of 75. The Social Mobility Index, which is in its seventh year, ranks UK employers on the actions they're taking to ensure they're open to accessing and progressing talent from all backgrounds.

Lumumba, a Chemical Engineering student at the University of Birmingham, was awarded with a bursary to support with his studies through the Andy Duff Bursary programme. Lumumba said:

“The support from Severn Trent has been very helpful because I didn’t have to think about going to work to pay for university, I could focus solely on my degree and the bursary helped cover some of the expenses. The placement and mentor at Severn Trent also helped me grow as a person and develop some skills, and really helped build my confidence, so I’m really thankful for the support and opportunities”.

Helping our communities to achieve their goals
During the year, we launched our new and improved online community learning platform, created by our Academy Team. The platform is available for everyone in our communities to use. We want everyone to have the best chance of success and our Academy Team is there to support our communities every step of the way. There is a huge variety of free online learning resources available, from videos and articles to a range of online training courses.

Community Fund
In our PR19 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. In 2023/24, the Fund awarded over £2 million, to over 100 organisations. Since the Fund’s inception, we have awarded nearly £10 million to organisations across our region.

You can read more about our Community Fund here: stwater.co.uk/about-us/severn-trent-community-fund/

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 2024, the average time to pay for Severn Trent Water was 33 days.

Living Hours is a newer concept designed to ensure that workers are on contracts where they can earn enough to support a decent standard of living. In April 2024 we became an accredited Living Hours Employer. The standards to which it holds employers includes: a right to a contract which reflects the hours worked; offering a minimum of 16 hours per week (employees can request less); and providing at least four weeks’ notice of a change to working patterns. It currently applies to all our employees, and we are working to implement it across our supply chain.

Read more about how we have engaged with our suppliers in our ‘Engagement in Action – Suppliers’ disclosure.

Keep making waves

In November 2023, in partnership with Aston University, we proudly hosted a group of engineering Masters students during Industry Week – the students took part in a transformative one-week Innovation Challenge as part of the Asset Intelligence and Innovation Wavemakers programme.

The initiative harnessed the creative potential within our communities and was used to address critical challenges linked to our innovation hubs: Zero Spills; Water Resilience; Net Zero; and Circular Economy.

The students collaborated with innovation experts and SMEs from various areas of the business. They also received invaluable training from our Academy and Aston Business School. This collaborative effort delivered a range of ideas and perspectives, creating a space where they could be creative and solve problems.

Throughout the week, students immersed themselves in the challenges presented by the innovation hubs, demonstrating exceptional creativity and ingenuity. Under our guidance, they explored and proposed solutions that have the potential to drive positive change across the business, showcasing the amazing talent within Aston University.

The week-long event ended with presentations judged by industry experts, with the winning entry exploring how we can use innovation to reduce the amount of water we use in the agricultural community.

A DRIVER OF POSITIVE CHANGE

The world we operate in and the needs of our customers and society change continually. 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 for the people we serve. This section 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, Get River Positive river pledges and our Storm Overflow Action Plan ('SOAP').

GREEN RECOVERY PROGRAMME

In July 2021, Ofwat approved an additional investment of £566 million (2017/18 prices) for our ambitious Green Recovery Programme. Nearly three years on, our projects are making excellent progress – already yielding substantial benefits for our customers, communities and the environment, and the learnings from the programme are informing our future strategic plans.

Bathing Rivers	Protecting customer supply pipes	Water resources
		
Our goal Improve River Leam and River Teme water quality by upgrading three sewage treatment works, treating and reducing spills from storm overflows and installing river quality monitoring.	**Our goal** Replace up to 26,000 lead or leaking customer owned supply pipes in Coventry and Bomere Heath, removing lead and reducing leaks by around 1 million litres a day from customer owned pipes. In Bomere Heath, removing all the lead pipes also means that we can reduce our treatment process that mitigates the impact of lead, thereby reducing the carbon impact of our water treatment processes.	**Our goal** Increase water supplies by up to 93 Ml/d – enough to serve a city the size of Derby – using low-carbon-impact treatment processes, and share our knowledge with other water companies, supporting the sector's aim to achieve net zero operational emissions by 2030. In addition, our work to achieve this will increase the biodiversity of 46 hectares of habitat at our Witches Oak water treatment works.
Our progress We have made good progress with the programme and are on track to deliver against our goal by March 2025. Detailed design of our sewage treatment works ozone disinfection upgrades is complete and we are	**Our progress** We have delivered over 7,300 supply pipe replacements in Coventry, and have ramped up our delivery pace. We have completed more than 1,000 replacements for social housing	**Our progress** Our 31 floating wetlands were completed ahead of schedule. The floating wetlands biologically pre-treat the raw water before we abstract it, reducing the amount of traditional treatment required.

progressing with off-site assembly of the plant which is quicker, more cost effective and supports equipment testing and commissioning. This programme has now been aligned to our Drainage and Wastewater Management Plan (‘DWMP’), capturing recent statutory changes, and facilitating a further 15.9% reduction in spill volume from our original plan (over 230,000 m^3 per year). These changes also increase the length of river we will improve, to deliver even greater benefits for customers, communities and the environment, and we are working through the impacts of this with Ofwat. This programme has seen us collaborating with the Rivers Trust to better understand how our communities are using rivers, inform local communities of our plans and share how we can collectively take care of rivers.	properties, bringing benefit to customers who may be more financially vulnerable. Supply pipe replacements in Bomere Heath have also continued, with 35 out of an estimated 600 completed and we have begun a sampling programme to help identify any remaining lead pipes. This process will also confirm lead removal and support simplification of our treatment process. We have shared our learnings from this project across the industry, including hosting a ‘lead pipes event’ in November 2023. We have continued to provide bespoke updates on our trials to other water companies.	Our Raw Water Abstraction and Transfer Project construction is on track to be completed ahead of schedule in October 2024, despite exceptional weather and flooding events during the last quarter of the year. We completed our innovative Ceramic Membrane Pilot Plant in December 2022 and it has been in operation over the last year, collecting critical data to support real-time optimisation of the new treatment works. Construction of our Witches Oak water treatment works is also progressing well, with the main structures complete and the mechanical and electrical installation underway.

Flood-resilient community	**Improving our region’s rivers**	**Smart water meters**
		
Our goal Create the UK’s first catchment-scale flood-resilient community in Mansfield, using an innovative ‘nature-based’ approach to reduce surface flooding risk.	**Our goal** Support environmental improvements to 500 km of rivers, accelerating our planned Water Industry National Environment Programme (‘WINEP’) investment by three years. This includes delivering 47 Water Framework Directive (‘WFD’) statutory obligations faster by carrying out schemes	**Our goal** Help customers save water by installing over 157,000 smart water meters to individual household properties, giving customers instant access to their usage information.

	to reduce storm overflows and remove phosphorus. We will also undertake Storm Overflow Assessment Framework ('SOAF') investigations to inform and prioritise future investment.	
Our progress We are installing Sustainable urban Drainage Systems ('SuDS') across Mansfield to absorb rainwater, providing additional storage capacity. We have facilitated more than 4,900 m^3 of surface water storage through our interventions, provided 48 rain gardens and bioretention tree pits with a capacity of almost 600 m^3 and delivered more than 4,870 m^2 of permeable paving with an estimated 1,243 m3 of storage. We have had great success with eight bioswales and detention basins, which have provided a storage capacity of 3,076 m^3. Additionally, the bioswales and detention basins deliver significant environmental benefits and reduce the pressure on the wastewater network. We have learned a huge amount about the actual costs of these types of retro-fitting SuDS and how to roll them out at scale. We have learned how, when and where retro-fitting SuDS is viable or not – something which had not been explored at scale before this programme. We believe this will help us, and others, in deploying SuDS in the right places in the future.	**Our progress** We are ahead of schedule to deliver our WFD obligations, resulting in earlier improvements to our rivers. We are installing more chemical dosing systems, reed beds and mechanical filters to reduce the amount of phosphorus in the rivers resulting from our wastewater operations. Our first 21 projects, reflecting over 47% of the programme, are in contract, and work has commenced on site at nine projects. This will deliver the majority of our 2025 obligations and result in a significant benefit to the related watercourses. We continue with our storm overflow assessment in line with the guidance laid down in the published SOAF.	**Our progress** We are working towards our goal to deliver the full programme ahead of March 2025, and have installed over 111,000 smart meters to date and have more than 60% of meters online transmitting data every day. The programme has provided valuable learnings in relation to meter connectivity and, in view of these learnings, we have improved our coverage to 77% through a number of activities including raising antennas. Over 76,000 customers have been welcomed and have access to the Smart Tracker platform, which displays the smart meter readings as well as lots of other helpful tools and water saving tips, and more than 27,900 customers have engaged with this functionality. The success of this programme to date is reflected in our leakage and Per Capita Consumption ('PCC') performance, and we are continuing to build on our positive progress by providing additional support for vulnerable customers, such as streamlining leak resolution activity.

Green Recovery Report

Our dedicated Green Recovery Report is available in our Regulatory Library on the Severn Trent Water website stwater.co.uk/regulatory-library/regulatory-library-documents/

GET RIVER POSITIVE

In March 2022, alongside Anglian Water and Hafren Dyfrdwy, Severn Trent Water launched Get River Positive pledges, our five pledges to improve the health of rivers in our region. Since then we have delivered a number of important benefits.

Pledge One	Pledge Two	Pledge Three
Ensure storm overflows and sewage treatment works do not harm rivers	**Create more opportunities for everyone to enjoy our region's rivers**	**Support others to improve and care for rivers**
		
At Severn Trent we all take responsibility for the health of our rivers. We have made good progress and continued to reduce our impact on rivers. We believe we have reduced our contribution to Reasons for Not Achieving Good Ecological Status ('RNAGS') in our region's rivers to 14%, and it is our ambition to reduce RNAGS in our operational area to 10% by 2025. By 2030, our goal is that our storm overflows will cause no harm to rivers. We plan to ensure our assets are responsible for less than 2% of RNAGS by 2030. We are working on dramatically reducing our CSO spills.	More people now see the value in their local rivers when it comes to health and wellbeing activities. We remain on track to deliver river quality improvements as part of our £78 million Bathing Rivers programme. We have begun installing innovative ozone treatment at three of our wastewater treatment sites – one in Shropshire and two in Warwickshire. This is a pioneering process which aims to enhance the effluent quality of the normal sewage treatment process. We are the first UK water company to trial this technology and are excited to understand its effectiveness in removing micropollutants and pharmaceuticals. We know that creating opportunities for everyone to enjoy our region's rivers isn't just about improving water quality. That's why we want to	Over the last year we have continued to engage with communities, schools and organisations across our region to support them in helping to improve river health. We are delighted to be working with the Shropshire Wildlife Trust to help restore and re-naturalise a section of the River Corve. In 1992, the channel was declared ecologically dead as a consequence of historical dredging; our funding will restore the channel, making it a vital habitat for trout, and provide an opportunity to reintroduce white clawed crayfish to support the downstream population at Stanton Lacy, in addition to broader biodiversity gains. Our Community Fund has awarded over £256,000 over the last year to projects that help protect river health. The biggest award went to the Severn Rivers Trust's Black

	support water-based leisure activities, including exploring what we can offer at our reservoirs. This includes the recent launch of paddleboarding at our beautiful Ladybower Reservoir in the Upper Derwent valley for the first time.	County River Schools project, which received nearly £200,000 for an education and physical infrastructure programme. Our unique collaboration with the agricultural community has seen us support over 5,000 farmers in the last decade to help protect water quality through a range of schemes. Since launching our new package to promote regenerative farming practices in May 2022, we have awarded over 400 Severn Trent Environmental Protection Scheme ('STEPS') grants for on-farm improvements that help protect water quality and biodiversity – worth almost £5 million.

Pledge Four	Pledge Five
Enhance our rivers and create new habitats so wildlife can thrive	**Be open and transparent about our performance and our plans**
	
Our River Rangers are at the heart of the work we do to protect and enhance our rivers and to improve river health. Since January 2022, our River Rangers have been working closely with local stakeholders and communities, attending more than 280 meetings with partners and environmental groups to discuss river health. They have also completed over 7,000 river inspections to help inform our activity and deliver further improvements. Since 2020, we have funded a wide range of projects with Nottinghamshire Wildlife Trust, improving over 600 hectares of river through this partnership. These projects focus on	We are continuing to explore ways in which we can be more open and transparent about our performance. We published our Storm Overflow Action Plan in March 2024, which details our investment plans to improve storm overflows. Our Storm Overflow Map went live on 30 April 2024, providing near real-time storm overflow data, enabling our customers to see the current status of each storm overflow across our region. We sought feedback from our independent Get River Positive Advisory Panel (the 'Panel'), alongside other interested stakeholders, to develop the map, to ensure it is meaningful

improving natural wetlands and wet meadows to provide diverse habitats and prevent flooding, as well as species-specific work such as the reintroduction of beavers and water voles to watercourses. Every employee can spend two working days a year doing voluntary work and further support our Get River Positive pledges. Over the last year, more than 400 of our people, in partnership with local environmental groups, spent around 2,500 hours cleaning rivers, litter picking, removing non-native species and finding/removing a collection of larger items that don't belong in our waterways.	for interested stakeholders and is easy to navigate. After a successful year, all members have agreed to remain on the Panel to help focus our AMP8 programme of investment running up to 2030. We have enhanced the Panel's membership to include more representation from river users, alongside land use and habitat experts.

Get River Positive Annual Report
Read more details about our Get River Positive journey in our Get River Positive Annual Report on our website, where you can also find our Storm Overflow Action Plan. stwater.co.uk/get-river-positive/

OUR COMMITMENT TO IMPROVING STORM OVERFLOWS

Storm overflow spills are one of the biggest issues facing our sector today and we are firmly committed to reducing their usage as quickly as possible to meet the expectations of our customers and wider stakeholders.

Over the next 25 years we will invest £4.4 billion to meet government requirements at least five years early and we are accelerating our investment to deliver benefits for our customers and the environment as quickly as possible.

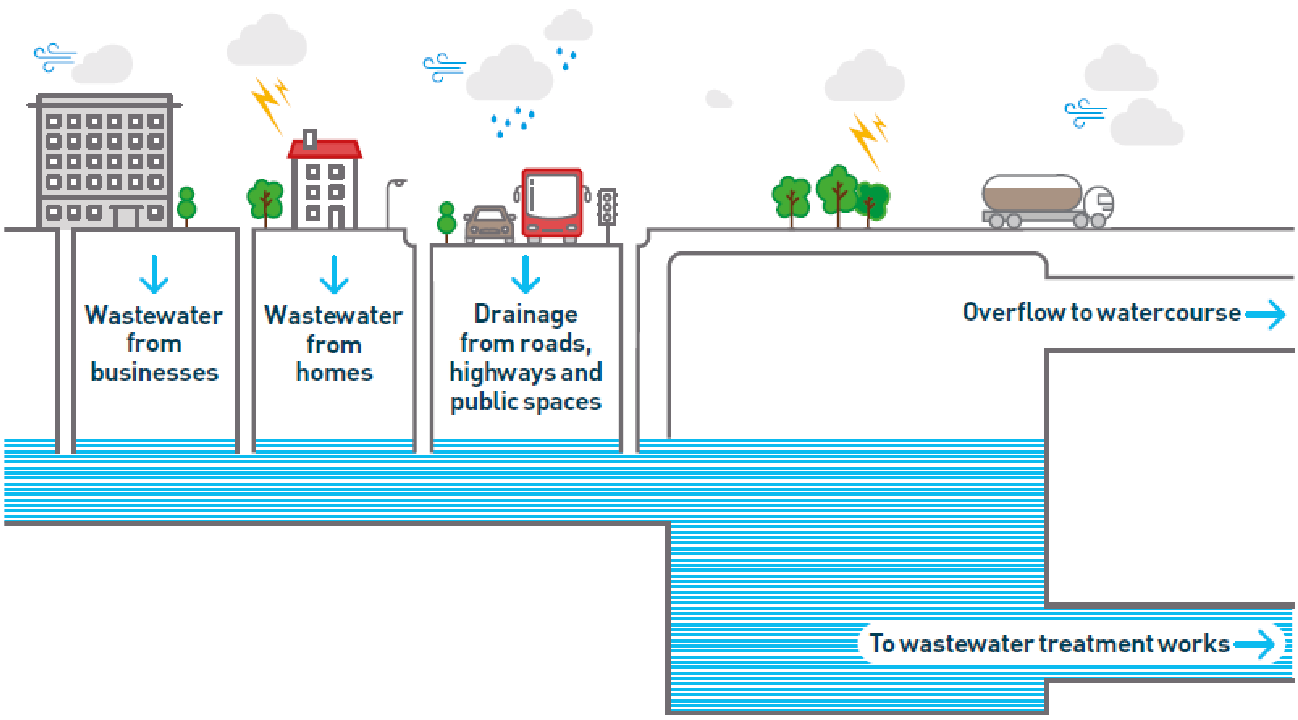
What are storm overflows?

On an average rainy day in England, about 2 million litres of rainwater will fall on every square kilometre. And all that water needs to go somewhere. Every day, we take away 3.3 billion litres of wastewater from toilets, bathrooms and kitchens in homes and businesses. But wastewater also flows into our network because of drainage from roads, highways and public spaces, and flows through our 92,800 km network of pipes to one of our c.1,000 wastewater treatment works to be treated and safely returned to the environment. During periods of sustained rainfall the volume of wastewater entering our network increases significantly and, as we have seen this year, weather patterns are changing and recently we saw some of the wettest months on record.

Like many other countries, the UK's sewerage system was designed as a combined system, with a single piped network which collects wastewater from homes and businesses and also collects rainwater from roofs, roads and other hardstanding areas. To mitigate the risk of flooding properties when there is too much water in the system, for example in periods of sustained rainfall, the combined sewerage system was designed with overflows which act as relief points during heavy rainfall allowing diluted flows to discharge into rivers and watercourses to protect customers' homes from flooding. We have 2,472 overflows within our wastewater system and these are made up of a mix of overflows on our network (commonly referred to as combined sewer overflows ('CSOs')) and those located on our wastewater treatment sites (commonly referred to as settled storm overflows ('SSOs')).

Each overflow is designed in accordance with a permit condition as outlined by the EA. The permits specify the conditions under which a spill is permitted ensuring no detrimental impact to the receiving watercourse.

Whilst these overflows operate within permit conditions and serve an important purpose, our stakeholders care deeply about reducing their usage – and so do we. Our entire organisation is energised and focused on reducing our number of spills and we are determined to achieve our stretch ambition to halve our number of spills by 2030. We're investing and working hard to deliver the reductions we have committed to, while at the same time protecting customers' homes and businesses from flooding as we implement our solutions.



How do we monitor storm overflows?
How we monitor and report overflow performance is strictly defined by the EA, and every year all water and sewerage companies in England are required to formally submit performance data to the regulator.

All of our storm overflows have Event Duration Monitors ('EDMs') installed which report the number of times they activate, when they are activating, and the length of time each overflow discharged. We were the first water company in England to install EDMs on 100% of our overflows. Pulsing every 2-15 minutes and providing over 300 million data points per year, this insight is helping to inform our knowledge and prioritise what action and investment is needed. In addition to our EDMs, we also have thousands of early warning monitors fitted across our network which continually analyse changes in depth and/or flow so we can proactively identify any potential problems before they occur.

We take the delivery of our commitments incredibly seriously and we believe transparency is vital to demonstrate our progress to customer and broader stakeholders. Our EDM data is subjected to several levels of internal and external assurance before it is reported to the regulators. To ensure we are being transparent with our customers and stakeholders we publish our annual EDM data on our website each year, which contains all the monitoring information from storm overflows across our region, and have developed a near realtime storm overflow map in an accessible format.

Our performance of 24.9 spills on average in 2023 (against 24.7 in 2021 and 18.4 in 2022) is not in line with the pace of progress that we want. An increase in utilisation of overflows was not unexpected given the higher levels of rainfall observed this year – being 35% more than in 2022 – however we were still disappointed in the increase. While we've felt its impact, weather cannot be an excuse for us or our sector – climate change is something we must all adapt to, and it is our job to protect our customers and the environment from its impact on our operations. The unprecedented weather this year has highlighted that we need to go further, move quicker, and find more creative and innovative solutions to meet the expectations of our stakeholders, in particular on storm overflow spills.

Ambitious investment plans
In August 2022, the Government published its Storm Overflow Discharge Reduction Plan ('SODRP') which sets stringent new targets to protect the environment. The SODRP sets out specific deadlines to ensure no storm overflow is causing harm by 2045, with an interim target that 75% of overflows are improved by 2035. In addition, no storm overflow will be permitted to discharge above an average of 10 times per year by 2050, measured using EDMs.

Aligned with the requirements of the SODRP, we have developed our Storm Overflow Action Plan ('SOAP'), to ensure every storm overflow we are responsible for meets the targets set out in the SODRP – ahead of required timescales. In our investment plans for the next five years we set ourselves the most ambitious targets in the sector for minimising the use of CSOs, with targets that go further and faster than the SODRP.

Meeting our target of an average of 20 spills by 2025 is a priority, and we are determined to achieve our stretch ambition to halve our number of spills between now and 2030. Our whole organisation is energised and focused on this activity, and we are now finalising the procurement of thousands of assets, to help us accelerate our five-year investment plan. This investment will have a dramatic reduction on the use of CSOs once the new assets are installed this year. Overall, we expect these capital works to benefit 900 sites, representing over 40% of all CSOs that spilled last year.

Modular storage capacity

Sudbury additional storage We are installing modular additional storage at our wastewater treatment works and network assets to allow us to capture and store more flows during periods of high rainfall to dramatically reduce CSO spills. Data and site reviews have helped us identify suitable sites.

At Sudbury wastewater treatment works we have increased our storage by 60 m³ through installation of modular storage. This additional storage has helped us better manage storm flows and in April 2024 we noted zero spills.

Accelerating progress in 2024/25
To ensure we make demonstrable progress on our investment programme, at the pace our stakeholders expect, on 17 May 2024 we announced our accelerated programme of capital investment to deliver almost 1,000 improvements across c.900 storm overflow sites by the end of the year. Our ambitious plan is set out below. We have assembled a dedicated team of hundreds of people working across hundreds of sites. By the end of this year we will deliver a combination of solutions as follows:

- over 700 storage solutions at our treatment works and network assets. These assets will allow us to capture and store more flows during periods of high rainfall and dramatically reduce spills at those sites;
- c.25 submerged aerated filter ('SAF') treatment units that will enable us to expand the treatment capacity through the additional processes, dramatically reducing spills into the environment;
- c.70 reed beds that will provide for nature based treatment of sewage at the storm route for smaller sites, and prevent untreated sewage entering rivers;

- nearly 200 enhancements at specific CSOs on our network, which will enable us to increase the flow of sewage to our treatment works, reducing the potential for a spill into the river;

- over 100 flap valves that will prevent river ingress into our network, which would otherwise overload the capacity of our sewers with river water; and

- c.8,000 water butts will be supplied to 10 communities to trial at scale surface water separation.

Everyone in Severn Trent is committed to this programme and reducing our usage of storm overflows, which is why every employee in the organisation is incentivised through our annual bonus - 15% of which is linked to delivering CSO enhancements at pace and reducing their usage. We have made excellent progress since our announcement in May, a summary of our progress to date is set out below, including case studies of schemes completed to bring the scale and pace of our activity to life.

Over 250 interventions have been completed so far including:

- more than 20 enhancements at specific CSOs to increase the hydraulic capacity of our network, reducing the potential for spills;
- over 100 flap valves have been installed that will prevent river ingress (fluvial flooding) into our network when river levels are high;
- twenty new storage tanks have been delivered
- c.150 enhancements at sewage treatment sites to repurpose existing assets, optimise pumps and assets to increase the hydraulic capacity and increase storage capacity at our sites during periods of heavy rain.

In addition to this activity, over 500sites have been surveyed for enabling work to accelerate the installation of storage and treatment enhancements. In readiness for this activity:

- over 550 storage tanks have been sourced and we are resourced to install a peak of 50 tanks per week
- we have identified over 35 sites where Submerged Aerated Filters ('SAFs') can be deployed. Manufacture and delivery of these units is underway; and
- ordered 30 new reed beds to provide nature-based treatment of sewage at the storm route for smaller sites.

When installed, these enhancements will increase the storage capacity and allow us to treat more during periods of heavy rain.

Innovation is playing a key role in our ambitious programme, we are installing smart water butts at customer homes in key areas and the use of AI and smart control panels, designed and developed in house, are helping us enhance the operation of our network.

Examples of how these solutions work is explained in the table below. To bring to life the scale and complexity of these schemes, the below disclosure provides case studies of schemes delivered since we announced our programme in May 2024. To deliver these improvements we are growing our business. This year we redesigned sections of wastewater operations, insourced our customer waste teams, and as part of our new accelerated programme, we will be using our supply chain to deliver spill reductions as they work on our wider environmental programme. This complex, large-scale activity is overseen by our dedicated CSO programme, which reports directly into our Executive Committee on a weekly basis, to deliver our investment plan as quickly as possible.

We intend for all these solutions to be installed by the end of the year, enabling us to rapidly reduce the use of CSOs once in operation. This important activity will be supported by data and innovation, including our Zero Spills Hub in Nottingham to trial innovative technologies at pace to work towards zero spills. More detail on our Zero Spills Hub is provided in the schematic on the next page.

Focus on innovation: our Zero Spills Hub

CSO spills are a challenge shared by other wastewater companies internationally. As such, we have been learning how others have approached spill reduction, including Aarhus Vand in Denmark. While traditional solutions including separating combined sewers have an important role to play, it is also clear that emerging smart interventions, when used in the right combination, can help to drive down spills and have the potential for faster deployment than larger capital schemes.

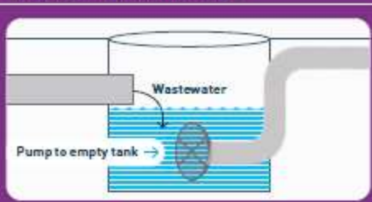
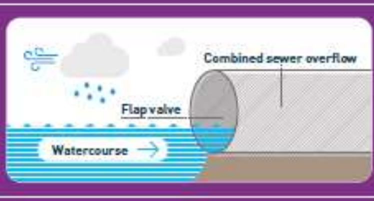
Our Zero Spills Hub in Nottingham incorporates this learning and is a testing ground for innovative solutions for spill reduction of the type we are planning to deploy in 2024/25. It is designed to act as a catalyst for progress in four areas:

Creating new treatment options within river catchments as well as at works. Engaging communities in solution development.

Using learning from Artificial Intelligence ('AI') to optimise flows and capacity in our existing infrastructure.

Managing storm water using AI enabled temporary and permanent storage and nature based solutions.

Reconfiguring networks, slowing storm water flows and trialling new commercial rainwater harvesting and re-use schemes with learnings from Singapore and Australia.

Investment	Number	Solution – how it works	
New storage capacity, including large-scale storm tanks and smaller modular solutions, including SAFs, that can be deployed at scale. Water butts supplied to customers' homes across 10 communities to reduce surface water.	c.700 c.8,000		Storm tanks hold wastewater back during severe weather events before returning it to our treatment works when rainfall has subsided and capacity to treat is available.
Nature-based treatment, such as reed beds.	c.70		Reed bed systems help treat increased wastewater flows during severe weather events, reducing the treatment required when rainfall has subsided and capacity to treat is available.
Installation of solutions to optimise assets, such as flap valves and enhancement at specific CSOs.	c.300		Flap valves work as a safety mechanism during periods of severe weather, by stopping river inundation into our treatment works when river levels are high.

To bring to life the complexity and scale of each of the investment types, the case studies below illustrate three storm overflow investments we have delivered since we announced the programme in May 2024.

Optimising assets: flap valve installation in Shropshire	**Reed bed treatment: refurbishment at Fenny Compton**	**Additional storage capacity: storm tank solution at Stroud**
		
In Shropshire, we have installed two flap valves to protect against inundation from the River Severn. These valves protect our wastewater treatment works from flooding, and improve our resilience to severe weather, meaning that we can continue to treat our customers’ wastewater even when river levels are high, which is becoming increasingly frequent in this area.	We have completed the refurbishment of our reed bed treatment at Fenny Compton wastewater treatment works using innovative technology to restore the reed bed and re-lay pipework. The scheme is one of seven trials to combine reed bed effluent with final treated effluent before returning it safely to the river, minimising CSO spills and providing essential data to inform future investment.	As part of a £25 million project to upgrade the sewer network in Stroud we have installed a new concrete storm tank with smart controls that can hold up to 7.4 million litres of wastewater back during severe weather events. This scheme will improve the resilience of our network, holding back wastewater before returning it to our treatment works when rainfall has subsided and capacity to treat is available.

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.

Great Big Nature Boost

In 2020 we announced our Great Big Nature Boost, one of the biggest programmes to support nature recovery across our region by 2027 and to plant 1.3 million trees. We said we would work to boost nature across 5,000 hectares of land by 2027 and, having exceeded our target ahead of schedule, in May 2023 we announced that we would be accelerating our target to 10,000 hectares by 2025.

Since 2020, we have planted over 800,000 trees, delivered 72 Tiny Forests and have planted 600 acres of new woodland as part of the Commonwealth Legacy Forests. This takes us over halfway towards our 1.3 million target for tree planting by 2027.

We do need to manage our trees to counter the fragmentation of ecosystems and promote landscape resilience, as well as to keep people and our infrastructure safe. At many of our sites we carry out planned maintenance to coppice woodland to ensure it can continue to thrive and is safe. In some circumstances this unfortunately means that we have to remove or cause harm to trees in order to carry out our work – both on and beyond our own land. The reasons for this could be that the operation of our assets is compromised, trees are obstructing construction of essential infrastructure or the tree is a danger to people. We will only consider removing a tree if it is for one of these reasons, and we do not remove trees for cosmetic reasons, such as shading or leaf fall. When we do remove trees, we will comply with all relevant legislation.

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Our TCFD Disclosure

At a 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. Our sixth TCFD disclosure is provided on behalf of the Group and is presented in our Severn Trent Plc Annual Report and Accounts for 2023/24. This details 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. Our TCFD disclosure also complies with the requirements of the Companies Act 2006 as amended by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 ('CFD').

Our Severn Trent Plc Group TCFD disclosure is supported by our separate Group Sustainability Report 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.

In March 2020, we committed to invest £1.2 billion in sustainability and report on our progress in a transparent and genuine way. As reported in our Severn Trent Plc Annual Report and Accounts, the table below provides detail on where we have invested against our plans up to 2025, and how our objectives align to external climate and nature objectives. We have already exceeded our original target, investing over £1.5 billion to date, the majority of which took place within the Company.

Our Ambitions	Our Priorities	Investment to date
Carbon and Climate Change	Triple Carbon Pledge Science-Based Targets Climate adaptation	£220 million
Enhancing Nature	Biodiversity Pollutions reductions River water improvements Catchment management	£549 million
Water Resources for the Future	Leakage reduction Per capita consumption reduction Meter installations Interconnector investment	£634 million
Affordability and Accessibility	Reducing water poverty Building our academy Creating a community fund Increasing conservation	£153 million

OUR APPROACH TO CLIMATE CHANGE

What are we aiming for?

As a Group, we have committed to achieving net zero operational carbon emissions by 2030. We also committed to generating and/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 ('SBTs') to reduce Scope one and two emissions by 46% by 2031 in line with a 1.5°C pathway, and for 70% of our supply chain (by emissions) to have set a Science Based Target by 2026.

Our Group Net Zero Transition Plan

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 highlighted last year that our net zero journey will not be linear. 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.

Our focus over 2023/24 has been on leveraging the results of the research and development programmes, and building a business case to secure funding and ensure sufficient capital allocation to deliver our net zero programme. There has been significant progress in two key areas: establishing our Net Zero Hub so it can become operational in 2024/25 and submitting our AMP8 Business Plan to put us on the right trajectory to delivering our targets. Our Net Zero Hub brings together novel digital, data, physical and biological technologies for the first time to lower emissions from sewage treatment. This will help create the blueprint for future investment phases.

Net zero in our business plans for AMP8

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 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 and includes our net zero plans for the Group.

In October 2023, we submitted our AMP8 Business Plan for Severn Trent Water. Our Plan includes the investments we deem necessary in the short term to keep us on track with our climate commitments and sets out how we're going to reduce the greenhouse gases ('GHG') emitted from two of the most significant contributors to our footprint: wastewater and sludge treatment processes and heat and fuel. We believe they represent the most ambitious plans in the sector to transform the carbon impact of our operations.

In plotting our course to net zero operational emissions, our plans consider a range of factors, including statutory and self-imposed targets, the priorities of our regulators and customers, the technological solutions available and deliverability. We also consider available funding sources and the impact on costs and ultimately customer bills. This approach supports a steady, balanced investment profile focusing initially on areas where viable, proven and cost-effective technologies already exist.

Summary of our greenhouse gas performance

The below information includes a summary of our greenhouse gas performance which forms part of our Severn Trent Plc Annual Report and Accounts 2023/24.

Greenhouse gas reporting method

2023/24 is the 11th year we have reported GHG emissions. For Severn Trent Water, which accounts for 96% of our total Group emissions, we have been publicly reporting our emissions since 2002. We also continue to report our energy use and generation data to provide more detail on how we manage energy use. Our GHG emissions are reported in tonnes of carbon dioxide equivalent ('tCO2e'), for the period 1 April 2023 to 31 March 2024. We report our location-based and market-based emissions separately and report on 10 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 GHG and the Carbon Accounting Workbook ('CAW') to calculate our 2019/20 baseline. However, developments in scientific consensus led us to start an industry-leading programme of direct monitoring in 2021 reflecting guidance from the Intergovernmental Panel for Climate Change ('IPCC') to improve global emission factors by taking measurements at country and facility-specific levels. The results from this monitoring demonstrated that process emissions from wastewater treatment were substantially higher than the previous CAW estimations.

We have now rolled out direct effective monitoring at wastewater and sludge treatment facilities responsible for treating 42% of our wastewater and 40% of our sludge loads. This data has already given us valuable insights into seasonal and diurnal profiles as well as an early indication of process-level differences in emissions. Our commitment to collect long-term datasets from these sites will inform the development of country and process-level emission factors.

This year, we have refined our methodology to use a combination of IPCC estimates and our measured site specific data where long-term datasets exist. Whilst much higher than the CAW estimates, the emission factors across our process emissions have decreased from last year at our monitored sites. This methodology has been applied to our historical emissions, allowing us an update on previous years' data to provide transparent comparison values.

Assuring our data

All GHG data we report is tracked internally during the year through our Corporate Sustainability Committee and shared with the Board. We have subjected our GHG data and processes to external assurance by Jacobs. Jacobs completed a full audit of our Scope 1, 2 and 3 data in line with the principals of the IS0 14064 international standard for GHG emissions and found our processes for reporting are consistent with the reporting requirements of the GHG Protocol.

In addition, we continue to hold 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 with an interim verification that took place on our 2022/23 GHG performance. This included assurance against the principles of the IS0 14064-3 international standard for GHG emissions for our Scope 1 and 2 data, and a small portion of our Scope 3 data. We intend to re-certify our 2023/24 footprint and net zero plan over the summer of 2024 with the Carbon Trust to maintain our accreditation.

Summary of performance

The following table shows our annual GHG performance and accounts. Our reporting method is documented overleaf along with a summary of this year's performance, with supporting technical detail to ensure full transparency, reflecting the complexity and growing granularity of our data. We report each year starting from 2019/20 at a Group level in our Severn Trent Plc Annual Report and Accounts and we report on our Group Scope 3 emissions in the Severn Trent Plc Annual Report and Accounts and included here for the first year is our STW Scope 3 emissions. See our Sustainability Report for wider reporting on our Scope 3 journey.

Operational greenhouse gas emissions (tonnes CO_2e)	2023/24
Scope 1	
- Combustion of fossil fuels on site	49,858
- Process emissions - CAW[1]	139,910
- (Process emissions) - Revised methodology[2]	284,038
- Transport fleet	19,684
Scope 1 Total Emissions [3]	353,581
Scope 2 Emissions (Electricity purchased for own use) - Location Based[3]	154,921
Scope 2 Emissions (Electricity purchased for own use) - Market Based [3]	67
Scope 1+ 2 - Location based	508,502
Scope 1+2 - Market based	353,648
Scope 3 Emissions (Business travel)	1,072
Scope 3 Emissions (Outsourced bioresource activities)	2,111
Scope 3 Emissions (Electricity transmission and distribution)	13,403
Total Annual Gross Operational Emissions[3] (Location based)	**525,088**
Total Annual Gross Operational Emissions[3] (market based)	**370,234**

Avoided emissions (tCO2e)	Severn Trent Water
Estimated emissions benefit of the renewable electricity we export	-27,784
Estimated emissions benefit of the renewable biomethane we export*	-43,803
Total	**-71,588**

Scope 3 Emissions, tCO2e	Group (23-24)
1) Purchased goods & services	186,162
2) Capital goods	269,932
3) Fuel & Energy related activities -T&D	13,403
3) Fuel & Energy related activities -WTT	13,454
4) Upstream Transportation & Distribution	15,767
5) Waste Generated in Operations	5,911
6) Business Travel	1,072
7) Employee Commuting	6,115
8) Upstream leased assets	NA
9) Downstream transportation & Distribution	NA
10) Processing of Sold Products	NA
11) Use of Sold Products	34,786
12) End of Life treatment of sold products	NA
13) Downstream Leased Assets	12,750
14) Franchises	NA
15) Investments	NA
Total Scope 3	**559,352**

Our emissions at a Severn Trent Water Group level have fallen by 30% against the 2019/20 baseline, representing good progress against our SBT of 46% reduction by 2031, driven predominantly by moving to 100% renewable backed electricity from our suppliers.

For Severn Trent Water specifically, our Scope 1 emissions have reduced by 3% from 2022/23 mainly due to a reduction in process emissions. This is primarily due to lower measured emissions at our monitored sites this year, which applies to over 40% of our process emissions. In addition to this we have switched reporting at our unmonitored sites to use the IPCC tier 1 level emission factor, which is lower than the factor we used the previous year. Year-on-year variability on measured emissions exist at site level, which is in line with global observations, which shows emissions vary due to local weather conditions; although the definitive relationship is not yet fully understood.

Our use of natural gas continues to the ongoing deployment of thermal hydrolysis sludge treatment processes ('THP') at an increasing number of sites, which produces better quality sludge digestate and more renewable energy, but requires high temperatures to achieve this. This is balanced by a reduction in our process emissions, which continue to make up the majority of our Scope 1 emissions at 80%. Even though we are processing higher volumes of sludge, approximately 60% of our sludge is now being treated using advanced digestion, including THP and acid phase digestion ('APD'), which has approximately half the emission factor of traditional anaerobic digestion.

For Scope 2 we report the benefit of our 100% renewable backed tariff as reflected in the market-based emissions. Also shown in our avoided emissions table is the carbon benefit of the renewable electricity and biomethane which we export to the grid. We generate renewable energy in both our regulated and non-regulated businesses and continue to see growth in both these areas. We use the proceeds to invest in our research and development programme to reduce Scope 1 emissions.

Of the categories we report on Scope 3, we have seen an increase of 34% in capital goods and services driven by an increase in expenditure and activity on capital goods, as our investment begins to gain momentum. We have also observed an increase of 24% in emissions from the category of purchased goods and services in line with increased expenditure.

We have continued to see an increase in our use of sold product and associated emissions, due to higher use of propane 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.

Report on energy

We continue to report our energy consumption and generation data to provide more detail on how we manage energy use – the data for Severn Trent Water for last year is reported below. 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 2023 to 31 March 2024. All energy is used in the UK. We have continued to invest 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 2023/24.

Energy performance

Our gross electricity use for this year increased primarily due to wetter weather and specifically, the 10 named storms that occurred between September 2023 and March 2024. This caused an increase in electricity consumption across our wastewater operations (whereas in 2022/23 we saw drought conditions leading to higher energy usage in our water business). However, this rise was mitigated by our energy efficiency activity and our overall our energy consumption (across all fuel types) is broadly in line with previous years.

The figures within the energy performance table include the large quantity of renewable biogas from organic waste, which we generate from sludge and then either combust in combined heat and power 'CHP' 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 CHP generation fed by imported gas to mitigate high electricity costs. We have also increased our export of biomethane into the gas grid and decreased the amount of biogas we combust in CHP.

Energy efficiency

Although energy prices have fallen from record highs, the costs to our business are still significant. We have been able to manage these costs through our proactive work and a dedicated team. This year we have invested £2.4 million in our energy efficiency programme with a total of £36 million invested over the last nine years. This includes proactive maintenance of our energy-intensive assets, such as pumps and air blowers, investment in improved controls and monitoring to reduce energy use. Our Energy Management Policy and programme reflect best practice outlined in ISO 50001, the International Energy Management Standard.

Energy performance table

SEVERN TRENT WATER ENERGY ANNUAL REPORT AND ACCOUNTS REPORTING REQUIREMENTS COMMON GWh BASIS			
Energy type	**Source**	**Units**	**2023/24**
Electricity	Electricity imported	GWh	748
	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	63
Gas Fuels	Gas imported from the grid	GWh	241
	Biogas generated and combusted on site	GWh	417
	Biomethane generated and exported to the grid	GWh	267
Liquid Fuels	Fuel used by plant (gas oil and diesel)	GWh	21
	Fuel used by company fleet & company cars	GWh	77
	Fuel used for business travel (personal cars)	GWh	3
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**	**1,657**
	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**	**1,090**
Normalised Metrics	Total energy per unit of revenue	GWh/£m	0.78
	Energy imported per unit of revenue	GWh/£m	0.51
	Clean water electricity use per unit treated	kWh/Ml	689

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 fossil fuel use in our business. It will also mean an increase in use of biofuels and green hydrogen to replace diesel.

Severn Trent Group 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 standard IFRS S2 (Climate-related Disclosures).

Topic	Accounting Metric	Severn Trent Disclosure
Energy Management	(1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	Annual Report and Accounts
Distribution Network Efficiency	Water main replacement rate	Annual Performance Reports
	Volume of non-revenue real water losses	Annual Performance Reports
Effluent Quality Management	Number of incidents of non-compliance associated with water effluent quality permits, standards, and regulations	Annual Performance Reports
	Discussion of strategies to manage effluents of emerging concern	Drainage and Wastewater Management Plan ('DWMP')
Water Affordability & Access	Average retail water rate for (1) residential, (2) commercial, and (3) industrial customers	Refer to our 2023/2024 Scheme of Charges – Household Customers Refer to our 2023/2024 Scheme of Charges – Wholesale Charges Non-Household
	Number of residential customer water disconnections for non-payment, percentage reconnected within 30 days	We do not disconnect household customers for non-payment of bills
	Discussion of impact of external factors on customer affordability of water, including the economic conditions of the service territory	Annual Report and Accounts
Drinking Water Quality	Number of incidents of non-compliance associated with drinking water quality standards and regulations	Annual Performance Reports
	Discussion of strategies to manage drinking water contaminants of emerging concern	Annual Report and Accounts
End-Use Efficiency	Percentage of water utility revenues from rate structures that are designed to promote conservation and revenue resilience	Annual Performance Reports
	Customer water savings from efficiency measures, by market	Annual Performance Reports
Water Supply Resilience	Total water sourced from regions with High or Extremely High Baseline Water Stress, percentage purchased from a third party	Refer to the EA Water Scarcity Strategy Report ('WSSR'), our reporting on sourcing from high-stress regions is outlined within the EA WSSR
	Volume of recycled water delivered to customers	Annual Performance Reports
	Discussion of strategies to manage risks associated with the quality and availability of water resources	Draft WRMP
Network Resiliency & Impacts of Climate Change	Wastewater treatment capacity located in 100-year flood zones	DWMP
	(1) Number and (2) volume of sanitary sewer overflows (SSO), (3) percentage of volume recovered	Event Duration Monitor ('EDM') annual report
	(1) Number of unplanned service disruptions, and (2) customers affected, each by duration category	Annual Performance Reports
	Description of efforts to identify and manage risks and opportunities related to the impact of climate change on distribution and wastewater infrastructure	Annual Report and Accounts DWMP and draft WRMP

The reports referenced above can be located on the regulatory library section of our website.

Chief Financial Officer's review

We have delivered robust financial performance in the year in line with our expectations. PBIT of £496.4 million (2022/23 £482.7 million) was broadly in line with the previous year, and with lower finance costs, due mainly to lower inflation on index-linked debt, profit before tax was 34.9% higher at £257.8 million.

A summary of the results for the year is set out below:

	2024	2023	Change	
	£m	£m	£m	%
Turnover	2,122.0	1,965.9	156.1	7.9
PBIT	496.4	482.7	13.7	2.8
Net finance costs	(297.3)	(355.3)	58.0	16.3
Gains on financial instruments	58.7	61.6	(2.9)	(4.7)
Profit before tax	257.8	189.0	68.8	36.4
Tax	(52.7)	(33.3)	(19.4)	(58.2)
Profit for the year	205.1	155.7	49.4	31.7

Turnover increased by 7.9% to £2,122.0 million and PBIT was up £13.7 million to £496.4 million (see further details below).

Net finance costs were lower as falling inflation in the year reduced the cost of our index-linked debt. Our effective interest cost was 130 bps lower at 4.9% (2022/23: 6.2%); our effective cash cost of interest, (which excludes the inflation uplift on index-linked debt) increased to 3.4% (2022/23: 3.0%).

During the year full expensing replaced the super deduction, which had given a 130% tax allowance in the year for qualifying capital expenditure. Despite this, and the increase in the headline corporation tax rate to 25%, as expected our adjusted effective tax rate of nil remained unchanged from 2022/23 and, as expected, there was no current tax payable in the year.

The tax charge of £52.7 million reflects our full effective tax rate this year of 20.4% (2022/23: 17.6%), higher due to the increase in the corporation tax rate to 25%.

Group profit after tax was £205.1 million (2022/23: £155.7 million).

Our balance sheet remains strong. At 31 March 2024 our adjusted net debt was £7,292.2 million (2023: £6,838.4 million based on our revised definition – see note 42) Our shadow regulated gearing, taking into account our Green Recovery Programme, is 59.7% (2023 59.8%) and our regulatory gearing is 61.4% (2023: 60.5%), higher due to investments in relation to Green Recovery, transitional expenditure and other items that will be reflected in the Regulatory Capital Value ('RCV') as adjustments at the end of the AMP.

Our net pension deficit on an IAS 19 basis is £212.1 million (2023: £278.6 million). The discount rate, which is based on the yield observed on high quality corporate bonds, increased by 10 basis points and inflation expectations over the life of the liabilities decreased by 10 basis points which combined, reduced the deficit by £52.6 million. We also paid contributions of £67.4 million, in line with our funding plan. This was partially offset by other actuarial adjustments of £36.2 million, administration costs of £3.9 million and £13.4 million from unwinding of the discount on the opening deficit.

Operational cash flow was £782.4 million (2022/23: £703.2 million). EBITDA increased by £22.1 million and pension contributions were £32.4 million lower as in the previous year we paid two years' deficit reduction contributions in the year. Cash capex was £1,189.8 million, up £537.6 million due to the increasing capital programme. Net cash outflow before changes in net debt was £330.2 million (2022/23: £597.3 million).

Our RoRE for the year was 5.7%, 180 bps above the base return of 3.9% and bringing our cumulative RoRE for the AMP to 8.1%. Outperformance came mainly from our customer ODI rewards of £55 million, with 76% of our measures in reward, and financing, reflecting our continued low cash interest cost and the impact of higher inflation in the year compared to Ofwat's assumption in the Final Determination.

Although in the current year we have continued to see 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.

Turnover and PBIT

Turnover was £2,122.0 million (2022/23: £ 1,965.9 million) and PBIT was £496.4 million (2022/23: £482.7 million).

	2024	2023	Better/(worse)	
	£m	£m	£m	%
Turnover	**2,122.0**	1,965.9	156.1	7.9
Net labour costs	**(194.6)**	(157.6)	(37.0)	(23.5)
Net hired and contracted costs	**(245.8)**	(210.3)	(35.5)	(16.9)
Power	**(275.8)**	(198.4)	(77.4)	(39.0)
Raw materials and consumables	**(96.0)**	(97.3)	1.3	1.3
Bad debts	**(26.2)**	(23.1)	(3.1)	(13.4)
Other costs	**(180.7)**	(170.6)	(10.1)	(5.9)
	(1,019.1)	(857.3)	(161.8)	(18.9)
Infrastructure renewals expenditure	**(203.3)**	(233.2)	29.9	12.8
Depreciation	**(403.2)**	(392.7)	(10.5)	(2.7)
PBIT	**496.4**	482.7	13.7	2.8

Turnover increased by £156.1million with the main movements being:

- An increase of £141.9 million from the annual CPIH + K increase in prices;
- A £90.8 million decrease representing the recovery of higher revenue in 2021/22 under the RFI mechanism where revenue recovered quicker than expected post Covid;
- £130.9 million increase for the in-AMP "fast money" allowance for the Green Recovery programme and ODI reward recognised in revenue in year;
- £9.6 million reduction due to lower Non Household consumption and higher number and discounts given as part of the Big Difference Scheme, supporting customer struggling to pay their bill;
- £5.8 million reduction due to the Developer Services Adjustment
- A net decrease of £10.5 million due to lower gas and electricity export income in Bioresources due to significantly lower export prices partly offset by higher renewable energy incentive income, and increased tankered trade and domestic waste.

Net labour costs of £194.6 million were 23.5% higher year-on-year. Gross employee costs increased by £77.4 million of which, £24.7 million was driven by the pay increase of 7.5%, agreed as part of a two-year deal. A planned increase in our headcount from the insourcing of our reactive sewage services teams from Customer Solutions Plus in September 2023, and additional resource to support the delivery of our biggest ever capital programme, resulted in an increase of £27.7 million. This was partly offset by higher capitalisation of employee costs as expected due to the significant size of our capital programme and LTIP costs for Executive Directors being borne by Severn Trent Plc in 2024.

Net hired and contracted costs increased by £35.5million (16.9%). The planned step-up in the Green Recovery Programme increased costs by £15.8 million and the remaining increase is driven by higher spend on third party gangs to support with leakage and other operational improvement activities and increases on building maintenance contracts and third-party technology contracts.

Power costs were £77.4 million or 39.0% higher mainly driven by higher the wholesale price of electricity on imports, hedged over the course of 2022, which was affected by the significant increase in wholesale market energy prices at that time. Power consumption from our pumping stations was around £2 million higher due to the exceptionally wet weather. Higher power prices are partially offset by self-generation and incentive income in both our Bioresources and Green Power businesses.

Bad debt charges increased by £3.1 million and represented 1.5% of household revenue (2022/23: 1.7%) reflecting the impact of higher revenue on our bad debt cost, partly offset by improved collection performance in the latter part of the year as pressure on household incomes started to ease.

Other costs were up by £10.1 million, including higher costs of repairing third-party damage, increased insurance costs and higher regulatory fees, partly offset by lower chemical costs.

Infrastructure renewals expenditure was £29.9 million lower compared to 2022/23. This was driven by less reactive activity required as well as improved efficiency and cost per km on distribution mains renewals, partly offset by additional activity on comm pipe renewals. Our work mix switched towards more capital activity in the year.

Depreciation of £403.2 million was £10.5 million higher due to completion of Strongford THP, Minworth CHP and additional vehicle leases as we progress towards a 100% electric fleet and vehicle purchases for the insourced reactive sewage services teams.

Return on Regulatory Equity ('RoRE')

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

Our RoRE for the year ended 31 March 2024 and for the four 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 returns[1]	–	0.1
ODI outperformance[2]	0.7	1.1
Wholesale totex performance[3]	(3.8)	(0.8)
Retail cost performance	–	(0.2)
Financing outperformance	4.9	4.0
Regulatory return for the year[4]	**5.7**	**8.1**

1. Fast track reward taken over the first two years of AMP7
2. ODI performance includes Per Capita Consumption (PCC) and forecast C-MeX and D-MeX outturn. Includes in-period outperformance only
3. Includes impact of land sales. All calculated in accordance with Ofwat guidance set out in Regulatory Accounting Guideline 4.12, which precludes adjustment for corporation tax.
4. Calculated in accordance with Ofwat guidance set out in RAG 4.10, which excludes Ofwat's AMP7 tax true-up mechanism

We have delivered RoRE of 5.7% in the year, outperforming the base return by 1.8% as a result of:

- ODI performance of 0.7%, driven by continued strong performance across the majority of measures, with 76% meeting or exceeding regulatory targets.

- Financing performance of 4.9%, driven by our AMP7 financing strategy of maintaining a low level of index-linked debt and the tax benefit of 100% capital allowances
- partly offset by the impact of high energy costs on our totex as previously guided.

Net finance costs

Net finance costs for the year were £58.0 million lower than the prior year at £297.3 million. Although average net debt increased by 9.7% at £7,181.7 million (2022/23: £6,547.7 million) lower inflation in the year reduced the cost of our index-linked debt by £102.2 million. Our effective interest cost was 4.9% (2022/23: 6.2%).

We raised approximately £1.2 billion of new debt at competitive rates but higher than the embedded debt it replaced and as a result our effective cash cost of interest (excluding the RPI uplift on index-linked debt and pensions related charges) was higher at 3.4% (2022/23: 3.0%).
Capitalised interest of £68.1 million was £13.4 million higher year on year, due to increased capital work in progress compared with the previous year, partially offset by the lower effective interest cost.

Our EBITDA interest cover was 3.2 times (2022/23: 2.5 times) and PBIT interest cover was 1.7 times (2022/2023: 1.4 times). See note 42 for further details.

Gains/losses on financial instruments

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

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

We hold interest rate swaps with a net notional principal of £442.9 million floating to fixed, and cross currency swaps with a sterling principal of £674.9 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 loss of £9.0 million (2022/23: gain of £35.7 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 around 100% of our estimated wholesale energy usage for 2024/25, and around 43% for 2025/26, through physical hedges with suppliers and natural hedges from the export of self-generated energy.

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 the Severn Trent Group (including the Company) pays can be found in our report, "Explaining our Tax Contribution 2023/2024", which will be made available on the Severn Trent Plc website.

The corporation tax charge for the year recorded in the income statement, was £52.7 million (2022/2023: £33.3 million) and we received net corporation tax repayments of £9.0 million in the year (2022/2023: paid £7.8 million)

	2024 **£m**	2023 £m
Tax on profit on ordinary activities	**52.7**	33.3
Tax effect of timing differences	**(51.9)**	(35.2)
Overprovisions in previous years	**(4.5)**	(0.7)
Corporation tax receivable for the year	**(3.7)**	(2.6)
(Over)/under payments in prior years offset in the current year	**(5.3)**	10.4
Net tax (received)/paid in the year	**(9.0)**	7.8

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

The current tax charge for the year was £0.3 million (2022/23: credit of £0.5 million) and the deferred tax charge was £52.4 million (2022/23: £33.3 million).

Our effective tax rate this year was 20.4% (2022/23: 17.6%), which is lower than the UK rate of corporation tax (25%), mainly due to permanent difference that arises from the revaluation of the Group's investment, which is not taxable (2022/23: lower due mainly to the revaluation of the investment and the permanent difference arising from the benefit of the 30% element of the super deduction in excess of the cost of the asset).

Our adjusted effective current tax rate was 0% (2022/23: 0%) (see note 42).

UK tax rules specify the rate of tax relief available on capital expenditure. Typically, this is greater in the early years than the rate of depreciation used to write off the expenditure in our accounts. 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 £205.1 million (2022/23: £155.7 million).

Cash flow

	2024 £m	2023 £m
Operational cash flow	**782.4**	703.2
Cash capex	**(1,189.8)**	(652.2)
Net interest paid	**(227.4)**	(201.4)
Net payments on swap cancellations	**(4.4)**	(11.1)
Tax received/(paid)	**9.0**	(7.8)
Free cash flow	**(630.2)**	169.3
Dividends	**(300.0)**	(428.0)
Issue of shares	**600.0**	–
Change in net debt from cash flows	**(330.2)**	(597.3)
Non cash movements	**(124.0)**	(211.9)
Change in adjusted net debt	**(453.8)**	(809.2)
Adjusted net debt 1 April	**(6,838.4)**	(6,029.2)
Adjusted net debt at 31 March	**(7,292.2)**	(6,838.4)

	2024 £m	2023 £m
Cash and cash equivalents	**426.1**	9.4
Bank overdraft	**(2.0)**	(5.4)
Net cash and cash equivalents	**424.1**	4.0
Bank loans	**(498.2)**	689.4
Other loans	**(7,158.4)**	(6,274.5)
Lease liabilities	**(109.2)**	(103.2)
Fair value accounting adjustments	**29.8**	47.9
Cross currency swaps	**19.7**	22.3
Loans due from parent company	**–**	154.5
Adjusted net debt	**(7,292.2)**	(6,838.4)

Operational cash flow was £782.4 million (2022/23: £813.5 million). Operational cash flow was higher mainly due to higher EBITDA, and lower pension contributions than the previous year, when two years' contributions were paid.

Net cash capex increased to £1,189.8 million (2022/23: £652.2 million), reflecting progress against our core capital programme, increased spend on Green Recovery and transitional spend for AMP8.
Our net interest payments of £227.4 million (2022/23: £201.4 million) increased due to higher average net debt, and effective cash cost of interest (which excludes the non-cash indexation charge on index linked debt).

We paid dividends of £300 million (£128 million lower than the previous year) and raised £600 million of equity.

These cash flows, together with accounting adjustments to the carrying value of debt, resulted in an increase of £453.8 million in adjusted net debt (2022/23: £809.2 million).

At 31 March 2024 we held £424.1 million (2023: £4.0 million) in net cash and cash equivalents. Average debt maturity was around 14 years (2023: 14 years). Including committed facilities, our cash flow requirements are funded until February 2026.

Adjusted net debt at 31 March 2024 was £7,292.2 million (2023: £6,838.4 million). Group adjusted net debt, expressed as a percentage of estimated Regulatory Capital Value at 31 March 2022 was 61.4% (2023: 60.5%).

The estimated fair value of debt at 31 March 2024 was £682.7 million lower than book value (2023: £328.9 million). The increase in the difference to book value is largely due to the impact of 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 2024 interest rates for 69% (2023: 66%) of our gross debt of £7,718.3 million were fixed; 3% were floating and 28% were index linked. We continue to carefully monitor market conditions and our interest rate exposure.

Our long term credit ratings are:

Agency	Rating	Outlook
Moody's	Baa1	Stable
Standard and Poor's	BBB+	Stable
Fitch	BBB+	Stable

Pensions

We have two defined benefit pensions arrangements, which are closed to future accrual.

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

- deficit reduction payments to be made each year until 31 March 2027, with a payment of £39.2 million in the year ended 31 March 2024, increasing in line with CPI (based on increases in the inflation measure covering the 12-month period to the previous November);
- 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 payment of £20.0 million in the year ended 31 March 2024, potentially continuing to 31 March 2031, although these contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed.

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

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 £212.1 million (2023: £278.6 million) and the funding level increased to 89% (2023: 86%).

The movements in the net deficit during the year were:

	Fair value of plan assets	Defined benefit obligations	Net deficit
	£m	£m	£m
At start of the period	1,744.5	(2,023.1)	(278.6)
Amounts charged to income statement	76.7	(94.0)	(17.3)
Actuarial gains/(losses) taken to reserves	(16.8)	33.2	16.4
Cash received/paid by the schemes	(39.6)	107.0	67.4
At end of the period	1,764.8	(1,976.9)	(212.1)

Accounting policies and presentation of the financial statements

Our consolidated financial statements are prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The Company financial statements are prepared in accordance with FRS 101.

MANAGING RISKS AND OPPORTUNITIES

We operate a robust risk and opportunity framework to effectively identify, assess and mitigate risks to delivering our strategic priorities.

2023/24 risk environment

2023/24 has seen continued attention and scrutiny on the water sector to challenge the industry to improve its environmental performance. Within the regulatory framework we continue to perform well and are highly confident that we will achieve EPA 4* for a fifth consecutive year for our 2023 performance, demonstrating our commitment to the environment. The UK economic growth slowed over 2023 in the face of rising interest rates, high inflation and elevated levels of uncertainty. These have impacted disposable household income and some of our customers' ability to pay bills. We offer several schemes to support our customers who are struggling to pay their bills.

Globally, geopolitical issues have intensified and spread across the Middle East, which has the potential to impact global supply chains, as shipment delays through the Suez Canal can hinder the supply of components and increase the cost of raw materials. In response to this, we completed a full review of our supply chain and are confident in our ability to manage any issues that could arise.

Severn Trent operates Critical National Infrastructure ('CNI') and we performed a detailed review of the National Risk Register which covers economic, social, environmental, and technological risks. This ensures we are aligned with the Government's assessment of the risks facing the UK in the short, medium and long term.

This year was the second warmest on record for the UK, narrowly behind the record set as recently as 2022. 2023/24 was also relatively wet, with 1,290 mm of rainfall, and we experienced the most active start to the storm season since naming storms began in 2015.

We are embracing opportunities enabled by technology, for example there is a leading Artificial Intelligence trial to predict weather conditions and this will allow us to take appropriate preventative action to protect our network.

In October 2023, we submitted our ambitious AMP8 Business Plan (the 'Plan') to Ofwat, outlining our strategy and objectives over AMP8. Our Plan has been developed to ensure we are prepared to meet future challenges, which include climate change, population growth and new legislation.

Our aim is to continue to make a positive difference to our customers, communities and the environment both now and in the future.

Risk appetite statement

All businesses are exposed to a variety of uncertainties and need to take a degree of risk to achieve strategic objectives. Severn Trent Water will only take calculated risks that are consistent with our purpose, values and strategy, are thoroughly understood, and can be effectively managed. The Board has overall responsibility for determining the nature and extent of the risks Severn Trent takes and for ensuring our risks are well managed across the Severn Trent Group.

The Board monitors the Company's risk profile to achieve an appropriate balance between risk and leveraging opportunities which are critical to delivering our strategic objectives. Additionally, the Board considers risks, and combinations of risk, in the short, medium and long term to ensure we have appropriate mitigation strategies in place. Risks related to our longer-term prospects and the viability of the Company have been assessed (see our Viability Statement).

The water sector has inherent risks, particularly due to the nature of operations and services provided. As such, risks need to be appropriately managed in line with the scale of our infrastructure, with a strong focus on the environment and the health, safety and wellbeing of our colleagues and the communities we serve.

Our sector is subject to high levels of political, regulatory, and financial scrutiny, and we recognise the importance of our stakeholders' evolving expectations and the impact of climate change when we are planning and responding to risk.

Our risk priorities

In addition to managing the inherent risks associated with our business, we prioritise the following due to their alignment with the strategic areas of focus for Severn Trent:

- The health, safety and wellbeing of our people and the communities we serve 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, including rivers, and improve the biodiversity in our region through effective risk management.
- 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. As a result, we have no appetite for compliance-related risks.
- Our approach to financing is to take measured risks which are consistent with providing resilience, delivering sustainable outperformance and offer the best long-term value for our customers.
- 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. We will adapt to the challenges which climate change may bring in the future.

Our risk and opportunities management framework

Our approach to risk allows us to adapt to changing internal and external factors through utilising the three lines of defence model and combining top-down with bottom-up risk management approaches. This model provides both a clear articulation of risk appetite and a comprehensive process for risk identification, assessment and management. Combining top-down and bottom-up approaches is necessary to be agile and respond to a continuously changing environment and consequently, a changing risk landscape.

Our approach cannot, and does not, seek to eliminate all risk entirely, but ensures we can effectively navigate the challenges and opportunities we face, only taking risks that are within our risk appetite.

A key component of our framework is the range of cross-departmental groups which facilitate and support collaboration, analyse data, provide insight and enable risk-based decision making. Our risk management framework outlines the groups and the roles performed in risk management across Severn Trent, which is underpinned by effective communication channels.

Top-down

Bottom-up

Risk governance and oversight

The Board:

- Sets the risk culture.
- Defines and regularly reviews the 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 an annual assessment of Principal Risks.
- Provides insight and challenge to horizon scanning.

The Audit and Risk Committee:

- Supports the Board in monitoring significant risks and tracking progress against risk mitigation plans.
- Approves the ERM Risk Management Policy.
- Ensures that risks and opportunities are effectively managed across the Group.
- Discussions on both existing and emerging risks.

Risk management and oversight

The 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.
- Individual members of the Executive Committee are assigned relevant risks and review the risk mitigation strategies.
- Sets and evaluates risk tolerances.
- Identifies and assesses Principal and Emerging Risks.
- Reviews horizon scanning.

Risk ownership, management and oversight

1st line of assurance

Strategic planning:

- Develops longer-term, holistic risk response plans, e.g. WRMP.
- Establishes critical controls for ensuring the operational effectiveness of essential services.

Service Area Boards:

- Assesses capital investment programme management.
- Implements strategic risk management processes, such as the DWMP.
- Assesses all categories of risk at an operational level.

ERM Co-ordinators and Risk Champions:

- Day-to-day risk and incident management.
- Identifies, assesses and responds to risks at a local level through continual monitoring.
- Produces risk response plans and strategies.
- Develops, implements and monitors key controls.
- Follows our Risk Management Framework.

2nd line of assurance

Strategic Risk Forum:

- Assesses the Business Units reported risks and mitigation plans, and challenges any ERM information or deliverables.
- Reviews and validates all ERM reporting and risk-related information prior to Board meetings, including the Principal Risks.

Central ERM Team:

- Applies the risk management framework and establishes best practice risk processes.
- Owns the corporate ERM system and reports key risk information, including response plans and risk tolerance.
- Provides guidance and training for the risk community.

Technical and Governance Assurance:

- Ensures the 1st line of assurance is effectively designed, embedded and operating as intended.
- Provides expertise to support, monitor and challenge on risk related topics.

3rd line of assurance

Internal Audit:

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

Our risk management process
Risk management principles are embedded throughout the business and are a core component of our overarching structure to achieve our strategic priorities.

We have an established Enterprise Risk Management ('ERM') cycle, shown to the right, with a strong focus on continuous improvement and feedback. Our ERM cycle is divided into four main stages which help us to identify, evaluate, manage, report and assure our risks. This ensures a consistent approach to risk management is applied across the Company.

Our ERM approach also provides a comprehensive overview of significant risk events, including emerging risks through horizon scanning, which must be managed within the Company's risk appetite and supported by appropriate assurance activity.

Our Central ERM Team oversees the ERM Risk Management Policy, which forms part of our governance process and supports our values and culture. Our risk community, which includes ERM co-ordinators and champions, helps to embed and drive risk management across our business.

Our strong continuous improvement culture ensures that risk discussions occur on a consistent basis at all levels of the business. The bottom-up approach helps ensure risk management is informed by, and embedded in, our everyday operations. From day-to-day asset operation and monitoring, medium-term through the deployment of capital investment, to the long-term modelling of our asset health and performance. We also adapt our approach to reflect societal expectations and environmental changes. A standardised criteria is used to consider the likelihood and velocity of risk occurrence and provides a framework to quantify potential financial and reputational impacts.

Risk Bow Tie
We utilise our 'Risk Bow Tie' management tool which is used by many organisations to simply convey complex risks. The tool enables a clear differentiation between proactive and reactive risk management and creates a consistent structure for capturing causes and consequences.

The potential causes, impacts and controls related to each risk are documented in our corporate risk system. The risk causes have also been linked with recognised climate drivers, where the likelihood could be exacerbated by a different climatic future.

Our ‘Risk Bow Tie’ assessment provides confidence that we have developed and deployed effective risk response strategies. This also provides an opportunity for the Central ERM Team to challenge whether additional controls are required.

Risk reporting

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 Company risk profile which is reported to the Strategic Risk Forum (‘SRF’), and subsequently the Executive Committee for review and challenge. This is then formally reported to the Audit and Risk Committee and the Board every six months. The report provides an assessment of the effectiveness of controls for each risk in our Company profile, and action plans to improve controls where necessary.

Our ERM risks are linked with our Licence to Operate obligations. This helps to create a dynamic link with our core commitments as a water company and improves our risk reporting to the Board and Audit and Risk Committee.

OUR PRINCIPAL RISKS

In accordance with the 2018 UK Corporate Governance Code, the Board is responsible for determining the nature and extent of the Principal Risks of the business.

Our Principal Risk profile is updated each year to reflect the changing risk landscape. The Board and Executive Committee have completed a robust review and assessment of the Principal Risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. This review ensures we have appropriate coverage for risks which have the potential to:

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

Following our latest review, the number of Principal Risks has increased from 11 to 13. These changes do not reflect any deterioration in our overall risk position and are necessary to reflect changes in our risk environment and ensure our mitigation strategies remain appropriate. The changes provide greater alignment with our strategic objectives and ERM risks.

Risk assessments form a key part of our business and decision-making processes, enabling us to respond promptly to risks when they arise and ensure that our stakeholders are well informed. To appropriately detect early warning signals and prepare for Emerging Risks, we track and report these as part of the embedded reporting cycle. We also undertake regular horizon scanning and this is reviewed by the SRF, Executive Committee, Audit and Risk Committee and Board. A summary of the key Emerging Risks is shown on page 86 within the next section of this report.

For each Principal Risk reported we have included the following:

- examples of risk mitigation strategies;
- changes to risk profiles since the last report; and
- key risk indicators to track the probability of a Principal Risk materialising.

We have also provided details of how each Principal Risk is aligned to our strategic objectives under our Corporate Strategy:

Health and safety

Principal 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 objectives

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 contractors. The Framework is subject to regular review.
- We have a competency framework and compliance with mandatory training is regularly monitored.
- Our supply chain is monitored 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 our 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. Targeted interventions are tracked to ensure they are implemented in a timely manner.
- We monitor and investigate relevant health and safety incidents to identify lessons learned.

Key updates in the year

- The Health and Safety Team supported the transition and insourcing of the Customer Solutions Plus wastewater contract activities into our Waste Networks Team. The Team worked closely with the business to ensure the onboarding and induction processes provided all the appropriate health and safety prior to the go-live. The focus on health and safety continues in this area.
- On 2 October 2023, one of our Green Power sites at Worton Farm, Cassington was struck by lightning. The strike ignited three of the digester tank roofs. Our safety procedures and protocols operated effectively and the site was immediately evacuated. None of our employees or any of the local communities were injured. In response to the event, an independent lightening protection specialist was appointed to undertake a risk assessment across the Group's estate. In parallel, an internal review was conducted, including physical asset inspections at all of the Company's DSEAR sites to review assets and site records. The process also included a review of previous risk assessments to ensure no further actions were required in response to the event (read more on page 82 to 83).
- Additional auditing is underway of our Tier 2 suppliers to ensure our health and safety protocols are adhered to. This is particularly pertinent due to the high level of investment required in AMP8.
- Health and safety performance is shared with colleagues through our monthly Team Talk.
- Our Goal Zero report provides interactive Health, Safety, Security, and Wellbeing information in relation to colleagues and contractors. The report enables us to drill down into the data for every team.

KPIs

- Lost Time Incident ("LTI") rate target

Infrastructure failure and asset resilience

Principal Risk 2
We do not provide a safe and secure supply of drinking water to our customers

Strategic objectives

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 accelerate 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, including the impact of climate change. See Principal Risk 11.
- We regularly review and update processes, standards and operational procedures.
- Business continuity plans are in place across the Company for incident management and our teams are well versed in the actions which need to be taken in the event of a hot weather incident, including a standby rota for colleagues to provide additional support.

Key updates in the year

- We have refreshed our CRI sustainability plan to ensure we focus on the right improvement areas to further drive our baseline CRI performance. Our reservoirs are at higher levels than previous years, with water storage in the Severn Trent region at 98.5% of capacity on 25 March 2024.
- Our draft WRMP 2024 provides details on how we secure our water supply, taking into account future challenges (e.g. climate change, increased demand).
- We have outlined in our AMP8 Business Plan that we will use a combination of enhanced treatments, including ultraviolet ('UV') and advanced ceramic membranes, to ensure our customers continue to benefit from high-quality drinking water.
- To reflect our commitment to supporting customers and Licence Condition G: Principles for Customer Care, which was introduced by Ofwat in February 2024, we will be publishing our Customer Vulnerability Strategy in the summer of 2024. This will include details on how we: provide a high level of service to vulnerable customers; ensure inclusivity by design; effectively capture extra needs; and provide additional support when required. We also have a Priority Services Register and we actively encourage customers, friends or family to let us know of anyone who might benefit from extra help, for example, if there is an issue on the network or if they would appreciate receiving their bills in a different format.

KPIs

- Supply interruptions (no. of minutes),
- Leakage % (Ml/d) target,
- CRI (index),
- % water quality competency training competed target
- Priority Services Register (%),

Infrastructure failure and asset resilience

Principal Risk 3
We do not transport and treat wastewater effectively, impacting our ability to return clean water to the environment

Strategic objectives

Stakeholders

Examples of risk mitigation

- We complete strategic modelling, such as for the DWMP, to assess potential changes to the supply and demand on our wastewater network. This enables us to proactively reduce service issues and potential damage to the environment.
- Our 24/7 Control Centre monitors our asset performance, including real-time telemetry coverage.
- We have an in-house Wastewater Network Response Team and key operational employees are required to complete mandatory training programmes to ensure continued competence with evolving standards.
- We run educational programmes for customers to promote safe use of the wastewater system, including appropriate disposal of wet wipes and cooking fat.
- We monitor all sites with Flow to Full Treatment ('FFT') permit requirements via our dedicated Flow Performance Team.

Key updates in the year

- In May 2023, we in-sourced over 400 people to our reactive waste team to further improve our services for customers. This allows us to react even faster to pipe blockages and flooding.
- We have experienced several named storms in 2023 and 2024 placing increased stress on our waste network. Our operational teams responded quickly to the extreme weather events and we increased the number of colleagues available to help meet the increased demand on our network.
- We have 24/7 Incident Response Teams who provide extra support during events, including delivering additional tankers.
- There are more than 2,400 storm overflows across our region, which are designed to protect homes and businesses from flooding and we are working towards having 40,000 sewer sensors within our network by 2025. This is a game changer as they provide data at least once every 15 minutes so we can constantly monitor and proactively address any issues before they arise.
- We are transforming wastewater management with an industry-leading AI trial to predict weather conditions, forecast maintenance and control waste flow to effectively predict issues and prevent them before they occur.
- Our WINEP programme of 'no-regrets' investment will deliver benefits to protect and enhance the water environment, whilst also preparing for future requirements. Our AMP8 WINEP programme was developed over 18 months and represents an EA approved, best-value programme of work that satisfies our statutory obligations.

KPIs

- Internal sewer flooding (no. of incidents),
- External sewer flooding (no. of incidents)
- Public sewer flooding (no. of incidents),
- Pollutions incidents (no. of incidents),

Customer service and experience

Principal Risk 4
We do not meet the needs of our customers or anticipate changing expectations through the level of customer experience we provide

Strategic objectives

Stakeholders

Examples of risk mitigation

- Service Level Agreements ('SLAs') are in place and are communicated to our customers who require assistance.
- We have a specialist Digital Team that monitors activity and enables us to engage with and respond to customers digitally, whether on social media or WhatsApp, to inform them of planned and reactive work.
- With customer-tested acceptability levels of 76%, our AMP8 Business Plan is well supported by our customers.
- The Priority Services Register supports customers with special requirements to give them a more personalised service.
- We have a robust incident management process, which includes procedures for vulnerable customers in the event of operational events that impact service levels.
- Our Retail Transformation Plan and Customer Experience Steering Group help drive further improvements in relation to our customers' end-to-end journeys.
- Our Developer Services Team proactively engages with local new-build developers, to ensure the appropriateness of supply planning and connections.
- A dedicated Non-Household Customer Team actively engages with and responds to market retailers.

Key updates in the year

- Our billing system will be replaced with the cutting-edge and award-winning utilities Kraken system to transform the experience our customers receive. We are working hard to ensure there is a smooth transition, without any data loss or reduction in customer service levels which could impact C-MeX performance
- We want to ensure our customers receive a high level of service and adhere to Licence Condition G, which was introduced by Ofwat in 2024. We have focused on ensuring we have an appropriate strategy and supporting processes for keeping our customers informed and updated. The full diversity of our customer needs has also been identified and understood.
- We recognise that applying a regional focus can deliver significant improvements across the Group. Our County Cup initiative is a county-based challenge for all colleagues at Severn Trent Water. Everyone has the opportunity to get involved and go above and beyond for our customers and communities
- Our customers can now use the Video your Notes ('Vyn') platform to send a video of any issues directly to our engineers for review and then contact customers to book a visit.
- We launched a new initiative 'Going the Extra Mile' to promote greater customer service and colleagues taking ownership of the end to end customer journey.

KPIs

- C-MeX (index).
- D-MeX (index).
- Customer written complaints (no. of complaints)
- Priority Services Register for customers in vulnerable circumstances (%)

Supply chain and capital project delivery

Principal Risk 5
Key suppliers cannot meet contractual obligations, causing disruption to capital delivery (cost and quality) and/or critical operational services

Strategic objectives

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 the design and delivery of our projects.
- We have dedicated quality and assurance teams who perform in-depth quality reviews. Commercial auditing is performed on key activities which are delivered by suppliers.
- We regularly review contracts and have contract performance meetings. These include a review of KPIs and proactive supplier and market assessments.
- Appropriate regular training is provided for contract management teams.
- We regularly verify the financial stability of the Severn Trent supply chain through a robust process, which includes lead measures.
- We have regular management reviews with our critical material suppliers, including at CEO level if needed.
- We audit our supply chain on various key indicators, such as Modern Slavery.

Key updates in the year

- We undertook a review examining the resilience of our supply chain, identifying supply chain risks and building mitigation actions associated with the Middle East conflict and in particular associated attacks on commercial vessels in the entry/exit to the Red Sea.
- We continue to conduct supplier heat-mapping for all our contracted supply chain, which helps provide ongoing monitoring and early warnings, including financial stability.
- AMP8 will see us launch our biggest investment programme of £12.9 billion. We have tested the strength and resilience of our supply chain to ensure readiness for AMP8.
- We have a wide range of Tier 2 and 3 suppliers in our framework, increasing the reliability of the supply chain, with quality alternatives in the event a supplier is no longer available.
- We perform an annual exercise to confirm our capital delivery suppliers are compliant with the contract and other key aspects (e.g. health and safety certificates).
- A review has been performed to determine interdependencies within the water sector in relation to the supply chain, and appropriate actions have been taken to reduce any risk.
- Our Cyber Security Team have completed surveys on our supply chain.
- We use EcoVadis to assess suppliers' sustainability risk and maturity levels.

KPIs

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

Security and resilience

Principal Risk 6
Core operational capabilities are compromised through physical, people or technological threats

Strategic objectives

Stakeholders

Examples of risk mitigation

- Our Information Security Team and Data Privacy Officer are responsible for monitoring information security and cyber threats.
- A dedicated Security Team and Alarm Receiving Centre, a requirement of Defra (Department for Environment, Food and Rural Affairs) /DWI (Drinking Water Inspectorate), allows us to monitor and respond remotely on our most critical sites that have had physical and electronic security upgrades.
- Proactive and robust support is in place for our monitoring technology (e.g. alarms and cameras), with appropriate maintenance plans.
- Mandatory annual cyber security training for all employees.
- A robust operational security programme, including physical access controls, on-site and remote system protection. There is 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 controls, including multi-factor authentication.
- We work closely with third-party IT service partners to manage risk and improve technical standards.
- We have disaster recovery plans that are stress tested and updated annually.
- Migration to cloud platforms is improving the resilience of our disaster recovery and business continuity plans.
- Security standards are understood with relevant 'What If' scenarios documented and tested. Documented security investigation processes are in place, including root cause analysis.
- We have appropriate operational asset protection including both physical and electronic protection.
- All operational and office sites have business continuity and crisis management plans in place, which are regularly tested.

Key updates in the year

- We have refreshed the wording of this Principal Risk to include physical and people threats as they can all compromise our core operational capabilities.
- To further drive our strong security position, we have submitted two security enhancement cases with our AMP8 Business Plan: enhancing cyber security to increase cyber resilience in line with National Cyber Strategy 2022; and physical security to meet the Security and Emergency Measures (Water and Sewerage Undertakers and Water Supply Licensees) Direction 2022 ('SEMD').
- We achieved compliance with the Network and Information Systems Regulations ('NIS-R') a year early, demonstrating our commitment to early adoption and the protection of our operational capabilities.
- We have an IT Business Continuity Board to ensure risks are effectively managed.

KPIs

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

Political, legal and regulatory

Principal Risk 7
Changing societal expectations, resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the reputational risk of non-compliance

Strategic objectives

Stakeholders

Examples of risk mitigation

- A fundamental process when developing our plans (e.g. AMP8) is to perform detailed customer research. This enables us to understand the views and priorities of customers and key stakeholders.
- We actively engage with the UK Government, MPs, the Welsh Government, regulators and other stakeholders about the future direction of the water sector.
- We operate an established Governance Framework, comprising policies and training, to ensure ongoing compliance with applicable laws and regulations. This includes Competition Law for the operation of separate wholesale and retail businesses and between our Group businesses and the General Data Protection Regulation ('GDPR'). These are regularly reviewed to capture any changes.
- Investment plans are subject to regular reviews, at least on an annual basis, to take account of changes to legislation, regulation and our business.
- External legal advisers provide detailed updates 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.

Key updates in the year

- In February 2024, Severn Trent Water was fined £2 million for a pollution event which occurred at our wastewater treatment works in Barlaston during 2020. We take all events of this nature very seriously, at all levels of the Group. We have implemented lessons learned to improve our preparedness, and minimise the likelihood of similar events in the future. Please refer to page 15 for more details.
- There has been continued public and media attention, especially for combined sewer overflow ('CSO') spills. We want to go further and faster than we've been asked to do, by reaching the Government's 2050 target five years quicker.
- We have created a Zero Spills Hub where we will deploy solutions, at scale and in combination, to ensure we understand our catchment system and can take wastewater safely away to reduce overflow spills and flooding. This will utilise AI, machine learning, alongside other technologies in order to improve our network optimisation.
- We have a dedicated CSO Team and are taking our commitment to performance a step further by creating an ODI Centre of Excellence. This includes a team of analytical specialists from across the business who will critically review our plans for key ODIs and identify improvement opportunities.

Financial liabilities

Principal Risk 8

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

Strategic objectives

Stakeholders

Examples of risk mitigation

- Our deficit recovery plans are agreed by the Trustees and the Company. The plans state 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 unchanged repair payments of c.£65 million per annum.
- Interest rate, inflation and equity risks are managed through appropriate hedging strategies to manage downside risks, with regular monitoring in place.
- We continue to work with the Trustees 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 Chief Financial Officer.

Key updates in the year

- The IAS 19 pension deficit at the year end has reduced to £213 million (net).
- Our current position remains above our funding journey plan agreed at the last valuation.

KPIs

- Pension deficit (£m)

Financial liabilities

Principal Risk 9

We do not have access to funds to meet ongoing commitments and finance the business appropriately

Strategic objectives

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, in order to mitigate risks.
- The Group maintains liquidity headroom of at least 15 months in line with the Board approved Liquidity Policy.
- 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 in order to reduce refinancing risks.
- Treasury policy statements and procedure manuals are in place and operating effectively. These are reviewed at least annually.
- We successfully completed a £1 billion equity raise to fund unprecedented long-term growth opportunities in preparation for AMP8.

Key updates in the year

- As at 31 March 2024 the Severn Trent Group is in a strong liquidity position with £953 million cash and £1.1 billion undrawn committed facilities, providing liquidity until early 2026.
- In September 2023, Severn Trent Plc raised £1 billion in new equity to support our AMP8 investment programme, ensuring financeability of our AMP8 Business Plan.
- We have also been active in the debt markets having raised around £1.4 billion in new debt from a range of diverse sources, including a €500 million sustainable EUR bond.
- Our strong balance sheet, stable investment grade credit ratings and sector-leading operational performance means we are well positioned to continue to raise new finance as we move into AMP8.
- Please also refer to our Viability Statement

KPIs

- Months of liquidity (no. of months)

Strategy

Principal Risk 10

Unforeseen changes in the external environment could impact our ability to achieve our ambitions within the regulatory framework

Strategic objectives

Stakeholders

Examples of risk mitigation

- Our ambitious PR24 Business Plan sets out the progress we will make from 2025-30 towards the 2050 aims outlined in our Long-Term Delivery Strategy ('LTDS').
- Our LTDS brings together every aspect of our planning over 25 years and uses Ofwat's adaptive planning approach to create the best long-term strategy for our customers and our region. Our approach ensures we have strategic flexibility built in to adapt to changing circumstances.
- Our Strategic Direction Statement sets out our long-term priorities based on our view of future trends and the areas of importance to our customers, regulators, investors, employees and wider society.
- Horizon scanning is completed on a regular basis to monitor external trends, including political, economic, social, technological, environmental and legal ('PESTEL') factors to help identify potential threats and opportunities early.
- Scenario planning is completed to explore different potential outcomes and impacts, ensuring we have robust strategies which can adapt to changes.
- We foster a culture of innovation to develop new products, services or business models that can adapt to changing market needs.

Key updates in the year

- The Central ERM Team has led the Group's annual horizon scanning exercise for 2023/24, identifying Emerging Risks through a systematic assessment of potential threats and opportunities. Early insights enable us to proactively manage risks and identify opportunities to drive growth within our business. We have leveraged well-recognised external publications for the horizon scanning exercise.
- Our Plan sets out the progress we will make towards the aims outlined in our LTDS. The Strategy is based on a rigorous adaptive planning approach, which has involved many iterative steps and engagement with customers, stakeholders and our Board. It accounts for future uncertainty by using different pathways and scenarios to test investment propositions. This gives us confidence we are making the right long-term choices in our plan. A copy of the plan is available on our website.

Climate change, environment and biodiversity

Principal Risk 11

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

Strategic objectives

Stakeholders

Examples of risk mitigation

- We utilise scenario planning and data modelling to understand the impact climate change could have on our essential services (see Principal Risks 2 and 3).
- Our WRMP and DWMP provide a 25-year, longer-term planning approach to address future challenges, including climate change.
- Our AMP7 and AMP8 Business Plans support increased resilience against the potential impacts of climate change through the delivery of capital schemes (see Principal Risk 5).
- We have a climate change strategy (described in more detail on pages 47 to 48, which ensures a robust response in order to protect our value chain.
- Our Triple Carbon Pledge commits us to net-zero operational emissions, 100% renewable energy and an all-electric fleet (where available) by 2030
- We have committed to significantly reducing our greenhouse gas emissions by 2030

Key updates in the year

- During 2023/24, details of climate-related risks were shared with the Board and discussed.
- In October 2023, the Board held its annual Board Strategy Day, where time was spent exploring topics relevant to the future of our business, including ESG considerations.
- Our Plan sets out the priorities of the Group to support the long-term sustainability of our business for customers and stakeholders. The Business Plan recognises that our world is changing faster than ever before through: new technologies; climate change; shifts in demographics, societal expectations; and the economy, which create both challenges and opportunities.
- In our 2022/23 Annual Report we published our first ever EU Taxonomy disclosure and expanded on this with a standalone disclosure in November 2023, outlining both our eligibility and alignment under the rules. Our latest disclosure is incorporated into this Annual Report

KPIs

- See the Metrics and Targets section that forms part of our approach to climate change

Climate change, environment and biodiversity

Principal Risk 12
Failure to act as a steward of natural capital in our region providing social, environmental and economic benefits

Strategic objectives

Stakeholders

Examples of risk mitigation
- Our Get River Positive pledges demonstrate our passion to make a positive impact on the communities and the environment where we live and work.
- We support the Get Nature Positive journey in our region to protect biodiversity by working in partnership with regulators and other stakeholders.
- Strategic plans and a number of ODI commitments are in place to enhance biodiversity in our region and protect the local environment, including reducing the likelihood of pollution incidents, delivering biodiversity improvements and ensuring environmental compliance.
- Catchment management practices are used to work with landowners in our region to mitigate the effect of pesticides, fertilisers and organic nutrients on the environment and biodiversity.
- Modelling is utilised to determine the impact of increasing pressures on nature, for example from climate change through drought or extreme weather events (see Principal Risk 11) 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.

Key updates in the year
- As part of our AMP8 Business Plan and LTDS we have outlined a number of initiatives to enhance the natural environment of the various habitats across our sites. This ensures we are resilient to a number of nature-related risks and are able to explore opportunities. Modelling and scenario planning have been used to inform our decisions.
- Nature is critical as we move to more nature-based solutions. Our approach builds on a track record of delivering significant improvements to the biodiversity of our natural environment, both independently and through third-party co-operation. For example, our Zero Spills Hub will enable us to trial combinations of different approaches, including AI to optimise asset use and nature-based solutions to prevent spills.
- You can read about our approach to managing the range of nature-related risks and opportunities, and how we are preparing for TNFD, in our TCFD disclosure
- As part of our Green Recovery Programme we are installing over 157,000 smart water meters for our customers. A further 250,000 will be installed before March 2025.
- Our groundbreaking work, which includes the creation of a new £40 million Net Zero Hub, won the coveted title of 'Net Zero Carbon Initiative of the Year' at the 2023 Water Industry Awards.

KPIs
- Biodiversity (no. of hectares improved)

People and culture

Principal Risk 13
Our people and culture do not adapt in response to a changing environment and take advantage of technological advancements to deliver enhanced business performance

Strategic objectives

Stakeholders

Examples of risk mitigation
- We have a robust recruitment strategy which is focused on attracting top talent with the desired skills for both now and in the future.
- There are dedicated apprenticeships and graduate schemes available to ensure we have the right skills for the future. We also embraced the Government's Kickstart Scheme by supporting 16-to-24-year-olds who are at risk from long-term unemployment by creating six month work experience opportunities.
- Our Ofsted-accredited Academy facilitates the training and upskilling of our colleagues in order to embrace technological advancements. The team at our Academy works closely with the business to understand the training needs and then targets training accordingly. We also recognise that everyone learns in different ways and the Academy goes beyond classroom learning, using a combination of the latest technology, with virtual reality, simulation and online learning. These all help to ensure our colleagues are equipped with the right skills to adapt to a changing environment.
- Our Diversity and Inclusion ('D&I') Strategy and our 'Wonderfully You' D&I ambition ensures we continue to reflect the communities we serve.

Key updates in the year
- As part of our Innovation Strategy, which was published in 2023, we have developed four trial hubs and each is focused on a specific strategic challenge. We will work with water companies, third-party suppliers and academics on the hubs, which provide a platform for proving technologies that support the delivery of commitments outlined in our AMP8 Business Plan, ODIs and UMEs. We will bring together artificial intelligence, machine learning and other critical technologies in order to deliver appropriate solutions.
- We want to embrace AI as a tool to be more creative and productive, while also protecting our privacy and data.
- Our colleagues now have access to Copilot, which offers the capabilities of GPT-4, with commercial data protection from Microsoft.
- We have created podcasts and held roadshows and leadership events for both colleagues and external stakeholders to share our plans for technology and demonstrate how it will be a key enabler.

EMERGING RISKS

We define Emerging Risks as upcoming events which present uncertainty; and those that we are currently monitoring as a potential threat. These Emerging Risks are not yet fully quantifiable, but we monitor developments carefully. The SRF, Executive Committee, Audit and Risk Committee and Board have carried out a robust assessment of the Company's Emerging Risks.

Emerging Risk management ensures potential risks are identified, with plans evaluated and stress tested in case they were to materialise. Our processes aim to identify new and changing risks at an early stage and analyse them thoroughly to determine the potential exposure for 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 PESTEL analysis. This culminates in an Emerging Risk horizon map which is shared with the SRF, Executive Committee, Audit and Risk Committee and Board on a regular basis.

We closely monitor Emerging Risks that may, with time, become complete ERM risks and be incorporated into the existing corporate risk reporting process; be superseded by new Emerging Risks; or cease to be relevant as the internal and external environments in which we operate evolve.

Our regular horizon scanning exercise identifies Emerging Risks that have the potential to increase in significance and affect the performance of the Company.

The table below provides examples of Emerging Risks.

Title	Detail	Relevant Principal Risk	Relevant Strategic Objective	Time Horizon
Escalating global geopolitical tensions and supply chain disruption	– Ongoing conflicts around the world could intensify and spread, with possibilities for sanctions to discourage further escalation and increase pressure on supply chains. – Supply chain shortages and resource security pressures increase commodity prices and could result in an economic slowdown. – State sponsored cyber attacks target key sectors, including the water industry.	– 5, 6 and 7		Short-term and medium-term
AI driven innovation	– AI presents many opportunities, but needs to be developed in an ethical way to mitigate against potential data security and cyber attack risks and address growing concerns across consumer groups. We expect further legislation following the EU AI Act 2023, the first regulation on artificial intelligence. – AI-generated content becomes more prevalent with the possibility of spreading misinformation. – Increased processing power will automate basic activities and support decision-making (e.g. maintenance schedules).	– 4, 7 and 13		Short-term and medium-term
Evolving legislation	– The UK General Election, which must be held by 28 January 2025, could result in a change of Government and an acceleration of legislation changes as per the published manifestos issued by political parties. – Increasing research into the impact of per- and polyfluorinated substances ('PFAS'), known as 'forever chemicals', could result in changes to existing regulations and impact testing and treatment processes. – Tighter reporting requirements and greater public focus on our environmental performance (e.g. CSOs). – Changing legislation to reduce the use of chemicals as it is deemed to be unsustainable due to the carbon footprint, (e.g. phosphate chemicals as a protective scale on lead pipes).	– 2, 3 and 7		Medium-term and long-term

VIABILITY STATEMENT AND GOING CONCERN

Assessment of current position and long-term prospects

The directors' assessment of the Company's current financial position is set out in the Chief Financial Officer's review on pages 65 to 72. Important aspects of that assessment that are most relevant to the assessment of viability are:

- The Company's shadow RCV gearing is 59.9%, well within Ofwat's acceptable range;
- The Company has sufficient cash and available facilities to fund its financial commitments, including returns to debt and equity investors, operating and capital expenditure until early 2026.
- The Company's credit ratings from three agencies (S&P, Fitch and Moody's) are two notches above the investment grade base level and are stable.
- The Company's defined benefit pension deficit decreased to £212 million in the year, and we are ahead of our deficit reduction plan in the most recent triennial valuation as at 31 March 2022.

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 Periods ('AMPs') including mechanisms that reduce the risk of variability in revenues from the regulated business in the medium term by adjusting future revenues to balance over or under recovery compared to the original plan.

AMP7 runs to 31 March 2025 and 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 year on those plans.

PR24, the price review for AMP8, is currently underway. We submitted our business plan to Ofwat in October 2023 and their draft determination will be published in July 2024. We expect to respond to the draft determination by 29 August 2024 and expect to receive Ofwat's final determination on 19 December 2024. We have included the AMP8 business plan submitted to Ofwat in the base case for our assessment of viability. In view of Ofwat's duty to ensure that water companies can finance the delivery of their statutory obligations we consider that any adverse outcomes in the final determination would be covered by the stress test scenarios that we have modelled.

When considering the Company's prospects beyond 2030, it is necessary to make assumptions about the price review process for the period 2030 – 2035 ('PR29'), which will take place in 2029. 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 within Ofwat's acceptable range;
- The Company's plans for AMP8, 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 2030; and
- The Company's longer range plans, set out in our Water Resources Management Plan and Drainage and Wastewater Management Plan.

We have significant investment programmes, largely funded through access to capital 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 to limit the risk of restricted access to capital markets. Our Group treasury team actively manages our debt maturity profile to spread the timing of refinancing requirements and to enable such requirements to be met under most market conditions. The weighted average maturity of debt at the balance sheet date was 13 years.

Our business plan for AMP8 includes a significant increase in the size of our capital programme. We have made an early start to this and are already operating at the run rate required to deliver the AMP8 programme. We recognise the requirement for equity funding to play its part in financing this increase.

To that end Severn Trent Plc raised £1 billion in a private placing of equity in October 2023, and £600 million of this was invested as equity in Severn Trent Water in the year ended 31 March 2024.

We have an established process to assess the Company'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 Company'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 several 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 Company's prospects is more reliable if based on an established process. Our latest medium-term plan extends in detail to the end of the AMP8 period in 2030, 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 Company's prospects and make its viability statement this year.

Assessment of viability

In assessing our future prospects, we have considered the potential effects of risks and uncertainties that could have a significant financial impact under severe but plausible scenarios. The risks and uncertainties considered were identified in the Group's ERM process, which is described on pages 73 to 77, 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 tests 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 tests 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 wastewater 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 A financial penalty
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
Core operational capabilities are compromised through physical, people or technological threats	A cyber attack results in a critical loss of personal data leading to regulatory action	An extreme one-off event A financial penalty
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 Failure to deliver regulatory obligations and expected performance levels	A financial penalty ODI penalty in a single year
We fail to fund our Severn Trent defined benefit pension scheme sustainably	Increasing pension deficit leading to higher deficit reduction contributions	Increased pension contributions
We do not have access to funds to meet ongoing commitments and finance the business appropriately	N/A	N/A
Unforeseen changes in the external environment could impact our ability to achieve our ambitions within the regulatory framework	Failure to provide water network and treatment capacity to meet requirements in future AMPs Failure to safeguard wastewater network and treatment capacity to meet demand or increased environmental obligations in future AMPs	Totex underperformance in each year of the forecast ODI penalty in a single year
Severn Trent's climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain our essential services	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

Risk assessed	Severe but plausible scenario	Stress tests applied
Failure to act as a steward of natural capital in our region providing social, environmental and economic benefits	Failure to deliver regulatory obligations and expected performance levels	ODI penalty in a single year
Our people and culture do not adapt to a changing environment and take advantage of technological advancements to deliver enhanced business performance	Failure to adapt leads to operational inefficiencies and increased expenditure	Totex underperformance in each year of the forecast

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

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 £260 million in each year of the forecast
ODI penalty	A penalty of £172 million in a single year
Financial penalty	A penalty of £125 million in a single year (c 6% of turnover)
Increased pension contributions	Contributions increase by £32 million per annum
Combined scenario 1	An increase of totex of £260 million in each year, an ODI penalty of £86 million in one year, and a one-off impact of £250 million in one year
Combined scenario 2	Combined scenario 1 plus a 10% spike in CPIH inflation
Combined scenario 3	Combined scenario 1 plus deflation (CPIH of -1%) for two years
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; OR A sustained 400bps increase to the cost of debt

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 issued by the ultimate parent company. Reprofile capital programme to ease short-term pressure on ratings. Consider reducing dividend in the year or for a number of years.
Totex underperformance	Pressure on earnings and cashflows, but with average earnings higher than the dividend indicated by our current policy. Increased gearing and significant deterioration in credit metrics that, without mitigating action might lead to a downgrade below 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 issued by the ultimate parent company. 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, and in that year profit is lower than the dividend indicated by our policy. Increased gearing and deterioration in credit metrics that, without mitigating action, might lead to a downgrade although still at investment grade.	Accelerate recognition of accumulated ODI rewards not yet taken. Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Consider reducing dividend in the year.
Financial penalty	Lower profits lead to dividend cover less than one. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade 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.

Stress test applied	**Potential impacts on viability without mitigating action**	**Mitigation available (see below)**
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 issued by the ultimate parent company.
Combined scenarios	Significant reduction in profitability and cash flow, with earnings in the year lower than the dividend indicated by our policy. Significant increase in gearing and deterioration in credit metrics that, without mitigating action, might lead to a risk of downgrade in credit ratings below investment grade and a 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	Short term adverse impact to profit, dividend cover and cash. However, in the longer term higher inflation increases revenue and RCV leading to higher profits and lower gearing.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash.
Sustained lower inflation	Pressure on profit and cash, but with average earnings higher than the dividend indicated by our current policy. Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in credit ratings below 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 profit and cash in the years following the deflation years, that may sustain in future years. Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in ratings below investment grade.	Engage with ratings agencies to discuss the short-term nature of the impacts. Consider new sources of funding, including hybrid debt issued by the ultimate parent company. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Consider reducing dividend in the year or for a number of years.

Stress test applied	Potential impacts on viability without mitigating action	Mitigation available (see below)
Higher interest rates	Reduction in profit. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings below 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 issued by the ultimate parent company.	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.

Mitigating action	Details
Consider reducing dividend in the year or for a number of years.	Our dividend policy 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 Committee supports the Board in performing this review. Details of the Audit Committee's activity in relation to the Viability Statement are set out in the Audit Committee report in the Severn Trent Plc Annual Report.

Assessment of viability

The Board has assessed the viability of the Company over a seven-year period to March 2031, 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 2031.

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 Company 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 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 dedicated Section 172 Statement ('s.172') which sets out our approach to s.172 and provides examples of decisions taken by the Board during the year, with a particular focus on 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 2006, this information is incorporated by cross reference in the Governance Report. 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.

Who are our stakeholders?

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.

Our colleagues
Our relationship with our colleagues is open and honest, and they are appropriately supported, developed and rewarded to encourage them to do their best in all that they do.

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.

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.

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.

Why are our stakeholders important to our strategy?

Our customers
To deliver value for customers, we need to understand their immediate and longer-term expectations of us. As our customers' expectations change, we need to evolve our services to ensure we continue to meet them.

Our colleagues
Our colleagues are the face of our company and we could not deliver our services without them, so maintaining productive relationships built on trust is vital to delivering our purpose.

Our communities
Our work puts us at the heart of local communities, the places where our customers and colleagues live and work. We want to support our communities and increase understanding of the impact and contribution our work has on everyday life.

Suppliers and contractors
We rely on suppliers to deliver our services. Good relationships help ensure projects are delivered on time, to high quality and at efficient costs. Awareness of potential issues in the supply chain means we can address them together and become more resilient.

Regulators and government
Our regulators and government influence the long-term national water strategy and environmental priorities, which has the potential to impact how all businesses operate.

STAKEHOLDER ENGAGEMENT – ENGAGEMENT IN ACTION

OUR CUSTOMERS

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

What matters to them	How we engage across the Company	How we delivered on feedback this year	Outcomes from engagement
– 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.	– Quarterly management level meetings with the Consumer Council for Water. – 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.	– Developed Customer Vulnerability Strategy. – ‘Weather the Winter Together’ campaign. – Good progress on our affordability and societal strategies. – Published our second Get River Positive Annual Report on progress against our river pledges. – Net Zero Hub at Strongford. – Created our ODI Centre of Excellence.	– ODI outperformance of £55 million. – Supported c.260,000 customers through our Affordability Schemes this year. – 9% of our customers signed up to our Priority Services Register.

Driving lasting change – Development of our PR24 Business Plan

Every five years, water companies in England and Wales put together their plans for the future. We talk to our regulators, Government and, most importantly, our customers to find out what is important to them.

As part of the development of our PR24 Business Plan (our 'Plan'), we carried out our largest ever programme of engagement with customers, including in-depth research of affordability and acceptability. From the 68,000 customers and 630 stakeholders who took part in our research, three main priorities were made clear:

- High quality and reliable;
- Sustainable; and
- Affordable.

High quality and reliable	Sustainable	Affordable
A high-quality, reliable service that can be depended on, where our customers know they are valued.	Confidence we are doing the right thing for the environment, society and future generations.	Water should be affordable for everyone – so that no person or generation is left behind.
How we are responding to feedback	**How we are responding to feedback**	**How we are responding to feedback**
– **New water resources** – 100 million litres per day from new and replacement sources – so we are not taking too much from existing ones. – **Bigger tanker fleet** – to keep our customers on supply if an issue occurs. – **A better connected network** – so we can move an extra 280 million litres a day to where our customers need it most during periods of sustained, hot weather. That's enough to fill 112 Olympic swimming pools – every day. – **Water saving customers** – helping customers save water, with rewards for smarter water users, more than 1 million free smart water meters and face-to-face expert advice.	– **Operational net zero** – cutting 240,000 tonnes of CO^2, the equivalent of taking 152,000 petrol cars off the road. – **Less pollution** – cutting pollution incidents by 30%, setting a new frontier for the sector's performance. – **Fewer spills** – improvement of at least 562 storm overflows, deploying improvements faster so we can meet the Government's target five years early. – **Tackling surface water** – using nature, AI, and tried and tested engineering solutions in four urban areas to remove almost 160,000 m^3 of rainfall from sewers.	– We are keeping the **impact on households as low as possible**. Our bills are currently 1.2% of the average household's disposable income, and by 2030 our bills will have increased only to 1.3% of a household's median income. – Bills will **increase gradually** between 2025-30. On average, a combined monthly household bill will increase by £2.32 each year over the next five years. – **No one need struggle to pay their bill**. Our financial support package will go further than any other water company and means almost 700,000 of our customers getting help with their bill by 2030.

Open challenge session for our Business Plan

In April and November 2023, we held two 'Your water, your say' sessions where our customers and stakeholders helped shape our Plan. These sessions provided a great opportunity for individuals and organisations to hear about our plans to help deliver change in the next five years, and to ask any questions they may have.

The sessions focused on a range of themes including customer service priorities, environmental outcomes and affordability.

Our PR24 customer roadshows

In 2023 we went on tour with an open invitation to all of our customers to share more about how our huge £12.9 billion investment programme will benefit local communities – including the creation of 7,000 new jobs and £550 million of financial support.

The 10 county customer roadshows covered the whole of our region and every customer was welcome as we showcased our future plans, including guaranteeing secure water supplies for generations to come, ensuring storm overflows cause no harm to rivers, and that customers continue to receive a sector-leading service.

We were excited to unveil our new £550 million package of financial support for our customers, including a pledge to install moneysaving smart water meters to a million households. The proposals means that around 700,000 customers will get help paying their bills – around one in seven of our customers.

As part of our roadshow events we took the opportunity to engage with customers providing winter readiness advice, including pipe lagging, plus tips on saving water and energy around the home and our free leak detection service.

OUR COLLEAGUES

Our people are highly engaged across our organisation, which plays a crucial role in building trust and facilitating open and effective communication at all levels. We dedicate a significant amount of time listening to colleagues, offering opportunities for them to contribute ideas and suggestions, and express their perspectives. Our culture of openness and trust fosters collaboration.

What matters to them	How we engage across the Company	How we delivered on feedback this year	Outcomes from engagement
– Health, safety and wellbeing. – Diverse and inclusive workplace. – Opportunities to reach full potential. – Open and honest environment. – Fair pay and reward	– Employees are invited to attend the 'Meet Our Board' events. – In addition to Board member 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 colleague roadshows held throughout the year.	– Further developed our Employee Advisory Groups. – Hosted our 2023 Leadership event. – Improved our all-employee benefits, including discounted childcare and support for elderly dependents. – Facilitated the 2023 two year pay offer with Trade Unions. – All-people roadshows with Liv, hosting over 59 events over 13 locations and seeing nearly 5,000 of our people.	– Our employee engagement survey score of 8.6 out of 10 ranked us in the top 3% of utility companies globally. – 14 LTIs this year compared to 16 in 2022/23, our best ever performance. – 8th on Social Mobility Index. – Level 2 Disability Confident Employer. – Glassdoor Ranking of 4.5/5. – 350 Senior leaders attended our leadership event.

Our employee voice

Employee voice means different things to different people and, as such, we use multiple employee engagement initiatives to ensure the views and perspectives of our people are fully understood. We have a combination of collective and direct employee feedback mechanisms that focus on two-way inclusive dialogue across the business. These include:

Collective Voice	Direct Voice
Company, business and local Trade Union forums	Annual employee engagement survey
Departmental meetings and communities of practice	Comm Cells
Annual leadership events	Whistleblowing Procedure
OnTap news and Friday 'News Splash' updates	Line manager meetings and catch-ups
Monthly Team Talk	Ask Liv
All-people roadshows	Yammer
Diversity and Inclusion ('D&I') advisory groups	SafetyNet reporting
Meet Our Board events	Feedback at the Tech Bar and Ask HR roadshows

All of these communication and engagement mechanisms are well established, well utilised and cover the full breadth of our organisation. Overall, when we speak to other businesses, we are confident that our approach to engagement and listening to our workforce is mature and effective.

Engagement with our Company Forum
Providing opportunities for our employees to stay connected with 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.

The Company Forum meets four times a year and attendees are invited from Trade Unions, all leadership levels, the Executive Committee and the Board. Through the Company Forum, we engage with employees on all ways of working and matters of strategic significance to the Severn Trent Water Group to ensure employee views are considered. It is jointly chaired by the Director of Capital and Commercial Services and the Joint Secretaries of our Trade Unions (Unison and GMB). Board directors are invited to attend and participate at meetings and, over the last 12 months, Christine Hodgson, Tom Delay and Sarah Legg, 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 PR24, our Societal Strategy, our annual employee engagement results, our women's welfare programme, occupational health, learning and training at our Academy and Company-wide initiatives such as Diversity and Inclusion. Additionally, regular updates are provided on Company performance, year-end results and significant change programmes. Our strong and enduring relationships with our Trade Unions allow for constructive two-way dialogue and challenge on many areas impacting the workforce and, earlier this year, helped us reach a two-year pay settlement. The Company Forum feeds back to the Company on the value that they get from Board member attendance and the Trade Union national officers highlight how unique this is to the experience that they have in other organisations.

Business and local forums
In order to reach all parts of the business and tailor conversations relevant to each area, we hold local forums chaired by area Business Leaders to discuss performance, health and safety, successes and areas of concern. Over the past year, more local forums have been created to further increase their reach, including in our Water Networks business.

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 Business Services has its own non-unionised Employee Forum.

All company engagement
We are constantly reviewing our communication and engagement channels to ensure that they are effective in supporting our employees. We recognise that line manager relationships are essential, so we provide training, especially for new managers, on how to be visible, trustworthy, and supportive of employee feedback. We also place emphasis on the importance of local team meetings, and our monthly Team Talks provide a consistent and structured forum for open dialogue.

To provide another method of localised engagement, during the year we launched our new Ask HR roadshows. The roadshows include visits to our more remote and smaller sites to help colleagues get their questions answered in a more convenient way and can often help resolve queries quicker. The sessions allow us to listen and give employees and teams an opportunity to air any issues or concerns they have. We have received lots of positive feedback from colleagues, including many requests for revisits.
In May 2023, we held our Ask Our Board session which gave colleagues the opportunity to meet virtually with our Board members, to get to know them better and put forward questions. During the year, the Ask Our Board sessions evolved into our first ever Meet Our Board event, where graduates and apprentices from across the business were invited to engage informally with Board members in person.

For questions or ideas to improve the business we have the Ask Liv intranet site which allows employees to submit questions to the Chief Executive and Senior Management Team, encouraging open dialogue at all levels of the organisation.

Yammer continues to be a popular communication tool used across the business, especially in operational areas, where employees showcase work and start discussions on work-related topics. In addition to two-way communication channels, we also provide top-down communications through our OnTap intranet news and Friday News Splash magazine-style round-up of key news articles.

In person engagement
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. This year's leadership event was held in October 2023 and was focused on PR24. It brought together all our leaders over three days from right across the business to understand the plans and begin the preparation for the delivery of our PR24 Business Plan.

In March 2024, we held our annual Business Leadership Event hosting 350 of the Company's most senior leaders to focus on strategic aims and operational targets. This year, our event was focused on delivery of the final year of our AMP7 Business Plan and ensuring a cohesive and proactive approach for AMP8.

Every two or three years, Liv hosts extensive all-people roadshows to share how we are doing as a business, talk about future plans and what we need from each other. This year, Liv hosted 59 events over 13 locations in 10 weeks and met nearly 5,000 of our people. Engagement sessions of this scale are something that very few companies do and we know from our engagement scores that our employees truly value these sessions.

Our employee engagement survey
Our annual employee engagement survey helps us to understand what is going well and where we can improve. The survey is conducted by an independent research company to ensure the results are anonymous. In 2023, our overall engagement score across the whole Severn Trent Water Group was 8.6 out of a possible 10 points. This was our highest-ever engagement score and placed us in the top 3% of energy and utility businesses 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 8.0 out of 10, 1.4 above benchmark. When asked whether their job enables them to develop and learn new skills, our people agreed, scoring us 8.6.

Reporting wrongdoing and speaking up
It is important that we have the right processes in place for our colleagues to raise concerns should they need to. We are proud of our approach that allows all colleagues and our supply chain to speak up and we do this by providing an open and transparent environment which fosters a culture where everyone has the confidence to speak out about issues that concern them.

Whistleblowing procedures are in place for all Severn Trent Water Group companies and our suppliers to deal with any allegations of breaches of our Code of Conduct, Doing the Right Thing.

All employees have access to independent psychological support and legal advice through our confidential Employee Assistance Programme, and we regularly communicate and increase awareness of all whistleblowing routes, including our confidential Safecall 'Speak Up' line.

OUR COMMUNITIES

What matters to them	How we engage across the Company	How we delivered on feedback this year	Outcomes from engagement
– Operational impact and disruption. – Local employment. – Economic contribution. – Protection of the environment. – Cost of living pressures.	– Our employability scheme inspires our people and makes a real difference to people’s lives. – Regular engagement with Government officials and elected representatives on water and environment-related issues. – Our people volunteer through our Community Champions programme, working to improve our communities and environment. – Regular community workshops and drop-in sessions held across our region.	– Societal Strategy Pop-up events held. – Developed our Customer Vulnerability Strategy. – Welcomed 110 new apprentices. – Welcomed four new Hereford and Derwen College interns. – Work experience opportunities offered. – Employee volunteering days organised. – New Care Leavers Scheme launched. – Improved the biodiversity of 5,000 hectares of land, four years early, – Severn Trent Community Fund.	– Financial support was given to care leavers through our Big Difference Scheme. – Over £2 million was awarded to 103 projects through our Community Fund this year. – 7,727 hectares of land improved. – Met our target to deliver our 100,000 employability hours. – Over £256,000 donated to projects to help protect river health, this year.

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 it’s the right thing to do. Whether that means caring for the environment, supporting the next generation or just making our region a better place to live, we want to make a positive difference in our communities. Our engagement sessions provide us with an opportunity to hear directly the issues that matter most to our communities.

Highlights of our engagement activities throughout the year

June 2023	Stoke/Staffordshire stakeholder roadshow / Farming for Water event
July 2023	Big Boost for Brum, showcasing our Societal Strategy / Strongford local residents event
September 2023	Chester community pop-up / Shrewsbury community pop-up / Worcester community pop-up / Big Boost for Brum stakeholder breakfast event, showcasing our Societal Strategy
October 2023	Telford community pop-up / Coventry Societal Strategy launch / Redditch community pop-up / Coventry community pop-up
November 2023	Worcester stakeholder roadshow and customer drop-in / Big Boost for Derby, showcasing our Societal Strategy / Warwickshire and West Midlands Association of Local Councils – rivers engagement
December 2023	Stoke community pop-up
February 2024	Shrewsbury community pop-up / Big Boost for Brum, showcasing our Societal Strategy
March 2024	Telford community pop-up

Our £10 million Community Fund
In February 2020, we announced we would invest 1% of our profits, equating to £10 million over AMP7, to support projects with local charities and community groups in our region – helping to make a real and tangible difference.

Since our Community Fund was launched, we have made awards of almost £10 million to support the places where our customers live, including our £1 million Emergency Fund donated to communities to help them deal with the impact of the COVID-19 pandemic. At the same time, we provided a further £212,000 in core funding to help local community organisations facing rising operating costs. In the last year, our Community Fund has awarded over £2 million, helping over 103 organisations.

Warwickshire Search and Rescue

A new incident support vehicle to help vulnerable people – Awarded £54,900

Warwickshire Search and Rescue has a simple aim: to help members of the community when they are missing and return them to loved ones. Covering all of Warwickshire, plus Coventry, Solihull and parts of Birmingham, Warwickshire Search and Rescue are called into action by the local police, fire service and sometimes other Lowland Rescue teams.

Warwickshire Search and Rescue operational volunteers have specialist roles and are trained in search techniques, first aid, radio communications and navigation. 100% run by volunteers, the group relies on fundraising to generate its operating income.

With the large number of rivers, canals and bodies of water across our region, the team has found itself increasingly carrying out water-based searches. The Incident Support Unit vehicle supports this activity, carrying four kayaks and kit such as dry suits, buoyancy devices and throw lines.

The previous Incident Support Unit vehicle was 18 years old and becoming unreliable. With the help of our Community Fund grant, Warwickshire Search and Rescue has replaced its vehicle, leading to an even more reliable service for the people it supports, for years to come.

Severn Rivers Trust

Black Country River Schools – Awarded £199,500

The Severn Rivers Trust is a charity established in 2008, made up of local river experts, which covers the whole of the UK's longest river from source to sea.

The Trust's vision is: A healthy, resilient River Severn for everyone.

Our grant will support the Trust in running an education and physical infrastructure programme to help local young people from urban areas in the Black Country discover their rivers and take action to protect them. With assemblies, classroom-based workshops, riverside visits and community celebrations, children will not only gain skills, they will boost their physical, mental and emotional wellbeing too.

This project will also reduce the risk of surface water flooding at the selected schools. With features such as rain gardens, water butts, attenuation ponds, green-roof structures, hedgerows and mini-woodlands, these schools – and their pupils – will be river-friendly in more ways than one.

Read more: Our Community Fund Annual Review for 2023/24 is available to view online (stwater.co.uk/about-us/severn-trent-community-fund) and includes inspiring stories of people from all walks of life coming together to support others and make the most of the places they live.

SUPPLIERS AND CONTRACTORS

What matters to them	How we engage across the Company	How we delivered on feedback this year	Outcomes from engagement
– Fair engagement and payment terms. – Collaboration. – Responsible supply chain. – Sustainable procurement. – Reputation.	– Meetings with suppliers at the outset of the relationship to agree 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.	– Net zero engagement with supply chain. – AMP8 Supplier Engagement event. – Supply Chain Sustainability School. – Net Zero Hub at Strongford. – Capital Markets Day. – Six Delivery Partners increased to 60.	– 115 suppliers assessed through EcoVadis this year. – CDP Supplier Engagement Leader 2023. – CIPS Procurement Excellence. – Standard Accreditation. – 14.7 score by Sustainalytics. – Carbon Trust Accredited. – Carbon Disclosure Project Advanced Rating.

A diverse and experienced supply chain

Building on our approach from AMP6 and AMP7, decisive action to diversify and deepen our supply chain has proved beneficial, at a time when others were consolidating. As a result, we have grown from six delivery partners to 60 today. We have also added a further 12 contractors to an environmental framework to support delivery of our novel and nature-based solutions. This not only provides extra resilience, but also creates capacity to support our delivery of at least £1 billion of enhancement investment every year in AMP8.

Alongside this activity, we have developed local, small suppliers and industry manufacturers with specialist knowledge who are ready to support the delivery of our complex programmes. This gives us extra resilience, and more choice and flexibility in our delivery strategy. We have extended our current frameworks, enabling us to smoothly transition from AMP7 to AMP8 activity. We engaged our supply chain early, giving them the visibility of our work for our largest year of capital investment, spending around £1 billion to improve service for our customers, enhance our network and prepare for the scale of delivery needed in AMP8.

In readiness for AMP8, we have also reviewed our governance procedures to ensure they are robust, supported by an effective organisational structure and strong talent and expertise within the Company and its supply chain. We are supporting our supply chain to deliver the increased investment programme in the following ways:

- **Providing visibility of the programme** – batching of work has been a core strategy during AMP7 which will continue into AMP8, aided by our in-house design capability. As part of our

AMP8 engagement, our Tier 1, 2 and 3 suppliers have shared with us details of their design resources and profile, resource and project geography, work type and mix, and growth plans and aspirations. This will allow us to improve our batching approach, making efficient use of the available capacity in the market.

- **Balancing size of projects and risk profile** – the analysis allows us to review capacity by preferred work type so we can deliver the mix of work within our AMP8 Business Plan. We can also balance the size of projects across individual suppliers to help manage their portfolio risk, allocating work to the supplier best capable of delivering and within current risk profile.
- **Strong Supplier Relationship Management strategy for ongoing monitoring and feedback** – we have developed a category bespoke Supplier Relationship Management process and are in the process of recruiting a dedicated manager to focus on enhancing and developing our capability. For specific work programmes and projects, we already collaborate with our supply chain. Examples of this work include: running joint recruitment events; reviewing resource availability in the market; and jointly attracting resource to the industry either on a client or contractor basis. We have also implemented an automated process for tracking workload and allocation, vital to ensure we are neither overloading nor under utilising.
- **Regional preference** – our central location is attractive to the supply chain, providing easy access to work from both North and South as needed. We are also benefiting from the completion and scaling back of other large capital programmes such as HS2, the Commonwealth Games and major highways projects. This gives us access to a wide pool of skilled labour and supply chain capacity. There is a risk that scaling back our plans may have a detrimental impact on the region, and we would need to rebuild again once capacity is lost from the region/industry.

Accelerating investment, with confirmed supply chain capacity

We have collaborated with our supply chain on our AMP8 plans to understand their risk appetite and to reduce potential barriers to programme delivery.

Through detailed delivery modelling, we have identified opportunities to accelerate investment, and with £450 million of transition spend planned for the last year of AMP7, to provide improved outcomes for customers now. We have also engaged with the supply chain in relation to their current and future capacity in order to factor this into our approach. The responses (which were independently tested) show that supply chain capacity is c.120% of our average AMP8 requirement and 103% of our expected peak. If we allow for the growth our suppliers have indicated, these figures would be 144% and 124% respectively. This gives us further confidence that there is sufficient capacity available to deliver on our plans, and if modest capacity shrinkage were to occur, our programme would be unaffected.

By insourcing our design capability, we have been able to take a programme-wide view of the critical assets required to deliver our capital programme. To secure efficient delivery in the face of rising prices, supply constraints and market uncertainty, we took the decision to approach the market early and secure guaranteed delivery of c.£70 million of key process assets. This approach has been welcomed by contractors and asset suppliers, leading to more efficient (and scale) planning and production, as well as generating cost efficiencies. This helped us to establish strong direct relationships with SME organisations operating in civil engineering, mechanical/electrical/instrumentation and control, environmental and manufacturing sectors.

Innovative procurement approaches – Digitalisation of Design and Contracting Strategy

We have a strong track record of innovation and have been exploring new ways to drive efficiency and reduce our demand on the supply chain. Working closely with the Manufacturing Technology Centre and automotive supply chain, we are developing innovative manufacturing capability to either part or fully build assets in controllable factory conditions. Plug and Play is part of our unique capital plans, putting us in a unique position for AMP8.

Capital projects typically take years to complete, and each one is designed on a bespoke, tailored basis. Our new Plug and Play approach utilises standard parts that can be connected in different ways and work together to deliver the design solution more efficiently. Common examples include dosing rigs and tanks. This innovative approach enables us to create a whole range of different products providing wide-ranging benefits as follows:

Benefits	Skill and expertise resilience
✓ Lower carbon footprint. ✓ Schemes can be fully assembled off-site and delivered ready-made. ✓ Faster production time. ✓ Products are pre-tested and pre-commissioned in the factory. ✓ Safer construction. ✓ Easier maintenance and repairs and less downtime, meaning better for the environment and better service for our customers.	✓ We have instant access to our in-house experts meaning we can be quicker and more efficient. ✓ We are able to respond quickly to challenges, from global microchip shortages, through to local flooding or drought. ✓ We are upskilling our teams on emerging technology such as AI, and creating some future proof roles such as automation and mechatronics.

This innovative approach will be shared with the wider sector, allowing others to benefit from our investment and enhance their own delivery routes for the benefit of multiple stakeholders, particularly customers.

CDP Supplier Engagement Leader

We were delighted to be recognised, for the second consecutive year, as a Supplier Engagement Leader in the 2023 Supplier Engagement Rating conducted by CDP, an international non-profit organisation focused on environmental disclosure.

We were among the top organisations assessed for supplier engagement on climate change, based on our 2023 CDP disclosure. CDP’s Supplier Engagement Rating assesses how effectively companies are working with suppliers to address climate change issues. Specifically, it focuses on the key areas of governance, targets, ambition, management (Scope 3), supplier engagement and overall CDP climate change performance.

REGULATORS AND GOVERNMENT

What matters to them	How we engage across the Company	How we delivered on feedback this year	Outcomes from engagement
– Outcomes for customers, the environment and long-term operational and financial resilience. – Performance against regulatory targets. – Trust and transparency. – Governance and compliance. – Environmental impact. – Sustainable procurement.	– Regular meetings with our regulators at management level including the EA, Natural England, Ofwat, the DWI and Defra. – Regular engagement with Government officials and elected representatives on water and environment-related issues.	– 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.	– We are highly confident that we will achieve EPA 4* for a fifth consecutive year for our 2023 performance – something no other company has ever achieved. – Awarded London Stock Exchange's Green Economy mark. – Submission of our AMP8 Business Plan.

Site visits for the Ofwat cost assessment team
In July 2023, we hosted two sites visits for the Ofwat cost assessment team. On 3 July 2023, the team visited the Finham and Minworth wastewater treatment works and on 12 July 2023, we visited the Witches Oak water treatment works Green Recovery site.

The purpose of the visits was to show the Ofwat team in real life the assets we discuss in our Green Recovery and PR24 Business Plan submission. On the first visit the site managers explained to the Ofwat team how our wastewater treatment process works and some of the challenges we face, for example with meeting a tight phosphate consents at Finham reflecting the relatively small watercourse the site discharges to.

On the second visit, the site managers explained the innovations in the new Witches Oak water treatment works we are building and the innovative water treatment processes we are testing, such as floating reed beds to improve the quality of the raw water which will be used by the works.

The Ofwat team welcomed the opportunity to see our sites close up and to ask questions to the teams managing sites and carrying out construction works. This has given the Ofwat team a better understanding of our assets when assessing our PR24 Business Plan proposals and a chance for us to strengthen our positive relationship with our economic regulator.

Highlights of our engagement activities throughout the year

June 2023	Tour of Strongford Net Zero Hub with MP for Stoke on Trent South / MP organised Rivers Roundtable in Derbyshire / Bathing Rivers and River Rangers site visit with the MP for Derbyshire Dales.
July 2023	Mansfield Green Recovery Project tour with CEO of the Rivers Trust / Green Recovery tour and STW site visits at Finham and Draycote with Ofwat PR24 Team.
August 2023	STW showcase tour at the Academy and Draycote with Water Minister.
September 2023	Operational site visits with the Chair of Ofwat / Customer discussions with the MP for South Staffordshire.
October 2023	CSOs visit at Dowdeswell with the MP for Cheltenham.

November 2023	Tour of our Net Zero Hub at Strongford with Government Minister.
December 2023	Minworth wastewater treatment works tour with Defra Water Minister.
March 2024	Annual House of Commons Dinner with all regional MPs / Flood Summit event with the MP for Tamworth.

Tour of Strongford Net Zero Hub with MP for Stoke-on-Trent South
In June 2023, we invited Stoke-on-Trent South Conservative MP Jack Brereton and the Councillor for Hanford, Trentham and Newstead, Daniel Jellyman, to meet with our project leaders to hear about our £40 million scheme to create a 'Net Zero Hub', which, for the first time, will integrate technologies from around the world designed to reduce and remove carbon.

Mr Brereton said: "I was very pleased to visit the Strongford wastewater treatment works to see the work Severn Trent are doing to create their Net Zero Hub and better manage sewage from across north Staffordshire. I was pleased to learn of the world leading work they are doing in Staffordshire to reduce the environmental impact of the site and reduce emissions to achieve net zero. It was also particularly useful to be able to discuss the actions they are taking locally to improve water quality and minimise the impact of storm overflows.

Tour of Finham with Taiwo Owatemi MP for Coventry North West
In June 2023, we invited the Coventry North West Labour MP Taiwo Owatemi to our training facility, the Academy, to learn more about wastewater management and our ongoing investment to improve river health, before taking a tour of the Finham sewage treatment works. During her tour, Ms Owatemi was shown a virtual river, complete with CSOs as well as a virtual home to see first-hand the process of wastewater management.

Ms Owatemi was given an overview of our Get River Positive programme – our commitments to make rivers the healthiest they can be. Severn Trent is moving faster, with the Get River Positive pledges already having a positive impact across Coventry and Warwickshire.

In the programme's first year, the impact of our operations on rivers has reduced and monitors have been installed on all storm overflows, providing more than 300 million data records over the course of a year.

Ms Owatemi said: "I am grateful to Severn Trent for inviting me to their Academy and Finham sewage treatment works to hear more about their work, including the Get River Positive programme which aims to improve the health of rivers across our region. It was fascinating to hear about the other work they do across Coventry with their Community Fund, apprentice schemes and their work on water efficiency with free water saving devices available through their website."

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 considered in depth by the Board.

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 the 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. 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.

In performing their duties during 2023/24, the Directors have had regard to the matters set out in s.172 of the Companies Act 2006. You can read more on how the Board had regard to each matter, during the year, as follows:

S.172 factor					
The likely consequences of any decision in the long term	**The interests of the Company's employees**	**The need to foster business relationships with suppliers, customers and others**	**The impact of the Company's operations on the community and the environment**	**The desirability of the Company maintaining a reputation for high standards of business conduct**	**The need to act fairly as between members of the Company**
Our Business Model (pages 9 to 10) Performance Review (pages 22 to 64) Dividend Policy (page 13) Sustainability (pages 56 to 64)	Performance Review (pages 22 to 64) Caring for Our People (pages 31 to 43) Diversity and Inclusion (pages 33 to 37) Employee Engagement (pages 101 to 103) Whistleblowing (page 103) Company Culture (pages 125 to 127)	Responsible Payment Practices (page 156) Performance Review (pages 22 to 64) Anti-Slavery and Human Trafficking Statement available on our website Sustainability (pages 56 to 64) Our Business Model (pages 9 to 10) Whistleblowing (page 103)	Sustainability (pages 56 to 64) Sustainability Report available on our website	The Water Sector (pages 4 to 6) Whistleblowing (page 103) Risk Management (pages 73 to 77) Sustainability (pages 56 to 64)	Stakeholder Engagement (pages 96 to 110) Dividend Policy (page 13) Sustainability (pages 56 to 64)

Principal decisions in 2023/24

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:

How the Board engages with our stakeholders

Our customers	Our people	Our communities
– Our Board met with customers throughout the development of our PR24 Business Plan. – ‘Your water, your say’ events held in April and November 2023. – Service delivery for customers is discussed at every Board meeting. – Customer perceptions of value for money are reported to our Severn Trent Plc Corporate Sustainability Committee.	– An in-person employee engagement event, ‘Meet Our Board’, held in November 2023. – The Chair, Non-Executive and Executive Directors attend Company Forum sessions and D&I Advisory Group meetings and provide feedback at Board meetings. – The Board considers employee engagement survey results and steps taken to address feedback. – The Remuneration Committee reviews workforce policies and practices and makes recommendations to the Board. – Company purpose and culture, talent development and our people strategy are discussed at Board meetings.	– Members of the Board attend community events to engage with the communities we serve. – Employees who live and work in our communities ‘meet’ the Board at the Employee Forum, AGM, and through Board site visits. – Employees who live and work in our communities also engage with the Board through dedicated employee engagement events: ‘Ask Our Board’, held in May 2023; and ‘Meet Our Board’, held in November 2023. – Environmental matters, including progress on our Get River Positive River pledges, are considered by the Board at every meeting. – Corporate responsibility, community activities and volunteering programmes are discussed at Board meetings.

Suppliers and contractors	Regulators and government
– The Board receives updates on the Severn Trent Water Group's capital programme at every meeting and participated in an AMP8 Deliverability deep dive as part of the development and oversight of our PR24 Business Plan. – Updates include engagement activity with the supply chain. – Supplier representatives attend the Capital Markets Day and the Company Forum alongside Executive Directors. – Commercial performance is discussed at every Board meeting, including an update on relationships with suppliers. – Our Severn Trent Plc Corporate Sustainability Committee regularly monitors progress on sustainability in our supply chain.	– Regulatory matters are considered regularly by the Board, including Business Plans, the Water Resources Management Plan and Scheme of Wholesale Charges. – To deepen Board-level understanding of our regulators, our Chair and Non-Executive Directors met with regulators including Ofwat and the EA during the year. – Regulatory stakeholders attend Board meetings and undertake site visits with the Board, including from Ofwat, the DWI, CCW and the EA. – Regulatory consultation updates are considered by the Board.

Engagement in Action

Severn Trent PR24 Business Plan

Context

On 2 October 2023, we submitted our AMP8 Business Plan for 2025-30, setting out the progress we will make over the next five years towards the 2050 aims set out in our Long-Term Delivery Strategy.

The Board invested a significant amount of time preparing for PR24, including understanding the way in which the Company can deliver positive customer outcomes and greater environmental and social value, drive improvements through efficiency and innovation, and increase focus on the long term.

To inform this activity, individual Directors, and the Board as a whole, determined that the Board should spend time engaging with customers to understand their views and priorities, and inform the development of the Business Plan. This should be facilitated by the Company, the Board as a whole and individual Directors spending time engaging with all of its stakeholders, including customers, Ofwat, CCW and local communities to listen to and understand their views and potential impacts of the Company's Business Plan on them. The Company's Business Plan was then developed in full consideration of these discussions.

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

Customers: Potential impacts on customers were central to Board discussions in view of its existing commitment to keep bills affordable for all customers whilst also delivering improved resilience, sustainability and enhanced customer outcomes. To inform Board discussions, individual Directors, and the Board as a whole, spent time engaging with customers, attending community events – including affordability workshops – and having discussions with the Chair of the Expert Challenge

Panel, Bernard Crump. The views of over 68,000 customers were factored into the Plan's development. Insights gathered from customer feedback were considered to produce a plan that the Board is confident will deliver the outcomes our customers want, both now and over time.

Communities: With the potential to create 7,000 jobs in our region, the Board is confident that our investment will have an important regional impact over the next decade, helping a much more diverse range of people benefit from these opportunities. To inform Board discussions, individual Directors spent time engaging with customers at community events. For example, Sharmila Nebhrajani provided an overview of her observations from the PR24 Affordability Workshop in Ward End, noting that the session had brought to life the difficulties faced by those in poverty and the way in which the Company's approach would improve the life experiences of communities.

Regulators: The Board held frequent meetings with its regulators throughout the Business Plan's development to ensure that their perceptions of our performance were factored into development of the Business Plan. Our Business Plan will be reviewed by Ofwat, our economic regulator, who will assess it under the framework set out in its methodology released in December 2022. We expect to receive our Final Determination in December 2024.

Supply chain: A successful price review will allow Severn Trent to deliver significant investments through a large capital programme in AMP8, which will require the support of the supply chain. The Board participated in an AMP8 Deliverability deep dive as part of the development and oversight of the PR24 Business Plan, which included ensuring that robust governance procedures were in place, supported by an effective organisational structure and strong talent and expertise within the Company and its supply chain. This builds on the work undertaken over AMP7 to diversify our supply chain and foster excellent working relationships, putting us on a trajectory to deliver at least £1 billion of enhancement investment every year in AMP8.

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

In developing our Business Plan, the Board considered carefully the Company's Long-Term Delivery Strategy, with a 25-year time horizon. As part of this activity, the Board considered the impact of the Business Plan on every aspect of our strategic planning frameworks, statutory environment programmes and planned enhancement activities, accounting for potential future uncertainty to test the PR24 proposition. This process gave the Board confidence that the PR24 Plan aligned with the Company's long-term strategy and, as such, supported the long-term sustainable success of Severn Trent for the wider benefits of its stakeholders, both now and over time.

Remuneration Policy

Context

Our Remuneration Policy is designed to deliver balanced outcomes for our stakeholders, driving long-term sustainable performance for the benefit of all stakeholders. As part of developing the new Directors' Remuneration Policy (the 'Policy'), the Company engaged with various stakeholders including customers, regulators and employees to understand their views of the proposed Policy and the alignment of remuneration to our strategy and priorities in supporting improved outcomes for customers and the environment both now and over time.

Stakeholder views were shared with the Board and Remuneration Committee alongside information on the wider workforce remuneration structure, external market practice, corporate governance regulations and institutional guidelines.

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

Customers and communities: The Board recognised the importance of ensuring the Policy was designed to deliver balanced outcomes and drive long-term performance for the benefit of all of our stakeholders, particularly customers and the environment. The Company also engaged with customers to ensure their views were considered in the development of performance-related pay structures.

In order to reflect customer priorities, the Policy increases the weighting of customer and environmental-focused measures within the Long-Term Incentive Plan and proposes the inclusion of a long-term river health measure, in addition to environmental measures included within the annual bonus. Within the annual bonus, the weighting of our storm overflow spill reduction target will be increased, as will the weighting of the EPA measure for 2024. This element of the bonus will only pay out if 4* EPA status is achieved, with a nil payout for any lesser status.

From a communities perspective, the Board remains committed to tackling the underlying causes of poverty and improving the lives of people in our communities as announced within its 10-year Societal Strategy. The Committee therefore determined to incorporate a new Social Value metric into the Company's long-term incentives.

Regulators: The Board recognises the unique responsibility that comes from being a private monopoly provider of an essential public service and strives to deliver excellent performance that leads the sector and that is recognised as doing so by our regulators. The Policy changes ensure that we incentivise the delivery of exceptional, sector-leading performance for the benefit of our broader stakeholders, whilst aligning to Ofwat's latest performance-related pay guidance. The Chair and Remuneration Committee Chair attended a sector roundtable in relation to performance-related pay and engaged directly with Ofwat on the proposed changes for the new Policy. The Committee received a detailed brief on the regulator's views and feedback from this engagement.

Employees: The Board is committed to ensuring that all of our people share in our success and ensuring all employees are aligned with the same measures and rewarded for achieving our key objectives and delivering improved outcomes for customers and the environment, both now and over time. The impact of remuneration of employees was also a key determinant in retaining the health and safety element of the annual bonus to support the Company's commitment to keeping our employees safe and well at all levels of the organisation.

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

Changes to our Remuneration Policy demonstrate our commitment to setting, and implementing, a Policy that reflects the Company's strategic objectives, delivers value for all stakeholders, and provides a substantial link to delivery for customers and the environment, both now and over time.

Customer Vulnerability Strategy

Context

The Company's regulator, Ofwat, defines vulnerability as "a customer who, due to personal characteristics, their overall life situation or due to broader market and economic factors, is not having reasonable opportunity to access and receive an inclusive service which may have a detrimental impact on their health, wellbeing or finances". In February 2024, the new customer-focused licence condition 'G' came into effect, which outlined service expectations which included the 'service for all' vulnerability guidance.

In developing our Customer Vulnerability Strategy, the Company engaged with key stakeholders, including Ofwat, CCW, local community stakeholders and local authorities, to listen to and understand their views and the challenges they face. The Customer Vulnerability Strategy was then developed in full consideration of these discussions, with the objective of addressing vulnerability in our region.

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

Customers: The Board has a continual focus on customer service, through standing agenda items at every Board meeting complemented by deep dives into customer topics throughout the year. As such, the Board approaches all the decisions that it takes with a firm understanding of the customer lens and potential consequences of strategic decisions on customers. In developing the Company's Customer Vulnerability Strategy, the Board applied particular focus to changing customer needs as a consequence of life challenges, life changes and our services. In shaping the Strategy, the Board considered:

- the support that customers needed now, and in the future – such as financial assistance schemes and smart metering to make bills more affordable;

- services that the Company currently provided to meet customer needs and where services could be enhanced in the future – such as further growth of the Priority Services Register, ensuring the Company was accessible to vulnerable customers;
- the accessibility of the Company's services – including the critical role of data to identify customers, and ensuring that customers had simple experiences when they needed the Company's support; and
- holistic support for our communities through the Company's continued investment in our communities – through the Societal Strategy – to create employability opportunities and give life skills to boost customer incomes. Board discussions were supported by real-life case studies of vulnerable customers, who had shared their direct experiences with the Board.

These considerations are reflected in the Customer Vulnerability Strategy.

Regulators: The Board seeks to foster a positive relationship with its regulators, including Ofwat. In developing and agreeing the Company's approach, the Board considered carefully regulator expectations in relation to customer vulnerability, with a particular focus on the new customer focused licence condition, which sets out five key objectives:

- Provide a high standard of service and support.
- Develop services that are inclusive by design.
- Identify customers who need extra help.
- Record their needs.
- Develop and implement vulnerability strategies.

Alongside the standing 'Customer' Board agenda item, the Board scheduled two dedicated working sessions on the Customer Vulnerability Strategy to scrutinise management's approach to meeting regulatory expectations. As outlined above, notwithstanding the regulatory requirements, the Board's activity was primarily focused on improving the support for customers who need extra help accessing our services.

Communities: In developing our Customer Vulnerability Strategy, the Company engaged with a range of community stakeholders, including community groups, local authorities, schools and councillors, to listen to and understand their views and the challenges they face. The Customer Vulnerability Strategy was then developed in full consideration of these discussions, with the objective of addressing vulnerability in our region.

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

Our Customer Vulnerability Strategy seeks to outline the support and services offered to customers in vulnerable situations, particularly those who need extra help accessing our services.

The Strategy sets out our approach to tackling holistic vulnerabilities, ensuring that our services are accessible for all – particularly those who need help – and we continue to push forward with our commitments to improve our offering within our region through associated programmes such as our Societal Strategy.

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 96 to 110 s.172 Statement, pages 111 to 116 Board Activities, pages 134 to 136
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.com TCFD Report – Severn Trent Plc Annual Report and Accounts and pages 58 to 64. Stakeholder Engagement, pages 96 to 110 s.172 Statement, pages 111 to 116
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.	Caring for our people, pages 31 to 43 Stakeholder Engagement, pages 96 to 110 Gender and Ethnicity pay gap, page 37 and 38 Culture, pages 125 to 127 Governance Report, from page 120 Directors' Remuneration Report, pages 147 to 153

	– **Our Group HR Policy** outlines our commitment to maintaining a work culture that is diverse and inclusive, supportive and nurturing, and which makes the most of everyone's growth potential. 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, available on our website. Governance Report, from page 120 Severn Trent Plc 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 120
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 Severn Trent Plc Corporate Sustainability Committee Report, Severn Trent Plc Annual Report and Accounts Directors' Report, pages 154 to 157

		Sustainability Report, www.severntrent.co.uk Stakeholder Engagement, pages 96 to 110
Description of Principal Risks and Impact of Business Activity		Managing Risks and Opportunities, from page 73 Principal Risks, from pages 78 Emerging Risks, from page 86 Our Business Model, pages 11 and 12
Description of the Business Model		Our Business Model, pages 9 and 10
Non-Financial Key Performance Indicators		Strategic Report, page 2 to 119 Performance Review pages 22 to 64

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

10 July 2024

CHAIR'S INTRODUCTION TO GOVERNANCE

With our experienced leadership team, I'm confident that we are well positioned to deliver exceptional outcomes for our stakeholders over the next five years. Our ambitious Business Plan will drive transformative change, through delivering improvements and investment where our customers tell us it matters most. All of this will be underpinned by our robust governance approach, to ensure we give our customers, regulators and other stakeholders confidence that we will deliver in line with their expectations for AMP8 and beyond.

My governance highlights from 2023/24

- Submission of our PR24 Business Plan:
  - with the Board investing a significant amount of time overseeing its preparation, with a particular focus on customer engagement, financeability and deliverability.
- Succession and contingency planning:
  - smooth transition of recent Executive appointments, including the Chief Financial Officer, Director of Customer Operations, General Counsel and Company Secretary, demonstrating the strength of our talent management within the Group; and
  - planned approach to Board succession, including the Severn Trent Plc Audit and Risk Committee Chair handover and appointment of a new Independent Non-Executive Director, Richard Taylor, with effect from 1 April 2024, in readiness for Gillian Sheldon's retirement from the Board.
- Focus on innovation both within the Severn Trent Water Group and externally, to support sustainable, affordable change, in the development of our PR24 Business Plan and to realise immediate benefits. The Board visited one of our international collaborative partners, Aarhus Vand, during the year, to observe innovative approaches first hand.
- Focus on culture and colleague engagement, through a programme of site visits and dedicated activities, and scrutiny of our employee engagement survey results, to satisfy ourselves that the Severn Trent Water Group's culture supports delivery of our AMP8 plans.
- Commissioning a rigorous and independent evaluation of the Board, its Committees and individual Directors to ensure the Board remains effective in its oversight of the Severn Trent Water Group's purpose and strategy.
- Continued evolution of our corporate governance arrangements, including reviewing our preparedness for the 2024 UK Corporate Governance Code (the '2024 Code').

I am delighted to introduce our Governance Report for 2023/24, on behalf of your Board and in accordance with the 2018 UK Corporate Governance Code (the '2018 Code'). This report outlines how we have ensured that best practice and effective corporate governance procedures are in place to support the creation of long-term value for the mutual benefit of all of our stakeholders. As highlighted in my Chair's Statement, this has been an exceptionally busy period for the Board, and particularly the Severn Trent Plc Audit and Risk Committee which operates on behalf of Severn Trent Water Limited, with a significant amount of time being spent finalising our PR24 Business Plan. I would like to convey the Board's thanks to John Coghlan for his dedication and support to the Board as Chair of the Severn Trent Plc Audit and Risk Committee during this time and throughout his tenure.

My report, and the pages that follow, set out a summary of the important work that the Board, and its Committees, have conducted during the year in discharging its oversight over the Severn Trent Water Group's strategy, performance and supporting the long-term sustainable success of the Company, generating value for our customers and employees, and contributing to wider society.

Your Board
As announced during the year, Gillian Sheldon retired from the Board on 14 May 2024, having served on the Board for almost three years, to focus on her recent Executive appointment. On behalf of the Board, I would like to thank Gillian for her valuable contribution to the Board's work. We welcomed Richard Taylor to the Board on 1 April 2024 and his extensive induction programme is now underway. Richard has already visited a number of our operational sites to meet our teams in person.

During the year, we bade farewell to two longstanding members of the Board: James Bowling stepped down as Chief Financial Officer at the conclusion of the Severn Trent Plc AGM in July 2023, ahead of his planned retirement from the Company; and John Coghlan, Independent Non-Executive Director and Chair of the Severn Trent Plc Audit and Risk Committee, retired from the Board in December 2023, having served just over nine years. On behalf of the Board, I would like to thank them both for their significant contribution to the Company during their tenures.

Succession planning is a priority for the Board and a key activity of the Severn Trent Plc Nominations Committee and Board. As such, we were positioned well to manage these changes at Board and Executive Committee level. The Board was delighted that, following rigorous internal and external search and selection processes, Helen Miles was appointed as Chief Financial Officer, demonstrating the talent we nurture within our business. Sarah Legg, who joined the Board as an Independent Non-Executive Director on 1 November 2022, has taken on the role of the Severn Trent Plc Audit and Risk Committee Chair. The considered succession planning process enabled a thorough and detailed handover between John and Sarah.

PR24 – a Business Plan developed with our stakeholders
To ensure the long-term success of our business, the Board and individual Directors need to build and maintain successful relationships with a wide range of stakeholders, taking account of and responding to their views. These relationships will only be successful and enduring if they are based on respect, trust and mutual benefit. Accordingly, we want to promote a culture of integrity and openness, which values diversity and is responsive to the views of wider stakeholders. The Board values feedback from our stakeholders and seeks to maintain close relationships with them and respond to their views.

A good example of how our stakeholder-focused approach operates in practice was the development of our PR24 Business Plan. As outlined in my report last year, a key area of focus for 2023/24 has been to position the business for success during the next regulatory period. The Board 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 focus on the long term. To inform this activity, individual Directors, and the Board as a whole, spent time engaging with customers, attending community events and having discussions with the Chair of the Expert Challenge Panel, Professor Bernard Crump, a former Regional Chair of the Consumer Council for Water. The views of over 68,000 customers were factored into the Business Plan's development – our most extensive customer engagement activity in our history.

The Board also engaged with colleagues and suppliers to ensure our ambitious AMP8 investment programme was deliverable, with adequate supply chain capacity in place, supported by robust governance procedures, effective organisational structure and strong talent and expertise, to position the Company to achieve a run rate of c.£1 billion every year in AMP8. The Board participated in a dedicated AMP8 Deliverability deep dive as part of the development and oversight of the Business Plan.

As outlined at the outset of my report, the Board recognised the importance of having a well funded equity plan for 2025-30, to provide capacity to accelerate investment and improve our services for customers and the environment as quickly as possible. As such, the Severn Trent Plc Board undertook a £1 billion equity raise during the year to support investment business cases totalling c.£5 billion in the Business Plan, enabling us to accelerate over £450 million of investment over the next 18 months. This insight and stakeholder feedback gave the Board a solid foundation on which to create a comprehensive, detailed Business Plan – co-created with stakeholders and built around their priorities, both now and for the long term.

Environmental performance
Another area of significant customer and wider stakeholder focus is environmental performance, an area where our long-term investment continues to deliver performance improvements. However, we are not at all complacent and this year has highlighted that, despite the performance improvements made in some areas, we know there is more we can do to improve. We have invested £1.2 billion in 2023/24, a 63% increase year on year, bringing our total investment this AMP to over £3 billion. It is pleasing to see this investment reflected in our EPA performance; we achieved EPA 4* for the fourth consecutive year in 2023 and have had no serious pollutions this year. We are highly confident that we will achieve EPA 4* for a fifth consecutive year for our 2023 performance – something no other company has ever achieved. We also believe we have reduced the our share of RNAGS to 14% as our Get River Positive programme drives long-term improvement in river quality.

Whilst there have been good areas of performance, we want to deliver faster improvements on areas such as CSOs and pollutions, where we have set bold targets to drive performance improvements. The Board considered the Company's targets to deliver the Government's targets early and the investment plans for 2024/25 which include a record investment at our CSO sites. This investment has driven a number of improvements, which makes the Barlaston pollution, outlined in my Chair's Statement, particularly disappointing. There was Board-level oversight of the incident and you can read more about our environmental performance and, in particular, our response to the Barlaston pollution and action taken to implement lessons learned to bolster our preparedness for similar events in the future on pages 28 to 30.

Our people
One of the most valued and enjoyable aspects for our Board is the opportunity to meet and spend time with colleagues across the Severn Trent Water Group. The conversations that take place inform our direct understanding of the sentiment of our workforce and their views on the Group's operations, risks, successes and challenges.

We each enjoy attending the Company Forum, our chosen workforce engagement mechanism, to hear directly from employees and members of the Trade Unions, but also to share the topics on the Board's agenda and answer any questions on these. During the year, we held a 'Meet Our Board' event, which was attended by apprentices and graduates from across the Severn Trent Water Group. I would like to thank those who took the time to attend and share their experiences with us. These interactions assist the Board in assessing and monitoring the Severn Trent Water Group's culture, beyond the scores and feedback from employee engagement surveys. The Board has concluded that our desired culture is embedded across the Severn Trent Water Group and we observe it being demonstrated consistently at all levels.

Board evaluation
My focus continues to be on maintaining a strong, value-adding Board, with a diverse range of professional backgrounds, skills and perspectives. Succession planning has been a key priority for the Severn Trent Plc Nominations Committee and, to inform this work, the Committee commissioned an externally facilitated Board Effectiveness evaluation during the year, conducted by Ffion Hague of Independent Board Evaluation ('IBE'), in line with the requirements of the 2018 Code.

The review assessed the Board's progress since the last external review in 2021, which was also undertaken by IBE, and provided an opportunity to consider the Board's overall effectiveness. The review concluded that the Board operates very effectively and it was evident that the Board places a strong emphasis on ensuring that it considered the views of stakeholders in its discussions and decision making. I would like to thank Ffion for her rigorous review and assessment of the Board and its Committees.

Looking forward
Overseeing the development of my first Business Plan as Chair of your Board, I have spent time reflecting on everything that I have learned about Severn Trent since I joined – the talent and commitment of our employees, the focus on operational excellence and resilience, our contribution to society and our environmental achievements. Building our Business Plan has reinforced that we are in a strong position for the challenges and opportunities ahead – with ambitious plans formulated to deliver benefits for our customers, the environment, our communities and the region. Whilst we still await Ofwat's determination, we have already started on our investments to deliver improvements in areas that our stakeholders have told us are important to them.

The final year of AMP7 will provide an opportunity to reflect on activity that we can take forward into AMP8, and identify and embrace new and innovative ways to deliver our services more effectively and efficiently.

I want to thank everyone involved this year – our customers, communities, regulators and suppliers. But above all, thank you to our colleagues, for their commitment to end this AMP strongly, ready to take on the next five years of providing a high-quality, essential public service.

Christine Hodgson

Chair

10 July 2024

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 2024. As Severn Trent Water Limited is not a listed company it is not required to comply with the 2018 Code however we do so voluntarily. 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 2023/24 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 2024, 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 Severn Trent Water Limited.

2. Provisions relating to relations with shareholders

Severn Trent Water Limited 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.

CULTURE

Why is culture important to the Board?
Culture drives effective thinking, behaviour and action. As such, it is crucial that we have the necessary culture in place in order to achieve the Company's purpose of 'taking care of one of life's essentials'.

Severn Trent's culture, underpinned by our Code of Conduct "Doing the Right Thing", ensures that the Group's values are embodied by our people and teams when they make decisions and elect to take a certain course of action. This builds trust and fosters an environment of transparency, open communication and collaboration.

The Board recognises the need for the Severn Trent Water Group's culture to be inclusive, so that all colleagues are able to bring their whole selves to work, fulfil their potential and perform at their best so, as an organisation, we can deliver our strategy. Culture is also a key ingredient in attracting and retaining the talent we need in the workforce to deliver for our customers and other stakeholders, both now and in the future. It is also inextricably linked to our succession planning processes.

The Board is cognisant that each Director must act with integrity and lead by example in order to promote the desired culture, which is why Board members complete the same mandatory e-learning modules as colleagues, covering topics including Doing the Right Thing, Anti-Bribery and Anti-Fraud, and Modern Slavery Awareness.

How does the Board satisfy itself that our culture is aligned with our purpose, values and strategy, and is embedded throughout the Company?
The Board spends a significant amount of time engaged in activities that provide insight into Severn Trent's culture. Through this engagement with our people, the Board can observe how the culture is established throughout the Company, aligned across directorates and demonstrated by each and every colleague. More detail is provided below.

Company Forum
Our chosen workforce engagement mechanism, the Company Forum, provides an opportunity for employee and Trade Union representatives to meet with Board members on a regular basis, helping them to stay connected to the direction of the Company and be involved in business decisions.

Members of the Board and Executive Committee attend the Company Forum on a rotational basis, so each Director has the opportunity to listen directly to what employees have to say and for our employees to hear about the matters that the Board is reviewing and considering. Agendas are comprehensive and varied, so attendance at the Company Forum affords Board members 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 insight.

Feedback from the Company Forum consistently indicates the great value placed on the attendance of Board members. Through attendance at the Company Forum, Directors can observe whether the Board's chosen workforce engagement mechanism remains effective. Directors provide feedback to the Board as a whole through reports tabled at subsequent Board meetings.

Read more in our Stakeholder Engagement section.

“Employee engagement at Severn Trent goes far beyond an engagement survey statistic, measure or response. The in-person, immersive approach at our Company Forum gives me, and the entire Board, an authentic view of our colleagues’ connection to the Company, its strategy and the crucial role that each and every one of our people plays in delivering for our customers”.

Tom Delay
Independent Non-Executive Director

Ask Our Board and Meet Our Board events
Following the success of our virtual ‘Ask Our Board’ events, introduced to continue the direct dialogue between the Board and workforce during the COVID-19 pandemic, our first in-person ‘Meet Our Board’ event was held in November 2023.

This session saw c.25 graduates and apprentices from a wide range of business areas engage informally with Board members to inform their understanding of the Board’s and individual Directors’ roles at Severn Trent, in the context of their own career paths. They also posed questions directly to the Board. Feedback from the event has been wholly positive, with both Board members and attendees reporting that the informal structure of the session provided a relaxed yet informative approach to engaging with each other.

Site visits

Board members frequently undertake site visits to gain further insight into our culture by meeting colleagues whilst observing the Group’s operations in action. Our values are truly brought to life in the way colleagues behave in carrying out their roles, and this is really seen during site visits. Board members use these opportunities to observe the commitment and dedication of our people, who work tirelessly to supply our essential services to customers and communities, whilst also increasing their understanding of how the systems and processes we have in place support our workforce to deliver consistent operational performance.

Employee advisory groups
Board members attend meetings of the four employee advisory groups – LQBTQ+, Ethnicity, Disability, and Women in STEM and Ops – to hear about the progress made against our diversity and inclusion plans across the business. Outputs from these sessions are used to shape future Board agenda topics and employee updates.

“People from all backgrounds want to know their voice and contribution matter. The work of our employee advisory groups shines a light on D&I activity across our business, attracting and fostering talent from all backgrounds to ensure our company reflects the customers and communities we serve”.

Sarah Legg
Independent Non-Executive Director

Leadership events
Board members are invited to attend leadership events that are held during the year, to hear directly the key messages we are sharing with our managers about our company’s strategy, current performance and future plans. The events also bring our leaders together to build networks and provide opportunities for collaboration and development of solutions for the challenges we face as a business.

“Our leadership events connect the dots between individual managers and the goals of our organisation. Seeing first-hand the strength of that connection, and the energy managers get from their work, further promotes our culture of autonomy and trust”.

Kevin Beeston
Senior Independent Director

What does the Board do to assess culture?
The Board holds the CEO and the Executive Committee to account for creating and fostering a positive culture, and therefore continually assesses that the necessary culture exists to deliver our strategic goals. This is facilitated through dedicated agenda updates at Board and Committee meetings and Directors are able to draw on their experiences observed first hand as part of their discussions on culture.

Employee engagement survey
The Board reviews the results of the annual employee engagement survey. The Board receives data on how engaged our workforce is compared to our peers and how Severn Trent's values link to our purpose and affect colleague behaviours. The Board places great importance on understanding the strengths and opportunities identified by colleagues and actions are monitored through to completion. The Board also considers regular agenda topics structured around our people.

Workforce policies and practices
The Remuneration Committee and Board review, at least annually, the wider workforce policies and practices to ensure they remain consistent with the Company's values and support its long-term sustainable success in light of its obligations under the 2018 Code. Read more about how we invest in and reward our people in the Directors' Remuneration Report.

Employee voice and engagement
The Board receives feedback from the workforce on the various company-wide initiatives in place to enable two-way inclusive dialogue and facilitate open and effective communication. The Board uses this information to satisfy itself that these well-established communication and engagement mechanisms, including the Company Forum, remain effective and well-utilised, and cover the full breadth of the organisation.

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, which is 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 and contingency planning has enabled the smooth transition of recent Board appointments during the year, including the Chief Financial Officer, the effective handover of the Severn Trent Plc Audit and Risk Committee Chair position and recruitment of Richard Taylor, who joined the Board as an Independent Non-Executive Director on 1 April 2024.

Board composition at a glance – as at 10 July 2024

Gender representation: 2 Male, 6 Female

Minority ethnic representation: 7 White British, 1 Minority ethnic

Board composition: Chair (Independent on appointment), 2 Executive Directors, 5 Independent Non-Executive Directors

Chair and Non-Executive Director tenure:
Kevin Beeston: 8 years 3 months
Christine Hodgson: 4 years 7 months
Sharmila Nebhrajani: 4 years 3 months
Tom Delay: 2 years 7 months
Sarah Legg: 1 year 9 months
Richard Taylor: 4 months

N C R

Christine Hodgson CBE BSc (Hons), FCA

Chair

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

Career and experience:
Until her appointment as Chair of the Severn Trent Board, Christine 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 an Independent Non-Executive Director of Ladbrokes Coral Group Plc and Senior Independent Director and Chair of the Remuneration Committee at Standard Chartered Plc.

In January 2020, Christine was appointed Commander of the Order of the British Empire in the Queen's New Year Honours for services to education.

Skills and attributes which support our strategy and deliver long-term sustainable success:
Christine has extensive Board and governance experience, as well as a deep understanding of business, finance, technology and leadership. She is a committed advocate of the need for companies to serve all of their stakeholders effectively and deliver their social purpose.

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

Key external appointments:
- Chair of Newton Group Holdings Limited
- Non-Executive Director of Spencer Stuart
- Senior Pro-Chancellor and Chair of Loughborough University Council

D E

Liv Garfield CBE BA (Hons)

Chief Executive

Appointed:
Chief Executive on 11 April 2014.

Career and experience:
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 appointed Commander of the Order of the British Empire in the Queen's Birthday Honours for services to the water industry.

Skills and attributes which support our strategy and deliver long-term sustainable success:
Liv brings to the Board a wealth of experience managing customer service delivery and complex infrastructure and organisations in a regulated environment. She has vast knowledge of developing and implementing strategy, and is passionate about ensuring businesses operate sustainably.

Key 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
- Member of the Takeover Panel, and its Hearings Committee and Nomination Committee
- Member of the Government Net Zero Council
- Member of the UK Investment Council
- Member of The 30% Club

D E

Helen Miles ACMA

Chief Financial Officer

Appointed:
Chief Financial Officer Designate on 1 April 2023, Chief Financial Officer on 6 July 2023.

Career 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 and formally taking on the role of Chief Financial Officer in July 2023.

Helen was previously Chief Financial Officer for Openreach, part of the BT Group. Prior to the BT Group, Helen worked in a variety of organisations including Bass Taverns, Barclays Bank and Compass Group.

Skills and attributes which support our strategy and deliver long-term sustainable success:
An experienced finance professional, Helen has delivered major business transformation and infrastructure projects within the Group and across a variety of sectors including telecoms, leisure and banking.

Helen brings a breadth of operational and commercial knowledge to the Board, having worked within a range of regulated businesses.

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

Key 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.

Career and experience:
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, Equiniti Group Plc and Elysium Limited and was also a Non-Executive Director of IMI Plc, Marston Corporate Limited and The Premier League.

Until February 2020, Kevin was Chairman of Taylor Wimpey Plc, where he had been on the Board since 2010.

Skills and attributes which support our strategy and deliver long-term sustainable success:
Kevin has a wealth of commercial, financial and high-level management experience.

Kevin has recent and relevant financial experience as a Fellow of the Chartered Institute of Management Accountants.

Key external appointments:
- Senior Non-Executive Director of Turnstone Equityco 1 Limited (trading as Integrated Dental Holdings)

C N

Tom Delay CBE BSc (Hons), MBA, CEng, MIMechE

Independent Non-Executive Director

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

Career and experience:
Tom was Chief Executive of the Carbon Trust from 2001 until March 2024. During that time, he grew 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 took the company's unique capabilities further afield, extending its mission to accelerate the move to a sustainable, low-carbon future.

A chartered engineer with extensive experience of the energy sector, Tom worked for Shell for 16 years in a variety of commercial and operational roles before moving into management consultancy with McKinsey and Company and then as a Principal with the Global Energy Practice of AT Kearney.

Tom is a member of 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 appointed Commander of the Order of the British Empire by the Queen for services to sustainability in business.

Skills and attributes which support our strategy and deliver long-term sustainable success:
Tom brings extensive strategy, sustainability, energy and engineering experience to the Board.

Key external appointments:
- Member of the advisory board of the Centre for Climate Finance and Investment at Imperial College London
- Member of the advisory board of the Global CO_2 Initiative at the University of Michigan

A C N T

Sarah Legg MA, MSc, FCMA, FCT

Independent Non-Executive Director

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

Career and experience:
Sarah has spent her entire career in financial services with HSBC in various finance leadership roles. She has been the Group Financial Controller, a Group General Manager, and also Chief Financial Officer for HSBC's Asia Pacific region.

Sarah 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, and a Non-Executive Director of Man Group Plc where she also serves on its Audit and Risk Committee and Nominations and Governance Committee.

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 also spent eight years as a Non-Executive Director on the board of Hang Seng Bank Limited, a Hong Kong listed bank.

Skills and attributes which support our strategy and deliver long-term sustainable success:
Sarah brings to the Board wide-ranging corporate finance and significant audit and risk experience gained in the financial services sector.

Sarah has recent and relevant financial experience as a Fellow of both the Chartered Institute of Management Accountants and the Association of Corporate Treasurers.

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

Key external appointments:
- Non-Executive Director of Lloyds Banking Group Plc
- Non-Executive Director of Man Group Plc
- Trustee of Lloyds Bank Foundation for England and Wales
- Chair of the Campaign Advisory Board at King's College, Cambridge
- 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.

Career and experience:
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.

Sharmila is Chairman of the National Institute for Health and Care Excellence, the organisation responsible for assessing the clinical and cost effectiveness of medical innovations in the NHS, and is a Non-Executive Director at Oxford University, Halma Plc, ITV Plc and Coutts Bank.

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 was appointed Officer of the Order of the British Empire in 2014 for services to medical research.

Skills and attributes which support our strategy and deliver long-term sustainable success:
Sharmila has vast Board and governance experience, gained in a variety of roles spanning the private sector, public sector and NGOs. A chartered accountant, she brings insight from a wide range of regulated sectors, including medicine, bioethics, financial services and the media.

Key external appointments:
- Chairman of the National Institute for 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 of University of Oxford
- Trustee of the Thomson Reuters Founders Share Company

T A N R

Richard Taylor BSc (Hons), FCA

Independent Non-Executive Director

Appointed:
Independent Non-Executive Director on 1 April 2024.

Career and experience:
Richard is Chair of Greenhill & Co International, an investment bank focused on providing financial advice globally on significant mergers and acquisitions, restructuring, financing and capital advisory to companies and other organisations. Greenhill was acquired by, and became part of, Mizuho Financial Group in 2023.

Prior to joining Greenhill in 2020, Richard was Chairman of Global Corporate and Investment Banking at Barclays Plc, where he had been since 2011. Prior to joining Barclays, Richard spent nearly 11 years at Bank of America Merrill Lynch, where he was Head of UK and Ireland Corporate and Investment Banking.

Richard holds a degree in civil engineering and is a great advocate for organisations which demonstrate strong social purpose.

Skills and attributes which support our strategy and deliver long-term sustainable success:
Richard brings to the Board extensive strategy, corporate finance, risk management and M&A experience. He also has vast experience of organisations with strong social purpose, in particular through his roles as Trustee of Teach First and as a Board member of The Sutton Trust.

Richard has recent and relevant financial experience gained through his roles in the banking and finance sectors and as a Fellow of the Institute of Chartered Accountants in England and Wales.

Key external appointments:
- Chair of Greenhill & Co International
- Trustee of Teach First Limited
- Board member of The Sutton Trust

Gillian Sheldon BSc (Hons)

Independent Non-Executive Director

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

Retired:
14 May 2024.

Career and experience:
Gillian is Managing Director and Vice-Chair of the UK Investment Banking Division of Morgan Stanley 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, providing strategic guidance and supporting the company's growth into international markets.

Gillian was previously a Senior Advisor at Credit Suisse within the Investment Banking Division. 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.

Skills and attributes which support our strategy and deliver long-term sustainable success:
Gillian brings to the Board extensive strategy, corporate finance, risk management and M&A experience.

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

Key external appointments:
- Member of the Salesforce European Advisory Board
- Managing Director and Vice-Chair of UK Investment Banking Division of Morgan Stanley
- Corporate Board Member of the Royal Academy
- Board Member of Business LDN

Gillian stepped down from the Board on 14 May 2024 to focus on her recent Executive appointment, having served as a Director since 1 November 2021.

Hannah Woodall-Pagan BSc (Hons), FCG

Group Company Secretary

Appointed:
2 December 2022.

Hannah joined Severn Trent in October 2015 and became Group Company Secretary on 2 December 2022. She has extensive experience of operating in listed companies and regulated sectors, gained in a number of senior leadership roles spanning the FTSE100 and FTSE250 and is responsible for providing governance advice and guidance to the Board and senior management, as well as leading the Company Secretariat function. Hannah is a Chartered Company Secretary, being a Fellow of the Chartered Governance Institute, and she also attended INSEAD Business School.

In addition to her role at Severn Trent, Hannah is a Trustee of University Hospitals Birmingham Charity.

Directors serving for part of the year

John Coghlan BCom, ACA

Independent Non-Executive Director

John stepped down from the Board on 31 December 2023, having served as a Director since 23 May 2014.

James Bowling BA (Hons) Econ, ACA

Chief Financial Officer

James stepped down from the Board on 6 July 2023, having served as a Director since 1 April 2015.

BOARD SKILLS

An effective Board requires the right mix of skills and experience, complemented by individual approaches and thinking styles reflective of Directors' varied backgrounds. As demonstrated by their biographies, our Board members together form a diverse and effective team focused on promoting the long-term sustainable 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 from their roles both within and outside Severn Trent.

The skills matrix is reviewed at least annually to make sure it continues to meet business needs, today and in the future. It 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 Committee.

Skills to support our strategy and deliver long-term sustainable success

Skills – mapped to strategic outcomes

	Strategy	Customer	Utility sector	M&A	Corporate finance/Treasury	Accounting	Brands	Regulation	Technology/Innovation/Cyber	Science and engineering	Sustainability, including climate change	Commercial procurement	Construction/Infrastructure delivery	Large capital programmes	People management	Political affairs	Societal
Kevin Beeston	✓	✓	✓	✓	✓	✓		✓				✓	✓	✓	✓	✓	✓
Tom Delay	✓	✓					✓	✓	✓	✓	✓	✓			✓	✓	✓
Liv Garfield	✓	✓	✓	✓			✓	✓			✓		✓	✓	✓	✓	✓
Christine Hodgson	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓		✓	✓	✓	✓
Sarah Legg	✓	✓		✓	✓	✓		✓	✓	✓	✓	✓		✓	✓		✓
Helen Miles	✓	✓	✓	✓	✓	✓		✓				✓	✓	✓	✓		✓
Sharmila Nebhrajani	✓					✓		✓	✓	✓	✓				✓	✓	✓
Richard Taylor	✓		✓	✓	✓	✓		✓		✓					✓		✓

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 Board-led Governance Framework ensures that the Board remains effective in both making decisions and maintaining oversight by mapping where accountability sits in line with the Board’s delegated authorities, whilst also adhering to our well-established culture of Doing the Right Thing. The Severn Trent Plc Governance Framework, which operates at Severn Trent Plc level on behalf of the Company, is outlined below.

The Board

The Board's role is to ensure the long-term sustainable success of Severn Trent by setting our strategy through which value can be created and preserved for the mutual benefit of our customers, employees and the communities we serve. In making its decisions, the Board considers the Company's purpose, strategy and culture, and discusses stakeholders' wide-ranging views and priorities. The Board also provides rigorous challenge to management and ensures the Company maintains an effective risk management and internal control systems.

Informing

Reporting

Board Committees

The Board delegates specific areas of focus to its Committees, which comprise Non-Executive Directors only. Committee members have the requisite skills and experience to enable the Committee to deep dive into certain topics of importance on behalf of the Board. The Chair of each Committee formally reports to the Board at every meeting, demonstrating accountability for the recommendations made by the Committee to the Board and ensuring that the Board retains suitable oversight of the matters delegated to its Committees.

Audit and Risk Committee

Assists the Board in discharging its responsibilities for the integrity of the Company's regulatory reporting, financial statements, risk management, assessment of the effectiveness of the system of internal control and the effectiveness of Internal and External Auditors.

Corporate Sustainability Committee

Provides guidance and direction to the Company's sustainability strategy and sustainability matters linked to policies, pledges and commitments, including River Health, our Community Fund, Societal Strategy and the Triple Carbon Pledge.

Nominations Committee

Assists the Board by keeping Board composition under review and makes recommendations in relation to Board appointments. The Committee also assists the Board on issues of Executive Director succession and contingency planning, conflicts of interest and independence.

Remuneration Committee

Determines the Company's policy on the remuneration of Executive Directors, other members of the Executive Committee and the Chair of the Board. The Committee ensures that the Company's performance is assessed in the round and over time through a number of lenses, in determining remuneration outcomes. The Committee also reviews workforce policies and practices.

Treasury Committee

Provides oversight of treasury activities in implementing the Company'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 Company's strategy and overall commercial objectives rests with the Chief Executive, who is supported by STEC.

STEC oversees the Steering Committees and Working Groups needed at an operational level to achieve delivery of the Company's strategy. The Chief Executive, Chief Financial Officer and other members of STEC are responsible for providing updates on Executive matters at Board meetings through standing reports.

Informing

Reporting

Disclosure Committee

An Executive Committee responsible for overseeing the Company'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, five Independent Non-Executive Directors and two Executive Directors. There are clear divisions between Executive and Non-Executive responsibilities, which ensure accountability and oversight.

The roles of Chair and Chief Executive are separately held and their responsibilities are well defined, set out in writing in the Charter of Expectations, and regularly reviewed by the Board. The Chair and the other Non-Executive Directors meet routinely without the Executive Directors, and individual Directors meet outside formal Board meetings in order to gain first-hand experience of our operations and engage with our workforce. The Executive Directors meet weekly as part of the Executive Committee to attend to the ongoing management of the Group. Any significant operational and market matters are communicated to the Non-Executive Directors on a timely basis outside of Board meetings. The Board is supported by the Group Company Secretary, to whom all Directors have access for advice and corporate governance services.

Non-Executive Directors

Chair
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 long-term 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, including identifying required actions.
- 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
Tom Delay, Sarah Legg, Sharmila Nebhrajani, Richard Taylor

- 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 long-term strategy by providing independent insight and support based on relevant experience.
- Monitor the delivery of strategy by the Executive Committee and measure the performance of management 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 feed back 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 and chair 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 long- term 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 13 to 15.

Chief Financial Officer ('CFO')
Helen Miles

- Manages the Group's financial affairs and proposes policies to support sound financial decision making. The CFO's Review can be found on pages 84 to 91.
- 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.

Group General Counsel

Didar Dhillon

- Ensures monthly reporting to the Board on regulatory and legal risks, including potential claims and/or prosecutions to ensure that the Board is fully sighted on such matters and the resulting risks.

Board and Committee Meeting Attendance 2023/24

Director	Role	Board (inc. Strategy Day)	Audit and Risk Committee	Corporate Sustainability Committee	Nominations Committee	Remuneration Committee	Treasury Committee
Christine Hodgson	Chair	10/10	–	4/4	5/5	5/5	–
Liv Garfield	Chief Executive	10/10	–	–	–	–	–
James Bowling	Chief Financial Officer (until 6 July 2023)	4/4	–	–	–	–	–
Helen Miles	Chief Financial Officer (from 6 July 2023)	10/10	–	–	–	–	–
Kevin Beeston	Senior Independent Non-Executive Director	10/10	4/4	–	5/5	5/5	5/5
John Coghlan	Independent Non-Executive Director (until 31 December 2023)	8/8	3/3	–	3/3	–	3/3
Tom Delay	Independent Non-Executive Director	10/10	–	4/4	5/5	–	–
Sarah Legg	Independent Non-Executive Director	10/10	4/4	4/4	5/5	–	5/5
Sharmila Nebhrajani	Independent Non-Executive Director	10/10	–	4/4	5/5	5/5	–
Gillian Sheldon	Independent Non-Executive Director (until 14 May 2024)	10/10	4/4	–	4/4	5/5	5/5

BOARD ACTIVITIES

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 is circulated and the Directors who attended that particular session 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. Details on some of the key topics considered during 2023/24 can be found in our Section 172 Statement.
- Legal and governance updates, including: approval of arrangements for delegated financial authority across the Group; review of adequacy of Whistleblowing Procedures; and approval of the Anti-Slavery and Human Trafficking Statement.

Time is set aside at the end of every Board meeting for the Chair to hold a private meeting with Non-Executive Directors, 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 the entire Board and the Group Company Secretary, or with STEC. 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 information on these pages aims to bring the Board's rich programme to life.

During 2023/24, Board meetings, sessions and site visits were held in the following months:

2023									2024		
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
●	●	●	●	●	●	●	●	●		●	●

Performance and standing items

The Board oversees and challenges management on performance.

Standing items considered by the Board at its meetings: CEO's Overview – CFO's Review – Performance Reports – Reports from the Board Committees – Reports from the Company Forum – Legal and Governance Updates.

Read more about our PR24 Business Plan

Internal controls, risk management and governance

The Board sets the approach to risk management and oversees that we have an effective system of internal controls in place, whilst promoting responsible leadership and adherence to our governance framework.

Topics considered by the Board during the year included: Enterprise Risk Management Update – Cyber Update – Year End Governance Matters – Board Objectives – Health, Safety and Wellbeing – Environment and Zero Pollutions – Effectiveness of Whistleblowing Procedures – Anti-Slavery and Human Trafficking Statement – Annual Insurance Update – Doing the Right Thing Annual Review – Annual Report on Reservoir Safety – External Audit Tender – Annual Review of the Group Authorisation Arrangements – UK Corporate Governance Code 2024 – Annual Review of Matters Reserved to the Board, Charter of Expectations and Committee Terms of Reference.

Read more about the effectiveness of our internal controls and risk management processes

Our people and culture

The Board seeks to understand employee views and assesses the culture to ensure it is nurtured.

Topics considered by the Board during the year included: Organisation Wide Talent Review – Diversity and Inclusion Update – Employee Voice and Engagement – Annual Employee Engagement Survey Results – Review of Workforce Policies and Practices – Diversity and Inclusion Strategy – Gender and Ethnicity Pay Gap Report.

Read more about Our People

Strategic and regulatory

The Board sets our strategy through which value can be created for our stakeholders, including our regulators.

Topics considered by the Board during the year included: PR24 – AMP8 Deliverability Update – Societal Strategy – Strategic Resource Option Update – Board Strategy Day Proposal – Indicative Wholesale Charges – C-MeX – Cleanest Rivers – Customer Vulnerability Strategy – Innovation Update.

Read more about our 2023/24 performance

Financial

The Board monitors financial performance and sets parameters for financial management and strategy within the Group.

Topics considered by the Board during the year included: Viability and Going Concern Statements – Group Budget – Final and Interim Dividends – Annual Report and Accounts – Performance Update – Defence Readiness Review – Pension Scheme Update – Post Investment Appraisal – EU Taxonomy Disclosure – Annual Tax Update – Treasury Policy Statement Annual Review – Annual Funding and Treasury Risk Management Plan – Investor Relations Strategy.

Read more in the Chief Financial Officer's Review

Stakeholder engagement

The Board listens to the wide-ranging views of its stakeholders to ensure these are considered in its decision making.

The following stakeholders attending Board sessions during the year: CEO of Ofwat – Chair of Ofwat – Chair of the Environment Agency – Chief Inspector of the Drinking Water Inspectorate – Chief Executive of Water UK.

Site visits

The Board engages with the workforce, whilst also deepening its understanding and knowledge of our operations.

Green Recovery, Mansfield – inspecting the progress made on the £76 million (2017/18 prices) scheme to reduce pressure on the local sewers through the utilisation of nature-based solutions.

Manufacturing Technology Centre, Coventry – exploring innovative manufacturing-led approaches to design and construction, alongside other future innovation opportunities.

Aarhus Vand, Denmark – visiting the Aarhus Vand water company, part of the Net Zero Partnership, to explore areas of innovation and share learnings. Read more on **page 166**.

Witches Oak, Derby – observing first hand the work undertaken as part of the Green Recovery Decarbonising Water Resources project.

PR24 Business Plan

The Board invested a significant amount of time preparing for PR24, including: understanding the way in which the Company can deliver positive customer outcomes and greater environmental and social value; driving improvements through efficiency and innovation; and increasing focus on the long term. To inform this activity, individual Directors, and the Board as a whole, spent time engaging with customers, attending community events and having discussions with the Chair of the Expert Challenge Panel, Professor Bernard Crump. The views of over 68,000 customers were factored into our Business Plan’s development. PR24 was discussed at every Board meeting through its development and two additional Board PR24 strategy sessions were scheduled, in June 2023 and August 2023, to discuss the detailed aspects of our Business Plan prior to its submission. Our Business Plan was submitted to Ofwat on 2 October 2023.

Strategy Day

Every year, the Board 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. This year's Strategy Day covered the following topics:

- Being a Purposeful Business – discussing what it means to be purposeful, our journey to date and the ongoing direction of travel.
- Fit for a Data-Driven Future – taking stock of our plans to build capability to derive value from data and artificial intelligence and exploring what a data-driven future might look like across our
- operational and customer environments.
- A Circular Economy of People – including how we retain and retrain our people by understanding our future organisational capabilities.

Company Forum

The Company Forum was convened four times during 2023/24, with Board member attendance as follows:

- 21 June 2023 – Christine Hodgson.
- 27 September 2023 – Tom Delay and Liv Garfield.
- 6 December 2023 – Sarah Legg.
- 13 March 2024 – Liv Garfield.

Other company events

- Severn Trent Plc AGM on 6 July 2023 – attended by all Directors.
- Leadership Events in October 2023 – attended by Christine Hodgson and Kevin Beeston.
- Governance Roadshows during January and February 2024 – hosted by Christine Hodgson.
- Remuneration Policy Consultation Sessions during January and February 2024 – hosted by Sharmila Nebhrajani.

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 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.

In order to build relationships, the Non-Executive Directors have direct and unfettered 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 broaden the Non-Executive Directors' sources of information. This engagement provides Non-Executive Directors with the context to challenge management effectively and assists with their consideration of 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 the 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 are matters reserved for the Board.

The independence of our Non-Executive Directors is formally reviewed by the Severn Trent Plc Nominations Committee on an annual basis, and as part of the Board Effectiveness evaluation. Particular focus is applied to Directors who have served over six years on the Board, to ensure that these Directors continue to demonstrate independent character, judgment and objectivity. This is assessed by considering a number of factors including, but not limited to, the Director's:

- ability and willingness to make objective decisions and hold management to account;
- demonstration of independence through participation at meetings with management and interactions with stakeholders;
- arm's-length approach to dealing with Executive Directors and continued challenge of management where appropriate; and
- external directorship appointments and whether these conflict, or have the potential to cause a conflict, with the Company.

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. Read more in the Severn Trent Plc Nominations Committee Report within the Severn Trent Plc Annual Report and Accounts 2023/24.

All of the Non-Executive Directors who served during 2023/24 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 the time commitment to their role at Severn Trent Water, and to ensure that all of our Board members remain compliant with applicable 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 the resultant position is believed to be consistent with the current guidelines on overboarding, with no Directors exceeding these guidelines.

Our Non-Executive Directors commit sufficient time to discharging their responsibilities as Directors of Severn Trent Water in line with the requirements set out in our Charter of Expectations. Directors are required to obtain formal approval from the Board ahead of undertaking any new external appointments and before accepting an additional role, Directors must: declare the existence of any potential or actual conflicts; confirm 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. In each case before granting its consent, the Board considers carefully whether there would be any impact on the time commitment required for each Director, or on the independence and objectivity required to discharge the agreed responsibilities of each role.

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 the Company before consent was granted. 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 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 the Boards of other Group companies.

Schedule of Matters Reserved to the Board

To ensure the Board maintains oversight of the areas material to the delivery of the Group's strategy and purpose, the Board undertakes an annual review of the Matters Reserved to the Board. The latest review took place in March 2024 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 regularly reviews its skills matrix to determine whether any additional skills or development opportunities are needed in order for the Board to discharge its duties effectively. The Schedule of Matters Reserved to the Board is available on the Severn Trent Plc website.

Strategy

Appropriately evaluated strategic decisions are crucial to help us to deliver our strategy and achieve our purpose of 'taking care of one of life's essentials'. Responsibility to all of our stakeholders for the approval and delivery of the Group's strategy and for creating and overseeing the framework to support its delivery sits with the Board. During the year, the Board monitored the implementation of the Group's corporate strategy, which was introduced during 2022/23. As well as standing strategic items at every Board meeting, the Board also holds a dedicated Strategy Day with the Executive Committee to help consider the strategic direction of the Company for the short, medium and long term.

Responsibility for the development and implementation of the Group's strategy and overall commercial objectives rests with the Chief Executive who is supported by the Executive Committee. The Directors present their report and the audited financial statements for the year ended 31 March 2024. The performance review of the Company can be found within the Strategic Report. This provides detailed information relating to the Group, its business model and strategy, the operation of its businesses, future developments, and the results and financial position for the year ended 31 March 2024.

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 Section 172 Statement sets out how the Board has considered and contemplated the interests of stakeholders.

COMPOSITION, SUCCESSION AND EVALUATION

As at the date of this report, our Board comprised the Chair (who was independent on appointment), five Independent Non-Executive Directors and two Executive Directors. The details of their career backgrounds, relevant skills, Committee membership, tenure and external appointments can be found within their individual biographies.

Board composition

The Chair, Senior Independent Director and Non-Executive Directors are each appointed for a three-year term, subject to annual re-election by shareholders at the Severn Trent Plc AGM, following consideration of the annual Board Effectiveness evaluation outputs. Directors serving over six years on the Board are subject to a particularly rigorous review. The current Letters of Appointment are available on the Severn Trent Plc website.

The composition and effectiveness of the Board are 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 matters 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. This activity was a key contributor in developing the specification for Board recruitment activity during the year.

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 Group.

The skills matrix is reviewed at least annually to ensure that the right balance of skills and experience is 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, 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 its Committees can be found in the Severn Trent Plc Nominations Committee Report within the Severn Trent Plc Annual Report and Accounts for 2023/24.

Development, training and resources

The environment in which we operate is continually changing. It is therefore important that our Executive and Non-Executive Directors 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.

The Board as a whole, and Board members individually, regularly discuss training topics 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, environmental deep dives, the economic and political environment, sustainability, technology and innovation. 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, performance 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, environmental performance, customer affordability and vulnerability, exceptional weather preparedness, innovation and diversity and inclusion.

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 once again applied focus to this important area over the last 12 months. Following the announcement on 1 December 2023 that Gillian Sheldon intended to retire from the Board to focus on her recent Executive appointment, the Committee commenced a process to recruit a successor. Richard Taylor was appointed as an Independent Non-Executive Director of the Board from 1 April 2024. Further detail can be found in the Severn Trent Plc Nominations Committee Report.

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 wastewater businesses, and the legal and regulatory framework applicable to the sector, 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. Richard Taylor met with Ofwat during March 2024, ahead of his appointment to the Board.

We enhance the Board's induction programme in light of feedback from new Directors and the Board Effectiveness evaluation; for example, in 2022, we introduced the Board buddy scheme.

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 purpose and strategy, 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 organisation as a whole.

Richard Taylor's Induction

Chair of: Treasury Committee

Member of: Audit and Risk Committee; Nominations Committee; and Remuneration Committee

We welcomed Richard to the Board on 1 April 2024, and his extensive induction programme is ongoing, covering a range of areas across the business.

Along with a detailed overview of the water sector and the regulatory requirements we operate under, Richard has already 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 Richard's induction have been on matters pertinent to his roles on the Board Committees.

For his role on the Treasury Committee, Richard received a detailed overview of the AMP7 funding strategy and the treasury policies we have in place, as well as an introduction to the Group's Sustainable Finance Framework and approach to EU Taxonomy.

Richard's induction for his role on the Audit and Risk Committee included sessions on the current risks faced by the Group and risk management framework, regulatory finance model, Internal Audit programme and internal control processes.

In advance of his first Remuneration Committee meeting, Richard considered the remuneration structure across the Group, for both the Executive and wider workforce, and the Committee's essential role in assessing performance in the round.

Richard's 'Board Buddy' is Sarah Legg, who is the Chair of the Audit and Risk Committee and is also a member of the Treasury Committee and Nominations Committee.

EVALUATION

Our annual Board evaluation provides the Board, its Committees and the Committees of Severn Trent Plc, with an opportunity to consider and reflect on the quality and effectiveness of its decision making, and the range and level of discussion, and for each member to consider their own contribution and performance.

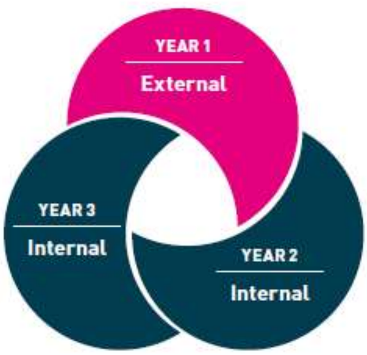
Progress made on evaluation recommendations from 2022/23

The table below sets out the recommendations from the internally facilitated Board Effectiveness evaluation that took place during 2022/23 and the resultant action taken to address each of them.

Recommendation	Action taken
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 and contingency 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's forward agenda is regularly 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. The Board also visited Aarhus Vand in Denmark during the year to observe innovative approaches being adopted in waste and water networks to inform future discussion on this topic.
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.	The Board's feedback on reporting has been incorporated into the Group's report writing training and used to formulate a new suite of report templates which highlight key information for discussion at meetings.

Board evaluation review cycle

In consideration of the FRC's Guidance on Board Effectiveness and the CGI's Principles of Good Practice relating to external reviews, the Board has adopted a three-year assessment cycle, designed 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. 2023/24 was the first year of a new three-year cycle, and took the form of an externally facilitated evaluation exercise conducted by Independent Board 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.

2023/24 Board evaluation

The Severn Trent Plc Nominations Committee appointed Ffion Hague of Independent Board Evaluation (‘IBE’) who, having carried out the previous externally facilitated review during 2020/21, was well placed to observe, and comment on, the progress made over the last three years. Neither Ffion Hague nor IBE have any other connection with the Company or individual Directors.

Ffion held individual interviews with each Director during March, April and May 2024, and meetings of the Board its Committees and the Severn Trent Plc Committees were also observed during this time. The key themes were shared with the Board and Severn Trent Plc Nominations Committee in May 2024, along with a 2024 action plan. More detail on the evaluation process and the findings from the review are set out on the next page. In line with the CGI’s Principles of Good Practice relating to external reviews and guidance on reporting on board performance reviews, IBE has reviewed the disclosures relating to the evaluation set out within the Annual Report and has agreed that they reflect accurately both the process followed and the findings of the review.

In line with our Board evaluation review cycle, the next externally facilitated evaluation will be scheduled for 2026/27 in accordance with the 2018 Code provision that the Company should undertake an externally facilitated Board Effectiveness evaluation at least every three years.

<table>
<tr><th rowspan="1">December 2023: Selection and appointment</th><td colspan="4">The Nominations Committee appointed IBE, led by Ffion Hague, as the independent external facilitator for the Board Effectiveness evaluation. IBE is a standalone consultancy of independent practitioners, working solely on board effectiveness reviews. IBE does not provide other services to the Company and has no connections with any of the Directors, other than the fact that IBE undertook the externally facilitated Board Effectiveness evaluation in 2020/21.

Terms of engagement were established ahead of the review commencing and, through this process, it was agreed that the Senior Independent Director would be Ffion’s key contact should there be any concerns about the way the process was being managed.</td></tr>
<tr><th rowspan="3">January 2024: Evaluation scope</th><td colspan="4">The scope for the evaluation was agreed to cover a formal and rigorous evaluation of the performance of:</td></tr>
<tr><td>The Board</td><td>The Board Committees</td><td>The Chair</td><td>Individual Directors</td></tr>
<tr><td>– Strategy – oversight and implementation
– Board focus, priorities and use of time
– Governance and risk management
– Succession planning for key Board and management roles
– Composition of Board – skills, diversity and experience
– Employee engagement
– Selection and induction of new members
– Meetings (frequency, quality and duration) and quality of papers and presentations</td><td>– Membership – skills, experience, competence and induction
– Meetings – frequency, quality and duration
– Chairship
– Clarity of objectives and Terms of Reference</td><td>– Quality of contribution
– Board leadership
– Independence and objectivity
– Understanding of own/others’ roles
– Chairing skills
– Agenda setting
– Time commitment</td><td>– Quality of contribution
– Skills, experience and competence
– Time commitment
– Quality of perspective brought to Board discussions</td></tr>
<tr><th>March – May 2024: Evaluation activity</th><td>Structured one-to-one interviews by Ffion Hague including:
– The Chair
– The Chief Executive
– The Chief Financial Officer
– The Senior Independent Director
– Non-Executive Directors
– Executive Committee members
– The Group Company Secretary</td><td colspan="2">Meetings observed by Ffion Hague during March and May 2024:
– Board
– Audit and Risk Committee
– Corporate Sustainability Committee
– Nominations Committee
– Remuneration Committee
– Treasury Committee</td><td>IBE provided data points and benchmarking information relating to the Company’s key markets. The Group Company Secretary also provided IBE with the necessary documents, access and support required to enable a thorough review of Board-related governance materials.</td></tr>
<tr><th>May 2024: Evaluation findings</th><td colspan="4">A comprehensive report evaluating the Board’s performance was produced by IBE and provided in advance of the Board meeting on 17 May 2024. Ffion Hague attended the Board meeting to present the principal findings from the evaluation and recommendations detailed in the report. The Board discussed the areas covered by the evaluation and the resulting findings and recommendations, before agreeing an action plan for 2024/25 (read more below).

Reports were also provided to each of the Committees on relevant findings from the evaluation.

The Chair provided feedback from the evaluation to each individual Director.

The Senior Independent Director met with all the Non-Executive Directors to discuss the aspects of IBE’s report relating to the Chair, and provided feedback to the Chair on her own performance.</td></tr>
</table>

Action plan for 2024/25

The Board's action plan has been formulated based on the recommendations from IBE's report. Below is an overview of the initial progress made to address each recommendation.

Recommendation	Initial progress
Board agenda and papers	
Continue to improve the Board Objectives process by scheduling a dedicated Board session to enable the Board to debate and agree its objectives for the year ahead, ahead of tabling them for discussion at the Board.	Dedicated sessions to enable the Board to debate and agree its objectives for the next year, in addition to reviewing progress made against the current year's objectives, have been scheduled on the Board's forward plan.
Enhance the flow of constructive feedback to management in relation to Board papers in order to build on improvements made on reports tabled at the Board and its Committees and ensure Directors continue to be presented with high-quality and relevant information to inform decision making.	Board members are encouraged to provide feedback at meetings, and when unable to do so, will use the Group Company Secretary as a conduit for facilitating any feedback to report writers and presenters.
Mentoring and development	
Consider bolstering the Group's induction and onboarding approach to include mentoring for the first few months of Board membership for any Director who has not previously served on a Board of a UK listed company.	Following the 2021 review, our Board Buddy scheme was introduced following feedback from a Non-Executive Director on their induction programme. It has been well received and this is something we continue to offer new Non-Executive Directors. Following the success of this, we will continue to keep under consideration the need for external mentoring.
Schedule annual feedback discussions between the Chair and individual Directors.	As the report notes, the Chair provides feedback to individual Directors following meetings and informally throughout the year. A programme of one-to-one sessions for the Chair to meet with individual Directors has been implemented to enable more formal discussions on performance and development.
Governance framework	
Keep the Committee structure under review with regards to the division of work between the Treasury Committee and Audit and Risk Committee.	The Committee structure is regularly reviewed including, but not limited to, during the annual appraisal of the Terms of Reference and the assessment of how each Committee has discharged its duties during the year.

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 2023/24 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, Severn Trent Plc 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 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 operational, environmental 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 169 to 194 of the 2023/24 Severn Trent Plc Annual Report and Accounts.

2024 Remuneration Policy Review

During the year, the Committee undertook a review of the current Policy as part of the 2024 Remuneration Policy Review, which will be put to shareholder vote at the 2024 Annual General Meeting ('AGM') of Severn Trent Plc. The Committee's objectives for the 2024 Policy review were:

- continuing to focus management on strong and sustainable financial and operational performance as we enter an even more challenging AMP cycle;
- recognising that, as a regulated service provider, the price review mechanism provides an in-built alignment between delivery for our customers and the environment, which should be reflected in the selection and weighting of incentive measures;
- recognising and embedding our short- and long-term commitments and ambitions around sustainability and our key stakeholders within our incentive framework;
- working within the framework of our regulator's guidance;
- ensuring that the remuneration framework continues to align fully with the UK Corporate Governance Code;
- ensuring that malus and clawback provisions within our incentive schemes continue to enable the Committee to apply discretion where Company performance is not aligned to stakeholder expectations; and
- maintaining high levels of stakeholder engagement and support.

Based on the review findings, the Committee believe that the current Policy remains fit for purpose, particularly versus each of the review objectives above. As such, the Policy being put to shareholder vote is largely unchanged from the existing Policy. Proposed changes to the implementation of the Policy are summarised below:

- reweight the annual bonus performance measures such that there is an even stronger focus on environmental performance;
- evolve the LTIP to increase the focus on broader stakeholders over the long term, whilst maintaining a strong focus on financial performance;
- removal of the option for personal objectives in the bonus structure. Although not used in the bonus design since 2019/20, the 2021 Policy retained the option to incorporate them into the bonus design. However, we strongly believe in a structure that is based on quantitative data, where all employees are working to the same set of objectives; and
- clarify the treatment of deferred share awards under the annual bonus for good leavers so that the default treatment is that subsisting awards vest as per their original timelines (rather than at the point of cessation).

Further details of the proposed changes can be found in the Severn Trent Plc Annual Report and Accounts. The changes proposed will be put to shareholder vote at the Severn Trent Plc AGM on 11 July 2024 and, subject to approval, will be applicable from that date.

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 2023/24 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 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, the wider economic environment, and internal relativities.

In addition to base salary, Executive Directors receive a benefits package which contractually includes a green travel allowance, 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 benefits scheme, which is open to all employees.

The salaries of the CEO and CFO will increase by 5.0% from 1 July 2024, in line with the increase awarded to the workforce. Further detail can be found on page 179 of the 2023/24 Severn Trent Plc Annual Report and Accounts.

Annual Bonus 2023/24
The annual bonus is designed to encourage improved financial, operational and environmental performance, and to align the interests of Directors with shareholders through the partial deferral of payment in shares. When implementing the 2023/24 all-employee annual bonus scheme it was determined that the Committee 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, operational and environmental 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. Annual bonus performance is measured over a single financial year. Page 175 of the Severn Trent Plc Annual Report and Accounts sets out details of the 2023/24 annual bonus outturn, which pays out on a formulaic basis at 60.9% and 65.9% of maximum opportunity for the Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') respectively.

In overseeing remuneration outcomes, the Committee performs an assessment of performance in the round, details of which can be found in the 'Assessment of performance in the round' section below. Following this assessment, no discretion has been exercised to override the formulaic outturn of the 2023/24 annual bonus in respect of performance in the year. However, the Committee has determined it appropriate to exercise downward discretion on the CEO's bonus following the prosecution of the Barlaston pollution incident, which occurred in the 2019/20 performance year. An adjustment was agreed to reduce the EPA element of the 2023/24 bonus to zero for the CEO. Full details of the assessment and conclusions can be found on page 173 of the Severn Trent Plc Annual Report and Accounts.

Annual bonus payments to Executive Directors are not pensionable. While the performance criteria for our annual bonus scheme are the same for all employees, the bonuses awarded to Executive Directors are paid and accounted for by Severn Trent Plc, which is listed on the London Stock Exchange and, as such, is owned by shareholders. Executive Director bonuses are not charged to our regulated business. 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	*40%*	£494.2m	£509.2m	£524.4m	£511.8m	22.9%
Customer ODIs (i)	*35%*	£40m	£50m	£60m	£55m	24%
River Health (ii)	*12%*	Various				6%
Health and Safety (iii)	*8%*	0.17	0.13	0.09	0.08	8%
EPA rating	*5%*	N/A	N/A	Achieved	Achieved	5%
Total						65.9%
CEO total outcome following application of discretion(iv)						60.9%

(i) Our ODIs are grouped into three categories. The outcome achieved reflects in-year performance across all three ODI categories, and the outturn represents significant outperformance in two of the three categories. Total reported ODI reward of £55 million also includes £20.0 million for end of AMP ODIs.

(ii) Measured by specific River Health deliverables, comprising of a reduction in Combined Sewer Overflow ('CSO') activations (6% of total bonus) and a reduction in Reasons for Not Achieving Good Status ('RNAGS') (6% of total bonus).

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

(iv) As set out above and in detail on page 170 of the Severn Trent Plc Annual Report and Accounts, downwards discretion was applied to the CEO's annual bonus, reducing the EPA 4* element outcome from full vesting to zero.

Further comment on our overall performance during the financial year can be found in the Chief Executive's review.

Annual Bonus 2024/25

The Committee has spent a significant amount of time this year considering the interplay between environmental performance and Executive pay. Whilst the Committee is confident that we already have strong links between environmental performance and pay, with 30% of the current annual bonus aligned to environmental measures, we believe it is appropriate to go even further and not only increase the focus of the annual bonus on environmental measures, but also strengthen the robustness of the measures and targets themselves.

As part of the 2024 Remuneration Policy review, the Committee has approved an increased weighting of the EPA 4* rating measure from 5% to 10%, and an increase to the combined sewer overflow ('CSO') measure from 12% to 15%. When combined with the environmental ODIs, which make up just over a third of the ODI measure at 10% of the total bonus, this means that from 2024/25, 35% of the annual bonus will be linked to measures directly relating to environmental performance and river health.

The changes include the introduction of the requirement for no serious pollutions in year to achieve the EPA 4* element of the bonus, thereby making this element of the bonus even more challenging and robust. This underpin will be binary, therefore if there is a serious pollution event within the 2024/25 performance year, the EPA 4* measure will not pay out, irrespective of whether EPA 4* status is achieved. We have also split the CSO measure into two equal components, so that in addition to CSO reductions, half of this measure is focused on delivering CSO enhancements at pace. The enhancements will build climate-related resilience into the system, reducing spills and overall environmental harm. This enhancement activity will run in parallel with our development plan for more complex capital solutions and will provide valuable new insight to drive further improvements for customers and the environment.

The annual bonus performance measures and weightings for the 2024/25 financial year will therefore be as follows:

- Group Profit Before Interest & Tax – 40%
- Customer and Environment ODIs – 27%
- Combined Sewer Overflow Reduction and Enhancements – 15%
- EPA rating/Serious Pollutions – 10%
- Health and Safety (Lost Time Incidents) – 8%

The maximum bonus opportunity will remain at 120% of salary for 2024/25.

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, operational and environmental performance, in line with the Company's strategy, and stakeholder expectations. 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. Two-year post vesting holding periods also apply.

Awards made to Executive Directors under our LTIP are settled in shares of Severn Trent Plc. There is no cost to our regulated business. Severn Trent Plc's shareholders bear the cost of these transactions through the dilution of their existing holdings in Severn Trent Plc and, as such, these costs are not borne by customers.

LTIP vesting

The standard element of the 2021 LTIP award measures the Company's performance against RoRE set by Ofwat's Final Determination ('FD'). Over the three-year performance period of the 2021 LTIP, the Company achieved a RoRE of 2.27x against the target of 1.39x the base RoRE return. This results in full vesting of the standard element of the 2021 LTIP award, which is equivalent to 60% of maximum for the total 2021 LTIP award for the CEO, and 53.3% of maximum for the CFO.

The LTIP granted in 2021 was the first award to include a sustainability element with targets aligned to our Triple Carbon Pledge and external Science Based Targets commitments, worth 20% of the maximum award. The sustainability element of the 2021 LTIP award measures the Company's performance against four different measures aligned with our environmental commitments to reach net zero carbon emissions by 2030. Based on performance against these measures over the three-year period, this element will vest in full, which is equivalent to 20% of maximum for the total 2021 LTIP award for both the CEO and CFO. The remaining 20% of the 2021 LTIP award is based on achieving upper quartile ('UQ') RoRE performance, which will be known in July and reported in our 2024/25 report.

Vesting under the UQ element of the 2020 LTIP award was only known at the end of July 2023 when comparable statistics for the other WaSCs were published. This meant that the LTIP single figure value reported for 2022/23 did not include the UQ element of the 2020 LTIP award. We now know that Severn Trent achieved UQ performance, and therefore the UQ element of the 2020 LTIP award vested in full.

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. Further details can be found in the Severn Trent Plc Annual Report and Accounts.

2022, 2023 and 2024 LTIP Awards

Awards granted in 2022 and 2023 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 focuses on our public commitment to net-zero carbon emissions by 2030 as part of our Triple Carbon Pledge.

For the 2024 LTIP, the Committee has focused on ensuring that our remuneration framework is designed to deliver balanced outcomes for all of our stakeholders, driving long-term performance for the benefit of all groups. To help achieve this aim, we will be increasing the weighting of non-financial measures within the LTIP from 20% to 50%. Whilst this reduces the weighting on financial measures, from a shareholder perspective, the Committee believe that the increase in non-financial measures benefits shareholders through increased stakeholder trust and associated reputational benefits.

The non-financial measures will consist of a selection of environment, customer and/or community measures – to ensure the interests of all of our stakeholders are considered – and will not exceed 50% of the LTIP performance measures. Within this structure, different performance measures, targets and/or weightings may be set for future LTIP awards to reflect the business strategy and regulatory framework operating at that time. The performance measures and weighting for the 2024 LTIP award are as follows:

Measure	Sub-measure	Weighting	Measure Details
RoRE		50%	Requires the Company's RoRE to outperform the target set out in Ofwat's FD and, for full vesting, to deliver upper quartile relative performance compared with other WaSCs.
Environment	Scope 1 and 2 emissions reduction	10%	Cumulative reduction against a Science Based Target ('SBT') glidepath for Scope 1 and 2 emissions compared with the agreed 2019/20 baseline.
	Self-generation	10%	As we push further on renewable energy investment for both economic resilience and net zero purposes, this measure remains a fundamental driver of a credible carbon reduction journey.
	Reasons for Not Achieving Good Status ('RNAGS')	10%	As part of our Get River Positive approach, we intend to make sure that our CSOs and sewage treatment works do not harm rivers, based on the Environment Agency's RNAGS measures.
Customer	Price Control Deliverables ('PCD')	10%	This Ofwat mechanism is a long-term measure of customer performance that holds companies to account for the timely delivery of the outcomes and outputs promised to customers in their respective PR24 Business Plans.
Communities	Social Value	10%	This is the value we contribute to society. Our ambition is to maximise the Social Value we deliver within our communities, whilst still reaching 100,000 people through our Societal Strategy, by tackling the underlying causes and long-term drivers of water poverty.

The grant levels for the 2024 LTIP awards remain unchanged for the CEO, at 200% of base salary. In recognition of the CFO's excellent performance in her first year in role, her wider role remit relative to the former CFO (including the Group Commercial function), and also in anticipation of the largest ever capital investment programme over the next five years, the Committee has approved an increase to the maximum LTIP opportunity for the CFO from 150% to 175% of salary.

Further details can be found on pages 172 and 180-181 in the Severn Trent Plc Annual Report and Accounts.

Assessment of performance in the round

In overseeing remuneration outcomes, the Committee ensures that performance is assessed in the round and over time through a number of lenses, incorporating a variety of stakeholder perspectives. This assessment examines whether formulaic incentive outcomes are justifiable and explainable 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.

Through its strong operational, environmental and financial performance in 2023/24, the Company has demonstrated again that it is one of the sector's leading performers, as follows:

- over three-quarters of Outcome Delivery Incentive ('ODI') measures are green, including those that measure leakage, blockages and water quality complaints;
- the Company has delivered its biggest ever year of capital investment at £1.2 billion;

- we are the only company in the sector to achieve EPA 4* in the Environment Agency's ('EA') annual assessment for four consecutive years, and we are highly confident in achieving it for a fifth consecutive year; and
- in the first year of our Societal Strategy, the Company has supported around 9,000 people and generated more than £2 million of measurable Social Value.

The Committee believes that the formulaic 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.

As noted above, the Committee determined it was appropriate to apply downward discretion to the CEO's annual bonus in relation to the pollution incident at Barlaston, which occurred in the 2019/20 performance year. Details of this, and the Committee's full assessment of performance in the round, can be found on pages 170 and 173 of the Severn Trent Plc Annual Report and Accounts.

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, the Executive Directors have continued to build significant shareholdings (1,227% for the CEO and 363% for the CFO) and have retained, except in the case of statutory tax and National Insurance deductions, all Severn Trent Plc shares acquired as a result of discretionary awards vesting or options being exercised under the Severn Trent Plc share plans. The Executive Directors have also increased their shareholdings further through personal share purchases. Further details can be found in the 2023/24 Severn Trent Plc Annual Report and Accounts.

Directors' report

The Directors' Report for the year ended 31 March 2024 comprises pages 154 to 157 of this report, together with the sections of the Annual Report incorporated by reference. The Governance Report set out on pages 120 to 153 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 3 to 119, as the Board considers them to be of strategic importance.

Specifically, these are:

- the Performance Review on pages 22 to 64, which provides detailed information relating to the Group, its business model and
- strategy, operation of its businesses, future developments, and the results and financial position for the year ended 31 March 2024;
- future business developments (throughout the Strategic Report);
- details of the Group's policy on addressing the Principal Risks and uncertainties facing the Group, which are set out in the Strategic Report on pages 73 to 86;
- information on the Group's greenhouse gas ('GHG') emissions for the year ended 31 March 2024 on pages 59 to 62;
- how we have engaged with our people and stakeholders on pages 96 to 110;
- business relationships (throughout the Strategic Report); and
- the Section 172 Statement on pages 111 to 116.

Principal activity

The principal activity of the Company is to treat and provide water and remove wastewater in the UK. Details of the principal subsidiary undertakings of the Company as at 31 March 2024 are shown in note 19 to the financial statements.

Dividends

The Board has considered a range of factors in recommending our dividend this year, including the Company's performance delivery for customers and the environment, both now and over time, the broader performance of the Company and the long-term financial resilience of the Company. You can read more about the process that the Board undertook to assess the Company's performance in the round in the Severn Trent Water Limited Annual Performance Report. The amounts paid in dividends during the year was £300 million (2022/23: £428 million). Furthermore, information relating to the payment of dividends can be found in note 13 to the financial statements.

Areas of operation

During the course of 2023/24, 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 128 to 129. Details of Directors' service contracts are set out in the Directors' Remuneration Report from page 147. 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 33 to 37.

Employee engagement
Due to our commitment to transparent and best practice reporting, we have included the sections on our people on pages 33 to 38 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 101 to 103 also 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 98 to 116 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 65 to 72.

Post balance sheet events
Details of post balance sheet events are set out in note 40 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 29 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 £5,135,000, including donations and funding made through our Community Fund and Trust (2022/23: £5,603,000). Donations are principally given to charities whose projects align closely with our aim to promote the responsible use of water resources and wastewater 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 2024, the average time to pay for Severn Trent Water Limited was 33 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 2023/24 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 2023/24 and pages 57 to 64 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.

By order of the Board

Olivia Garfield
Chief Executive Officer
10 July 2024

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 10 July 2024 and is signed on its behalf by order of the Board:

Olivia Garfield
Chief Executive Officer
10 July 2024

Helen Miles
Chief Financial Officer
10 July 2024

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 2024 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 43 of the 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; and • classification of capital programme expenditure. Within this report, key audit matters are identified as follows: Similar level of risk to our audit for the year ended 31 March 2023
Materiality	The materiality used for the Group financial statements was £19.0m (2023: £17.5m) which was determined based on 3.8% (2023: 3.6%) of profit before interest and tax (PBIT).
Scoping	Our scoping has resulted in 95% (2023: 97%) of Group net assets, 100% (2023: 100%) of Group revenue and 97% (2023: 99%) of Group profit before interest and tax being subject to audit testing.
Significant changes in our approach	There are no significant changes in our audit approach when compared to our audit for the year ended 31 March 2023.

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 level of committed undrawn facilities including the £1billion revolving credit and bilateral facilities, the level of cash held by the Group (£426.1m at 31 March 2024) and the sufficiency of headroom available in the forecasts (cash and covenants);
- assessing the assumptions used in the cash flow forecasts for consistency with Board approved budgets and future plans for the remainder of Asset Management Plan ("AMP") 7 and AMP 8 together with reviewing the sensitivity analysis relating to these assumptions;
- testing the arithmetical accuracy of the model used to prepare the cash flow forecasts including obtaining an understanding of relevant controls over management's model and assessing the sophistication of the model used to prepare the forecasts;
- evaluating historical accuracy of forecasts prepared by management;
- 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 the Group's disclosure concerning the going concern basis.

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

Key audit matter description	The Group 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. The directors make estimates regarding the expected future loss rate for current receivables when calculating the appropriate level of bad debt provision. As at 31 March 2024, the provision recorded was £129.3m (2023: £127.6m) which incorporates the directors' 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 the Group's trade receivables balance based on the historical cash collection of debt invoiced seven to nine years ago, which is considered by the directors to be representative of collection risk on the 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 Real Household Disposable Income (RHDI). 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 movements in RHDI 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 risk for fraud through possible manipulation of this balance. The bad debt provision is discussed in note 2(p) and note 21 to the financial

	statements. The directors have included this as a source of estimation uncertainty in note 4(b) 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; • validating the completeness and accuracy of the data included within the bad debt provision calculation; • validating 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 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 the Group's bad debt provision has been appropriately calculated using relevant data, in accordance with IFRS 9.

5.2. Classification of capital programme expenditure

Key audit matter description	The Group 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 risk for fraud through possible manipulation of this balance. During the year, the Group has invested £1,390.4 million (2023: £868.1 million) in capital expenditure projects. The Group spent a further £203.3 million (2023: £223.2 million) on infrastructure maintenance expenditure.

	Further details regarding infrastructure assets are included within the critical accounting judgements note in note 4(a) 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: • testing the relevant controls related to classification of capital programme expenditure, including 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; • reviewing management's capitalisation and implementation guidance to understand any changes in the current year and to determine compliance with the relevant accounting standards; 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	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 materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£19.0 million (2023: £17.5 million)	£18.0 million (2023: £16.0 million)
Basis for determining materiality	The current year materiality has been determined on the basis of 3.8% (2023: 3.6%) of profit before interest and tax.	The current year materiality has been determined on the basis of 3.5% (2023: 3.1%) 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 and is consistent with the benchmark used by management to measure the Group and parent company's performance.	

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% (2023: 70%) of Group materiality	70% (2023: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • the quality of the control environment and whether we were able to rely on controls in certain areas of the Group's businesses; and • the nature and number of uncorrected misstatements identified in previous audits.	

6.3. Error reporting threshold

We agreed with the Severn Trent Plc Audit and Risk Committee that we would report to the Committee all audit differences in excess of £1.0 million (2023: £0.9 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Severn Trent Plc 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 scope audits using component materiality of £18.0 million (2023: £16.0 million) and £17.1 million (2023: £15.4 million), respectively and together account for 95% (2023: 97%) of the group's net assets, 100% (2023: 100%) of revenue and 97% (2023: 99%) 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 on 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, classification of capital programme expenditure and procure to pay 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 84, 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 as set out in note 2 of the financial statements.

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 climate change specialists, we:

- evaluated the financial statement disclosures to assess whether climate risk assumptions underpinning specific account balances were appropriately disclosed; and
- read the climate change-related statements (as disclosed in the Strategic Report) and considered whether the information included in the narrative reporting is materially consistent with the financial statements and our knowledge obtained in the audit.

8 Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9 Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10 Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11 Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, the directors and the Severn Trent Plc 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;
  - 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, climate change, valuations, pensions, treasury and IT specialists 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 risk for fraud in the following areas:

- valuation of the provision of household trade receivables; and
- classification of capital programme expenditure.

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

We identified the valuation of the provision of household 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 Severn Trent Plc Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat, and other regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12 Opinions on other matters prescribed by the Companies Act 2006

In our opinion, 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 94;
- 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 87 to 94;
- the directors' statement on fair, balanced and understandable set out on page 159;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 78 to 86; and
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 76 to 77.

As disclosed on page 124, 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 company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Jacqueline Holden FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

10 July 2024

Severn Trent Water Limited
Group Income Statement

For the year ended 31 March 2024

	Note	2024 £m	2023 £m
Turnover	5	**2,122.0**	1,965.9
Operating costs before charge for bad and doubtful debts	6	**(1,599.4)**	(1,460.1)
Charge for bad and doubtful debts		**(26.2)**	(23.1)
Total operating costs	6	**(1,625.6)**	(1,483.2)
Profit before interest and tax		**496.4**	482.7
Finance income	9	**94.2**	84.9
Finance costs	10	**(391.5)**	(440.2)
Net finance costs		**(297.3)**	(355.3)
Net gains on financial instruments	11	**58.7**	61.6
Profit on ordinary activities before taxation		**257.8**	189.0
Current tax	12	**(0.3)**	0.5
Deferred tax	12	**(52.4)**	(33.8)
Taxation on profit on ordinary activities		**(52.7)**	(33.3)
Profit for the year		**205.1**	155.7

Severn Trent Water Limited
Group and Company Statement of Comprehensive Income
For the year ended 31 March 2024

		Group		Company	
		2024	2023	**2024**	2023
	Note	**£m**	£m	**£m**	£m
Profit for the year		**205.1**	155.7	**168.4**	126.2
Other comprehensive income/(loss)					
Items that will not be reclassified to the income statement:					
Net actuarial gains/(losses)	27	**16.4**	(241.2)	**16.4**	(241.2)
Deferred tax on net actuarial gains/losses	12	**(4.1)**	60.3	**(4.1)**	60.3
		12.3	(180.9)	**12.3**	(180.9)
Items that may be reclassified to the income statement:					
Losses on cash flow hedges		**(5.9)**	(4.8)	**(5.9)**	(4.8)
Deferred tax on losses on cash flow hedges	12	**1.5**	1.2	**1.5**	1.2
Amounts on cash flow hedges transferred to the income statement	11	**18.6**	4.9	**18.6**	4.9
Deferred tax on transfer to the income statement	12	**(4.6)**	(1.2)	**(4.6)**	(1.2)
		9.6	0.1	**9.6**	0.1
Other comprehensive income/(loss) for the year		**21.9**	(180.8)	**21.9**	(180.8)
Total comprehensive income/(loss) for the year		**227.0**	(25.1)	**190.3**	(54.6)

Severn Trent Water Limited
Group Statement of Changes in Equity

For the year ended 31 March 2024

		Equity attributable to owners of the Group						
	Note	Share capital £m	Share premium £m	Hedging reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 April 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	27	–	–	–	(241.2)	(241.2)	–	(241.2)
Deferred tax on net actuarial losses	12	–	–	–	60.3	60.3	–	60.3
Losses on cash flow hedges		–	–	(4.8)	–	(4.8)	–	(4.8)
Deferred tax on losses 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	36	–	–	–	9.2	9.2	–	9.2
Deferred tax on share based payments	12	–	–	–	0.2	0.2	–	0.2
Reserves transfer		–	–	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
Profit for the year		–	–	–	205.1	205.1	–	205.1
Net actuarial gains	27	–	–	–	16.4	16.4	–	16.4
Deferred tax on net actuarial gains	12	–	–	–	(4.1)	(4.1)	–	(4.1)
Losses on cash flow hedges		–	–	(5.9)	–	(5.9)	–	(5.9)
Deferred tax on losses on cash flow hedges	12	–	–	1.5	–	1.5	–	1.5
Amounts on cash flow hedges transferred to the income statement	11	–	–	18.6	–	18.6	–	18.6
Deferred tax on transfer to the income statement	12	–	–	(4.6)	–	(4.6)	–	(4.6)
Total comprehensive income for the year		–	–	9.6	217.4	227.0	–	227.0
Share options and LTIPs	36	–	–	–	7.6	7.6	–	7.6
Deferred tax on share based payments	12	–	–	–	(5.7)	(5.7)	–	(5.7)
Proceeds from shares issued	29	600.0	–	–	–	600.0	–	600.0
Dividends paid	13	–	–	–	(300.0)	(300.0)	–	(300.0)
At 31 March 2024		**601.3**	**249.7**	**9.2**	**1,968.1**	**2,828.3**	**10.6**	**2,838.9**

Severn Trent Water Limited
Company Statement of Changes in Equity

For the year ended 31 March 2024

	Note	Equity attributable to owners of the Company				
		Share capital	Share premium	Hedging reserve	Retained earnings	Total
		£m	£m	£m	£m	£m
At 1 April 2022		1.3	249.7	(26.7)	2,459.1	2,683.4
Profit for the year		–	–	–	126.2	126.2
Net actuarial losses	27	–	–	–	(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 losses 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	36	–	–	–	9.2	9.2
Deferred tax on share based payments	12	–	–	–	0.2	0.2
Reserves transfer		–	–	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
Profit for the year		–	–	–	168.4	168.4
Net actuarial gains	27	–	–	–	16.4	16.4
Deferred tax on net actuarial gains	12	–	–	–	(4.1)	(4.1)
Losses on cash flow hedges		–	–	(5.9)	–	(5.9)
Deferred tax on losses on cash flow hedges	12	–	–	1.5	–	1.5
Amounts on cash flow hedges transferred to the income statement	11	–	–	18.6	–	18.6
Deferred tax on transfer to the income statement	12	–	–	(4.6)	–	(4.6)
Total comprehensive income for the year		–	–	9.6	180.7	190.3
Share options and LTIPs	36	–	–	–	7.6	7.6
Deferred tax on share based payments	12	–	–	–	(5.7)	(5.7)
Proceeds from shares issued	29	600.0	–	–	–	600.0
Dividends paid	13	–	–	–	(300.0)	(300.0)
At 31 March 2024		**601.3**	**249.7**	**9.2**	**1,842.2**	**2,702.4**

Severn Trent Water Limited
Group and Company Balance Sheet
As at 31 March 2024

		Group		Company	
		2024	2023	**2024**	2023
	Note	**£m**	£m	**£m**	£m
Non-current assets					
Goodwill	14	**63.5**	63.5	**1.1**	1.1
Other intangible assets	15	**153.7**	155.1	**149.4**	150.8
Property, plant and equipment	16	**11,300.4**	10,278.2	**11,155.1**	10,129.1
Biological assets	17	**2.6**	–	**2.6**	–
Right-of-use assets	18	**131.2**	120.0	**495.2**	501.4
Investments	19	**1,685.3**	1,603.8	**2,079.0**	1,997.7
Derivative financial instruments	20	**71.2**	82.3	**71.2**	82.3
Trade and other receivables	21	**13.0**	159.9	**101.8**	254.9
		13,420.9	12,462.8	**14,055.4**	13,117.3
Current assets					
Inventory		**13.7**	11.7	**13.7**	11.7
Trade and other receivables	21	**767.9**	712.8	**769.8**	714.6
Current tax receivable		**–**	4.2	**11.5**	13.1
Derivative financial instruments	20	**–**	0.5	**–**	0.5
Cash and cash equivalents		**426.1**	9.4	**425.6**	7.1
		1,207.7	738.6	**1,220.6**	747.0
Current liabilities					
Borrowings	23	**(67.4)**	(312.7)	**(87.7)**	(331.7)
Trade and other payables	25	**(745.6)**	(750.3)	**(736.3)**	(744.8)
Current tax payable		**(1.9)**	–	**–**	–
Provisions for liabilities	28	**(43.0)**	(47.2)	**(43.0)**	(47.2)
		(857.9)	(1,110.2)	**(867.0)**	(1,123.7)
Net current assets/(liabilities)		**349.8**	(371.6)	**353.6**	(376.7)
Total assets less current liabilities		**13,770.7**	12,091.2	**14,409.0**	12,740.6
Non-current liabilities					
Borrowings	23	**(7,700.4)**	(6,759.8)	**(8,660.0)**	(7,716.7)
Derivative financial instruments	24	**(25.6)**	(10.9)	**(25.6)**	(10.9)
Trade and other payables	25	**(1,661.3)**	(1,458.6)	**(1,661.3)**	(1,458.6)
Deferred tax	26	**(1,312.5)**	(1,247.2)	**(1,312.5)**	(1,241.8)
Retirement benefit obligation	27	**(212.1)**	(278.6)	**(27.3)**	(76.3)
Provisions for liabilities	28	**(19.9)**	(26.1)	**(19.9)**	(26.1)
		(10,931.8)	(9,781.2)	**(11,706.6)**	(10,530.4)
Net assets		**2,838.9**	2,310.0	**2,702.4**	2,210.2
Equity					
Called up share capital	29	**601.3**	1.3	**601.3**	1.3
Share premium account	30	**249.7**	249.7	**249.7**	249.7
Hedging reserve	31	**9.2**	(0.4)	**9.2**	(0.4)
Retained earnings		**1,968.1**	2,048.8	**1,842.2**	1,959.6
Equity attributable to owners of the company		**2,828.3**	2,299.4	**2,702.4**	2,210.2
Non-controlling interests		**10.6**	10.6	**–**	–
Total equity		**2,838.9**	2,310.0	**2,702.4**	2,210.2

The profit for the year for Severn Trent Water Limited Company is £168.4 million (2023: £126.2 million).

Signed on behalf of the Board who approved the accounts on 10 July 2024.

Christine Hodgson
Chair

Helen Miles
Chief Financial Officer

Company Number 02366686

Severn Trent Water Limited
Group Cash Flow Statement

For the year ended 31 March 2024

	Note	2024 £m	2023 £m
Cash generated from operations	37	**831.9**	748.3
Tax received	37	**9.0**	6.1
Tax paid	37	**–**	(13.9)
Net cash generated from operating activities		**840.9**	740.5
Cash flow from investing activities			
Purchases of property, plant and equipment		**(1,214.9)**	(669.4)
Purchases of intangible assets and goodwill		**(29.0)**	(39.7)
Proceeds on disposal of property, plant and equipment		**4.6**	11.8
Net loans repaid by related parties		**154.5**	71.7
Interest received		**13.8**	7.5
Net cash outflow from investing activities		**(1,071.0)**	(618.1)
Cash flow from financing activities			
Interest paid		**(237.3)**	(205.4)
Interest element of lease payments		**(3.9)**	(3.5)
Principal elements of lease payments		**(9.1)**	(11.4)
Dividends paid to shareholders of the parent		**(300.0)**	(428.0)
Payments for swap terminations		**(4.4)**	(11.1)
Repayments of borrowings		**(599.5)**	(880.5)
New loans raised		**1,204.4**	1,351.4
Issue of shares		**600.0**	–
Net cash inflow/(outflow) from financing activities		**650.2**	(188.5)
Net movement in cash and cash equivalents		**420.1**	(66.1)
Net cash at the beginning of the year		**4.0**	70.1
Net cash and cash equivalents at the end of the year		**424.1**	4.0
Cash and cash equivalents		**0.6**	9.4
Bank overdrafts		**(2.0)**	(5.4)
Short term deposits		**425.5**	–
Net cash and cash equivalents at the end of the year		**424.1**	4.0

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 94) 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 h).

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 adopted International Financial Reporting Standards have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as the parent company financial statements are Companies Act 2006 accounts.

As permitted by FRS 101, the 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 43.

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 material 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.

c) Revenue recognition

Revenue includes turnover and interest income.

Turnover represents the fair value of consideration receivable, excluding value added tax, trade discounts and inter-company sales, in the ordinary course of business for goods and services provided.

Turnover is not recognised until the service has been provided to the customer.

Water and wastewater revenue is recognised when the service is provided and includes an estimate of the amount of mains water and wastewater 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.

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.

Severn Trent Water Limited
Notes to the Group and Company financial statements (continued)

For the year ended 31 March 2024

2 Accounting policies (continued)

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 l) below and carried at cost less accumulated impairment losses. Goodwill is allocated to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes.

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of that operation when determining the gain or loss on disposal of the operation.

2 Accounting policies (continued)

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 l) below).

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Such assets are reviewed for impairment at least annually and where indications of impairment exist.

Development expenditure is capitalised as an intangible asset and written off over its expected useful economic life where the following criteria are met:

- it is technically feasible to create and make the asset available for use or sale;
- there are adequate resources available to complete the development and to use or sell the asset;
- there is the intention and ability to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development cost can be measured reliably.

Research expenditure is expensed when it is incurred.

h) 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.

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

2 Accounting policies (continued)

i) 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.

j) Biological assets and agricultural produce

Biological assets consist of trees held by the Group for the purpose of commercial felling. Agricultural produce consists of felled trees and timber.

Biological assets are recognised when the Group approves the use of the asset in commercial activity and:

- the assets are controlled by the Group;
- where required, the appropriate regulatory authority has approved the commercial felling of the asset; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at fair value less costs to sell on initial recognition. At the end of subsequent periods, biological assets are remeasured to fair value less costs to sell and the gain or loss on remeasurement is included in other income or costs in the income statement.

Biological assets are valued by independent qualified valuers on a quinquennial basis. Between independent valuations, fair values are estimated by management based on the previous quinquennial valuation and movements in market indices.

Agricultural produce is measured at fair value less costs to sell at the point of harvest.

k) Grants and contributions

Grants and contributions received in respect of non-current assets, including certain charges made as a result of new connections to the water and wastewater 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.

2 Accounting policies (continued)

l) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

The discount rate used is based on the Group's cost of capital, adjusted for the risk profiles of individual businesses. For regulated businesses we use the weighted average cost of capital ('WACC') from Ofwat's latest price review adjusted for market changes since this date where appropriate.

Goodwill is tested for impairment annually. Impairment reviews are also carried out if there is an indication that an impairment may have occurred or, where otherwise required, to ensure that non-current assets are not carried above their estimated recoverable amounts.

Impairment losses are recognised in the income statement.

m) 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 l) 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.

n) 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.

o) Loans receivable

Loans receivable are measured at fair value on initial recognition, less issue fee income received where the fee is integral to the yield on the loan. All 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.

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.

2 Accounting policies (continued)

o) Loans receivable (continued)

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.

p) Trade receivables and accrued income

Trade receivables and accrued income are measured at fair value on initial recognition, and subsequently measured at amortised cost using the effective interest rate method, less loss allowance. If there is objective evidence that the asset is impaired, it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense in operating costs.

The 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.

q) Retirement benefits

(i) Defined benefit schemes

The difference between the value of defined benefit pension scheme assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset or obligation.

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices. For scheme assets with no quoted price, the fair value is derived by using quotations from independent third parties or by using applicable valuation techniques at the end of each reporting period. Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability.

Service cost, representing the cost of employee service in the year, is included in operating costs. Net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net obligation.

Changes in the retirement benefit obligation that arise from:

- differences between the return on scheme assets and interest income included in the income statement;
- actuarial gains and losses from experience adjustments; and
- changes in demographic or financial assumptions,

are classified as 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.

(ii) Defined contribution scheme

Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due.

r) Provisions

Provisions are recognised where:

- there is a present obligation as a result of a past event;
- it is probable that there will be an outflow of economic benefits to settle this obligation; and
- a reliable estimate of this amount can be made.

Insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the 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.

2 Accounting policies (continued)

s) Borrowings

The accounting policy for borrowings that are the hedged item in a fair value hedge is set out in note 2 t) and the accounting policy for lease liabilities is set out in note 2 i).

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.

t) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 33 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, energy swaps and interest rate swaps to hedge risks associated with foreign currency, interest rate and energy price fluctuations.

At the inception of each hedge relationship, the Group documents:
- the economic relationship between the hedging instrument and the hedged item;
- 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.

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.

2 Accounting policies (continued)

u) 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.

v) 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

On 9 April 2024, the IASB issued IFRS 18 'Presentation and Disclosure in Financial Statements'. The key new concepts introduced in IFRS 18 relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

IFRS 18 does not impact the recognition or measurement of items in the financial statements.

The new standard is effective for accounting periods commencing on or after 1 January 2027. We will consider the requirements of the new standard in the period up to its implementation, but our initial assessment is that the impact on the Group's financial reporting will not be significant.

At the balance sheet date, no other 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.

In the current year, the Group has applied the amendment to IAS 12 – International tax reform – Pillar Two Model Rules that was effective for accounting periods beginning on or after 1 January 2023. The adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. Further details are set out in note 12 b) to the financial statements.

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 £203.3 million (2023: £233.2 million). Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised and amounted to £209.9 million (2023: £162.3 million).

4 Critical accounting judgments and sources of estimation uncertainty (continued)

a) Critical accounting judgments (continued)

ii) Income from connections to the water and wastewater networks

The Group receives income from developers and domestic customers from new connections to the water and wastewater 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 wastewater 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 £139.4 million (2023: £99.3 million), infrastructure charges amounting to £24.5 million (2023: £21.4 million) and other charges relating to the provision of infrastructure amounting to £20.1 million (2023: £20.2 million).

The Group considers that the purpose of these transactions is to facilitate the ongoing provision of water and wastewater 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 wastewater 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 wastewater 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 has performed an 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 57.

We have considered the impact of the climate change related risks to which the Group is exposed in the preparation of these financial statements, including the consideration of the impact of climate change related risks on management's judgments and estimates, the carrying value of assets and their useful economic lives. 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 h). The average useful life of property, plant and equipment by asset category is detailed as follows:

	Average useful economic life (years)
Land and buildings	42.0
Infrastructure assets	145.0
Fixed plant and equipment	26.0
Moveable plant	13.0

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	(9.2)	11.3
Infrastructure assets	(3.9)	4.8
Fixed plant and equipment	(19.5)	23.9
Moveable plant	(0.7)	0.8

ii) Retirement benefit obligations

Determining the amount of the Group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long-term interest rates, inflation and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made and associated sensitivities are set out in note 27 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 and Company	**2024 £m**	2023 £m
Gross carrying amount	**702.0**	667.6
Provision for bad and doubtful debts	**(129.3)**	(127.6)
Net carrying amount	**572.7**	540.0

Movements in the expected credit loss allowance are as follows:

Group and Company

	2024 £m	2023 £m
At 1 April	**127.6**	128.3
Charge for bad and doubtful debts	**26.2**	23.1
Amounts written off during the year	**(24.5)**	(23.8)
At 31 March	**129.3**	127.6

The average expected credit loss for the outstanding trade receivables and accrued income was 2.14% at 31 March 2024 (2023: 2.25%). 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 £9.8 million (2023: £10.3 million).

5 Revenue from contracts with customers - Group

	2024 £m	2023 £m
Water and wastewater services	**2,066.7**	1,914.6
Renewable energy	**48.4**	48.2
Other services	**6.9**	3.1
Turnover	**2,122.0**	1,965.9
Finance income	**13.6**	8.1
	2,135.6	1,974.0

Revenue from water and wastewater 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 wastewater 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 wastewater 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:

	2024 £m	2023 £m
At 1 April	**1,461.0**	1,332.7
Contributions and grants received	**49.5**	45.1
Assets transferred at no cost	**139.4**	99.3
Amounts released to income statement	**(16.6)**	(16.1)
At 31 March	**1,633.3**	1,461.0

Revenue amounting to £16.6 million (2023: £16.1 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 wastewater networks that were satisfied or partially satisfied in previous years (2023: nil).

Payments for infrastructure charges and other charges relating to connection to the networks occur when the connections are made. The performance obligations, including provision of an ongoing water and wastewater service, are provided over the life of the relevant property.

Revenue from the remaining performance obligations is expected to be recognised as follows:

	2024 £m	2023 £m
In the next year	**16.7**	15.9
Between one and five years	**66.8**	63.6
After more than five years	**1,549.8**	1,381.5
	1,633.3	1,461.0

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:

	2024 £m	2023 £m
Contract liability at 1 April	**146.5**	144.8
Revenue recognised	**(1,521.7)**	(1,394.9)
Cash received	**1,524.2**	1,396.6
Contract liability at 31 March	**149.0**	146.5

6 Net operating costs – Group

	2024 £m	2023 £m
Wages and salaries	**350.2**	284.0
Social security costs	**35.2**	32.2
Pension costs	**33.9**	20.2
Share based payments	**7.6**	9.2
Total employee costs	**426.9**	345.6
Power	**275.8**	198.4
Raw materials and consumables	**96.0**	97.3
Rates	**87.1**	79.8
Charge for bad and doubtful debts	**26.2**	23.1
Service charges	**43.3**	41.0
Depreciation of property, plant and equipment	**366.8**	360.6
Depreciation of right-of-use assets	**3.9**	2.2
Amortisation of intangible assets	**30.4**	29.9
Hired and contracted services	**245.8**	231.1
Hire of plant and machinery	**11.3**	7.8
Profit on disposal of tangible fixed assets	**(3.2)**	(2.3)
Infrastructure maintenance expenditure	**203.3**	233.2
Ofwat licence fees	**7.9**	5.3
Other operating costs	**42.5**	42.9
Other operating income	**(6.0)**	(3.8)
	1,858.0	1,692.1
Own work capitalised	**(232.4)**	(208.9)
	1,625.6	1,483.2

During the year the following fees were charged by the auditor:

	Group and Company	
	2024 £m	2023 £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**	0.2
- other assurance services	**0.1**	0.1
Total non-audit fees	**0.3**	0.3

Other assurance services include certain agreed upon procedures performed by Deloitte in connection with regulatory reporting requirements to Ofwat.

Details of the Group policy on the use of the auditor for non-audit services and how auditor independence and objectivity are safeguarded are set out in the Severn Trent Plc Audit and Risk Committee report within the Severn Trent Plc Annual Report and Accounts 2023/24 on pages 158 and 159. No services were provided pursuant to contingent fee arrangements.

Details of directors' remuneration are set out in the Directors' remuneration report on pages 147 to 153.

7 Employee numbers – Group

Average number of employees (including Executive Directors) during the year:

	Group		Company	
	2024 Number	2023 Number	**2024 Number**	2023 Number
	7,942	6,998	**7,942**	6,998

8 Directors' interests and remuneration – Group and Company

a) Directors' interests

All of the Directors as at the end of the year were 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 2024. 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') and 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 2024.

b) Directors' remuneration

The following table shows the remuneration due to directors for their services to the Company during the year:

	2024 £m	2023 £m
Short term employee benefits	**3.5**	2.8

Short-term employee benefits include executive directors' bonuses that were paid by Severn Trent Plc amounting to £1,064,000 (2023: £574,000).

In 2024 Directors' LTIP remuneration was earned for services to Severn Trent Plc and the charge was therefore borne by that company. In 2023 Directors' LTIP remuneration was earned for services to, and borne by, Severn Trent Water Limited and was disclosed. However, as this disclosure is not required, we have excluded the figures for 2023 from the table above.

The emoluments of the non-executive directors are paid by Severn Trent Plc.

There were no retirement benefits accruing to directors (2023: nil) under a defined benefit scheme and one director (2023: one director) under a defined contribution scheme.

No directors (2023: two directors) exercised share options or received LTIP awards in relation to services to Severn Trent Water Limited.

c) Highest paid director

	2024 £m	2023 £m
Aggregate emoluments (excluding pension contributions)	**1.5**	1.3

In 2023, the table above included LTIP remuneration of the highest paid director for their services to the Company. However, as this disclosure is not required, we have excluded the figures for 2023 from the table above.

The highest paid director at 31 March 2024 and 31 March 2023 was not a member of the defined benefit pension scheme.

9 Finance income - Group

	2024 £m	2023 £m
Interest income earned on:		
Bank deposits	**11.2**	3.0
Amounts due from group undertakings	**0.9**	3.7
Other finance income	**1.5**	1.4
Total interest receivable	**13.6**	8.1
Interest income on defined benefit scheme assets	**80.6**	76.8
	94.2	84.9

10 Finance costs - Group

	2024 £m	2023 £m
Interest expense charged on:		
Bank loans and overdrafts	**27.1**	33.5
Other loans	**266.5**	322.5
Lease liabilities	**3.9**	3.5
Total borrowing costs	**297.5**	359.5
Interest cost on defined benefit scheme liabilities	**94.0**	80.7
	391.5	440.2

Borrowing costs of £68.1 million (2023: £54.7 million) incurred funding eligible capital projects have been capitalised at an interest rate of 4.1% (2023: 5.9%). Tax relief of £17.0 million (2023: £10.3 million) was claimed on these costs which has created tax losses carried forward, offset by a related deferred tax charge of £17.0 million (2023: £13.6 million).

11 Net gains on financial instruments - Group

	2024 £m	2023 £m
Loss on swaps used as hedging instruments in fair value hedges	**(15.5)**	(1.3)
Gain/(loss) arising on debt in fair value hedges	**15.6**	(0.3)
Exchange gain/(loss) on other loans	**2.8**	(7.4)
Net loss on cash flow hedges transferred from equity	**(18.6)**	(4.9)
Hedge ineffectiveness on cash flow hedges	**0.7**	(1.3)
(Loss)/gain arising on swaps where hedge accounting is not applied	**(9.0)**	35.7
Amortisation of fair value adjustment on debt	**1.2**	1.2
Gain on revaluation of investment	**81.5**	39.9
	58.7	61.6

The gains from financial assets and liabilities mandatorily measured at fair value through profit or loss were £57.0 million (2023: gains of £74.3 million). There were no financial assets or liabilities designated as at fair value through the profit or loss (2023: nil).

The Group's hedge accounting arrangements are described in note 35.

Severn Trent Water Limited
Notes to the Group and Company financial statements (continued)
For the year ended 31 March 2024

12 Taxation – Group

a) Analysis of tax charge in the year

	2024 £m	2023 £m
Current tax		
Current year at 25% (2023: 19%)	**(3.7)**	(2.6)
Prior years	**4.0**	2.1
Total current tax charge/(credit)	**0.3**	(0.5)
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**51.9**	35.2
Prior years	**0.5**	(1.4)
Total deferred tax	**52.4**	33.8
	52.7	33.3

b) Factors affecting the tax charge in the year

The Group tax charge for the current year is lower (2023: lower) than the standard rate of corporation tax in the UK of 25% (2023: 19%). The differences are explained below:

	2024 £m	2023 £m
Profit before taxation	**257.8**	189.0
Tax at standard rate of corporation tax in the UK 25% (2023: 19%)	**64.5**	35.9
Tax effect of depreciation on non-qualifying assets	**4.0**	1.7
Permanent impact of super deduction	–	(4.8)
Other permanent differences	**(20.3)**	(8.7)
Current year impact of rate change	–	8.5
Adjustments in respect of prior years	**4.5**	0.7
Total tax charge	**52.7**	33.3

The Group current tax charge is lower (2023: lower) than the standard rate of corporation tax in the UK of 25% (2023: 19%). The differences are explained below:

	2024 £m	2023 £m
Profit before taxation	**257.8**	189.0
Tax at standard rate of corporation tax in the UK 25% (2023: 19%)	**64.5**	35.9
Tax effect of depreciation on non-qualifying assets	**4.0**	1.7
Permanent impact of super deduction	–	(4.8)
Other permanent differences	**(20.3)**	(8.7)
Tax effect of accelerated capital allowances	**(210.4)**	(37.7)
Other temporary differences	**(8.3)**	11.0
Tax losses carried forward	**166.8**	–
Adjustments in respect of prior years	**4.0**	2.1
Total current tax charge/(credit)	**0.3**	(0.5)

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.

At the Spring Budget 2023, the Government replaced the super deduction regime with 'full expensing' for 3 years from 1 April 2024, giving an in-year capital allowance of 100% on the cost of qualifying plant and machinery. In the Autumn Statement on 22 November 2023, the Government made this change permanent with a 100% first year allowance for main rate assets and 50% first year allowance for special rate (including long life) assets. The impact of the full expensing changes meant that the Group was eligible to claim significant capital allowances to the extent that the Group was not liable to pay corporation tax for the year.

12 Taxation - Group (continued)

b) Factors affecting the tax charge in the year (continued)

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.

Other permanent differences comprise expenditure that is not deductible for tax purposes or income that is not taxable. The main factor driving the £20.3m (2023: £8.7m) is the gain on revaluation of investment which is not taxable for tax purposes.

Other temporary differences comprise items other than depreciation of property, plant and equipment where the amount is included in the tax computation in a different period from when it is recognised in the income statement. Deferred tax is provided on these items.

The amounts included for tax assets in the financial statements include estimates and judgments relating to uncertain tax positions. If the computations subsequently submitted to HMRC include different amounts then these differences are reflected as an adjustment in respect of prior years in the subsequent financial statements.

Deferred tax is provided at 25%, the rate that is expected to apply when the asset or liability is expected to be settled. Further details are provided in note 26.

As part of the Organisation for Economic Co-operation and Development ('OECD')/G20 Base Erosion and Profit Shifting ('BEPS') project, the OECD has introduced the Pillar Two Model Rules. The company is part of the Severn Trent Group which is within the scope of these OECD Pillar Two model rules. Disclosures required by the FRS are included in the consolidated financial statements available on our corporate website.

c) Tax charged/(credited) directly to other comprehensive income or equity

In addition to the amount charged to the income statement, the following amounts of tax have been charged/(credited) directly to other comprehensive income or equity:

	2024	2023
	£m	£m
Deferred tax		
Actuarial losses/gains	**4.1**	(60.3)
Cash flow hedges	**(1.5)**	(1.2)
Share based payments	**5.7**	(0.2)
Transfers to the income statement	**4.6**	1.2
Total deferred tax charged/(credited) to other comprehensive income or equity	**12.9**	(60.5)

13 Dividends – Group and Company

Amounts recognised as distributions to equity holders in the period:

	2024		2023	
	Pence per share	**£m**	Pence per share	£m
Interim dividend for the year ended 31 March	**24.0**	**300.0**	34.2	428.0

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.

	2024 **£m**	2023 £m
Regulated Water and Wastewater	**63.5**	63.5

The Group also has an intangible asset with indefinite useful life amounting to £4.3 million (2023: £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. On 31 March 2022, the date of disposal of Hafren Dyfrdwy from the Group, the business that the goodwill related to was partly in Severn Trent Water and partly in Hafren Dyfrdwy. On this date 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 2029.

The key assumptions underlying these projections are the cash flows in the projections and the following:

	%
Discount rate	5.3
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 WACC 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 5.3%.

Inflation has been included in the detailed projections at 2.0% for CPI based on the Bank of England's target rate for CPI.

Cash flows beyond the end of the five-year period are extrapolated using an assumed real growth rate of 1.5% in the Group's regulatory capital base, based on past experience.

The fair value less costs to sell for the Group exceeded its carrying value by £2,132.5 million. An increase in the discount rate to 5.6% or a reduction in the growth rate in the period beyond the detailed projections to 1.2% would reduce the recoverable amount to the carrying amount of the Group.

15 Other intangible assets

Group

	Computer software				
	Internally generated	Purchased	Capitalised development costs and patents	Other intangible assets	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2022	317.9	180.4	1.3	4.3	503.9
Additions	21.8	12.2	–	5.7	39.7
At 1 April 2023	339.7	192.6	1.3	10.0	543.6
Additions	23.3	5.7	–	–	29.0
At 31 March 2024	**363.0**	**198.3**	**1.3**	**10.0**	**572.6**
Amortisation					
At 1 April 2022	(232.4)	(126.2)	–	–	(358.6)
Amortisation for the year	(23.6)	(6.2)	(0.1)	–	(29.9)
At 1 April 2023	(256.0)	(132.4)	(0.1)	–	(388.5)
Amortisation for the year	(20.8)	(9.6)	–	–	(30.4)
At 31 March 2024	**(276.8)**	**(142.0)**	**(0.1)**	**–**	**(418.9)**
Net book value					
At 31 March 2024	**86.2**	**56.3**	**1.2**	**10.0**	**153.7**
At 31 March 2023	83.7	60.2	1.2	10.0	155.1

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 Wastewater cash-generating unit described in note 14.

Company

	Computer software				
	Internally generated	Purchased	Capitalised development costs and patents	Other intangible assets	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2022	317.9	180.4	1.3	–	499.6
Additions	21.8	12.2	–	5.6	39.6
At 1 April 2023	339.7	192.6	1.3	5.6	539.2
Additions	23.3	5.7	–	–	29.0
At 31 March 2024	**363.0**	**198.3**	**1.3**	**5.6**	**568.2**
Amortisation					
At 1 April 2022	(232.4)	(126.1)	–	–	(358.5)
Amortisation for the year	(23.6)	(6.2)	(0.1)	–	(29.9)
At 1 April 2023	(256.0)	(132.3)	(0.1)	–	(388.4)
Amortisation for the year	(20.8)	(9.6)	–	–	(30.4)
At 31 March 2024	**(276.8)**	**(141.9)**	**(0.1)**	**–**	**(418.8)**
Net book value					
At 31 March 2024	**86.2**	**56.4**	**1.2**	**5.6**	**149.4**
At 31 March 2023	83.7	60.3	1.2	5.6	150.8

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 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 1 April 2023	4,148.3	6,023.4	5,298.0	79.0	1,200.3	16,749.0
Additions	60.0	179.9	136.7	20.4	993.4	1,390.4
Transfers on commissioning	59.4	30.0	140.4	0.8	(230.6)	–
Disposals	(0.7)	–	(0.6)	(5.6)	(0.8)	(7.7)
At 31 March 2024	**4,267.0**	**6,233.3**	**5,574.5**	**94.6**	**1,962.3**	**18,131.7**
Depreciation						
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 1 April 2023	(1,707.1)	(1,506.2)	(3,212.2)	(45.3)	–	(6,470.8)
Charge for the year	(101.7)	(43.0)	(214.8)	(7.3)	–	(366.8)
Disposals	0.6	–	0.5	5.2	–	6.3
At 31 March 2024	**(1,808.2)**	**(1,549.2)**	**(3,426.5)**	**(47.4)**	**–**	**(6,831.3)**
Net book value						
At 31 March 2024	**2,458.8**	**4,684.1**	**2,148.0**	**47.2**	**1,962.3**	**11,300.4**
At 31 March 2023	2,441.2	4,517.2	2,085.8	33.7	1,200.3	10,278.2

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £139.4 million (2023: £99.3 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 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 1 April 2023	3,924.0	6,023.4	5,293.9	79.0	1,200.3	16,520.6
Additions	60.0	179.9	136.7	20.4	993.4	1,390.4
Transfers on commissioning	59.4	30.0	140.4	0.8	(230.6)	–
Disposals	(0.7)	–	(0.6)	(5.6)	(0.8)	(7.7)
At 31 March 2024	**4,042.7**	**6,233.3**	**5,570.4**	**94.6**	**1,962.3**	**17,903.3**
Depreciation						
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 1 April 2023	(1,630.9)	(1,505.2)	(3,210.1)	(45.3)	–	(6,391.5)
Charge for the year	(97.9)	(43.0)	(214.8)	(7.3)	–	(363.0)
Disposals	0.6	–	0.5	5.2	–	6.3
At 31 March 2024	**(1,728.2)**	**(1,548.2)**	**(3,424.4)**	**(47.4)**	**–**	**(6,748.2)**
Net book value						
At 31 March 2024	**2,314.5**	**4,685.1**	**2,146.0**	**47.2**	**1,962.3**	**11,155.1**
At 31 March 2023	2,293.1	4,518.2	2,083.8	33.7	1,200.3	10,129.1

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £139.4 million (2023: £99.3 million).

The net book value of land and buildings is analysed as follows:

Group

	2024	2023
	£m	£m
Freehold	**2,458.5**	2,440.9
Short leasehold	**0.3**	0.3
	2,458.8	2,441.2

Company

	2024	2023
	£m	£m
Freehold	**2,314.2**	2,292.8
Short leasehold	**0.3**	0.3
	2,314.5	2,293.1

17 Biological assets – Group and Company

Biological assets comprise forestry assets situated at the Upper Derwent Valley. The forests were valued by RICS Registered Valuers, Knight Frank LLP in December 2022. These valuations were updated to the recognition date using the Standing Timber Index published by Forest Research according to arrangements approved by the UK Statistics Authority. Forest Research is the research agency of the Forestry Commission and is Great Britain's principal organisation for forestry and tree-related research.

	2024	2023
	£m	£m
Value at 1st April	**–**	–
Gain on initial recognition	**2.6**	–
Value at 31st March	**2.6**	–

The Group holds 332.1 hectares (2023: nil) of forestry assets.

18 Leases

a) The Group's leasing activities

The Group and Company lease 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 i).

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 2024:

		Group
	2024	2023
	£m	£m
Depreciation charge of right-of-use assets:		
Land and buildings	**0.2**	0.2
Infrastructure assets	**1.1**	1.2
Fixed plant and equipment	**0.2**	0.2
Moveable plant	**2.4**	0.6
Total depreciation of right-of-use assets	**3.9**	2.2
Interest expense included in finance cost	**3.9**	3.5

c) Balance sheet

The balance sheet includes the following amounts relating to leases:

		Group		**Company**
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Right-of-use assets:				
Land and buildings	**5.2**	4.8	**148.6**	151.9
Infrastructure assets	**109.2**	110.3	**329.8**	344.6
Fixed plant and equipment	**3.2**	3.4	**2.9**	3.1
Moveable plant	**13.6**	1.5	**13.9**	1.8
	131.2	120.0	**495.2**	501.4

Additions to right-of-use assets for the Group were £15.1 million (2023: £2.3 million) and for the Company were £15.1 million (2023: £2.3 million).

18 Leases (continued)

c) Balance sheet (continued)

	Group		Company	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Lease liabilities:				
Current	**11.1**	7.3	**31.4**	26.3
Non-current	**98.1**	95.9	**477.6**	496.4
	109.2	103.2	**509.0**	522.7

Obligations under lease liabilities are as follows:

	Group		Company	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Within 1 year	**15.6**	11.0	**49.5**	44.1
1 - 2 years	**16.3**	11.5	**50.2**	44.7
2 - 5 years	**53.8**	37.8	**155.5**	137.2
After more than 5 years	**57.1**	71.6	**384.2**	434.9
Gross obligations under finance leases	**142.8**	131.9	**639.4**	660.9
Less: future finance charges	**(33.6)**	(28.7)	**(130.4)**	(138.2)
Present value of lease obligations	**109.2**	103.2	**509.0**	522.7

Net obligations under leases were as follows:

	Group		Company	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Within 1 year	**11.1**	7.3	**31.4**	26.3
1 - 2 years	**11.8**	8.0	**32.7**	27.5
2 - 5 years	**38.5**	28.5	**104.6**	90.4
After more than 5 years	**47.8**	59.4	**340.3**	378.5
Included in non-current liabilities	**98.1**	95.9	**477.6**	496.4
	109.2	103.2	**509.0**	522.7

d) Cash flow

The Group's total cash outflow for leases in the year was £13.0 million (2023: £14.9 million) which consists of £3.9 million (2023: £3.5 million) payment of interest and £9.1 million (2023: £11.4 million) repayment of principal elements.

19 Investments

	Group			Company
	Other investments £m	Subsidiaries £m	Other investments £m	Total £m
At 1 April 2023	1,603.8	393.9	1,603.8	1,997.7
Gain/(loss) on revaluation	81.5	(0.2)	81.5	81.3
At 31 March 2024	**1,685.3**	**393.7**	**1,685.3**	**2,079.0**

The Company has the following subsidiary undertakings:

Subsidiary undertaking	Country of operation and incorporation	Principal activity	Percentage and class of share capital held
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
East Worcester Water Limited	England and Wales	Finance company	100% ordinary and 100% non-voting
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 Group and Company have 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.

20 Categories of financial assets - Group

	Note	2024 £m	2023 £m
Fair value through profit and loss			
Cross currency swaps - not hedge accounted		**12.9**	20.5
Investments		**1,685.3**	1,603.8
Inflation swaps - not hedge accounted		**8.8**	7.3
		1,707.0	1,631.6
Derivatives designated as hedging instruments			
Cross currency swaps - fair value hedges		**10.2**	14.0
Interest rate swaps - cash flow hedges		**39.2**	40.5
Energy hedges - cash flow hedges		**0.1**	0.5
		49.5	55.0
Total financial assets at fair value		**1,756.5**	1,686.6
Financial assets at amortised cost			
Trade receivables	21	**286.1**	254.2
Accrued income	21	**286.6**	285.8
Other amounts receivable	21	**84.0**	64.9
Amounts due from parent company	21	**–**	154.5
Amounts due from group undertakings	21	**87.5**	86.0
Short-term deposits		**425.5**	–
Cash at bank and in hand		**0.6**	9.4
Total financial assets at amortised cost		**1,170.3**	854.8
Total financial assets		**2,926.8**	2,541.4
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		**71.2**	82.3
Trade and other receivables		**5.3**	154.5
Investments		**1,685.3**	1,603.8
		1,761.8	1,840.6
Current assets			
Derivative financial assets		**–**	0.5
Trade and other receivables		**738.9**	690.9
Cash and cash equivalents		**426.1**	9.4
		1,165.0	700.8
		2,926.8	2,541.4

21 Trade and other receivables

	Group		Company	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Current assets				
Net trade receivables	**286.1**	254.2	**286.1**	254.2
Other amounts receivable	**78.7**	64.9	**78.7**	64.9
Prepayments	**29.0**	21.9	**29.0**	21.9
Net accrued income	**286.6**	285.8	**286.6**	285.8
Receivables due from group undertakings	**87.5**	85.8	**88.6**	86.8
Receivables due from group undertakings under finance leases	**–**	–	**0.8**	0.8
Receivables due from group undertakings under loan agreements	**–**	0.2	**–**	0.2
	767.9	712.8	**769.8**	714.6
Non-current assets				
Other amounts receivable	**5.3**	–	**–**	–
Prepayments	**7.7**	5.4	**7.7**	5.4
Receivables due from group undertakings under finance leases	**–**	–	**94.1**	95.0
Receivables due from parent company under loan agreements	**–**	154.5	**–**	154.5
	13.0	159.9	**101.8**	254.9
	780.9	872.7	**871.6**	969.5

The carrying values of trade and other receivables are reasonable approximations of their fair values.

e) 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 Plc group 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 (2023: nil).

21 Trade and other receivables (continued)

b) Expected credit loss allowance – trade receivables and accrued income

The expected credit loss at 31 March 2024 and 2023 was as set out below. The expected loss rate disclosed is calculated as the loss allowance as a proportion of the gross carrying amount.

Group and Company

2024	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
	%	**£m**	**£m**	**£m**
Not past due	3	347.3	(10.0)	337.3
Up to 1 year past due	17	111.5	(19.3)	92.2
1 - 2 years past due	29	75.8	(21.7)	54.1
2 - 3 years past due	31	49.1	(15.0)	34.1
3 - 4 years past due	40	34.1	(13.7)	20.4
4 - 5 years past due	41	22.7	(9.4)	13.3
5 - 6 years past due	55	21.8	(11.9)	9.9
6 - 7 years past due	54	15.0	(8.1)	6.9
7 - 8 years past due	71	7.3	(5.2)	2.1
8 - 9 years past due	65	6.6	(4.3)	2.3
More than 9 years past due	99	10.8	(10.7)	0.1
		702.0	**(129.3)**	**572.7**

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

Movements on the expected credit loss allowance were as follows:

Group and Company

	2024 **£m**	2023 £m
At 1 April	**127.6**	128.3
Charge for bad and doubtful debts	**26.2**	23.1
Amounts written off during the year	**(24.5)**	(23.8)
At 31 March	**129.3**	127.6

22 Finance lease receivables - Company

Minimum lease payments receivable are as follows:

	2024 £m	2023 £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	**193.1**	198.9
Gross obligations under finance leases	**221.5**	227.3
Less: unearned interest receivable	**(126.6)**	(131.5)
	94.9	95.8

The present value of minimum lease payments receivable are as follows:

	2024 £m	2023 £m
Within 1 year	**0.8**	0.8
1 - 2 years	**0.9**	0.8
2 - 5 years	**2.9**	2.7
After more than 5 years	**90.3**	91.5
Included in non-current liabilities	**94.1**	95.0
	94.9	95.8

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 (2023: 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% (2023: 5.1%).

23 Borrowings

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Current liabilities				
Bank overdraft	**2.0**	5.4	**2.0**	5.4
Other loans	**54.3**	300.0	**54.3**	300.0
Lease liabilities	**11.1**	7.3	**11.1**	7.3
Lease liabilities payable to other group companies	**–**	–	**20.3**	19.0
	67.4	312.7	**87.7**	331.7
Non-current liabilities				
Bank loans	**498.2**	689.4	**498.2**	689.4
Other loans	**7,104.1**	5,974.5	**1,062.7**	848.0
Loans due to fellow subsidiary undertakings	**–**	–	**6,621.5**	5,682.9
Lease liabilities	**98.1**	95.9	**98.1**	95.9
Lease liabilities payable to other group companies	**–**	–	**379.5**	400.5
	7,700.4	6,759.8	**8,660.0**	7,716.7
	7,767.8	7,072.5	**8,747.7**	8,048.4

See note 34 for details of interest rates payable and maturity of borrowings.

24 Categories of financial liabilities – Group

	Note	2024 £m	2023 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		**6.2**	–
Interest rate swaps - not hedge accounted		**6.6**	10.0
		12.8	10.0
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**12.8**	0.9
		12.8	0.9
Total derivative financial liabilities		**25.6**	10.9
Other financial liabilities			
Borrowings	23	**7,767.8**	7,072.5
Trade payables	25	**153.2**	113.6
Other payables	25	**15.5**	7.9
Amounts due to parent and fellow subsidiary undertakings	25	**83.8**	86.2
Total other financial liabilities		**8,020.3**	7,280.2
Total financial liabilities		**8,045.9**	7,291.1
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		**25.6**	10.9
Borrowings		**7,700.4**	6,759.8
		7,726.0	6,770.7
Current liabilities			
Borrowings		**67.4**	312.7
Trade payables		**153.2**	113.6
Other payables		**15.5**	7.9
Amounts due to group undertakings		**83.8**	86.2
		319.9	520.4
		8,045.9	7,291.1

25 Trade and other payables

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Current liabilities				
Trade payables	**153.2**	113.6	**153.2**	113.6
Social security and other taxes	**8.8**	7.1	**8.8**	7.1
Other payables	**15.5**	7.9	**10.7**	8.2
Accruals and receipts in advance	**318.6**	373.1	**247.8**	318.0
Contract liabilities	**149.0**	146.5	**149.0**	146.5
Deferred income	**16.7**	15.9	**16.7**	15.9
Amounts owed to parent and fellow subsidiary undertakings	**83.8**	86.2	**150.1**	135.5
	745.6	750.3	**736.3**	744.8
Non-current liabilities				
Accruals and receipts in advance	**44.7**	13.5	**44.7**	13.5
Deferred income	**1,616.6**	1,445.1	**1,616.6**	1,445.1
	1,661.3	1,458.6	**1,661.3**	1,458.6
	2,406.9	2,208.9	**2,397.6**	2,203.4

The Directors consider that the carrying value of trade payables is not materially different from their fair values.

26 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 £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Tax losses £m	Other £m	Total £m
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	(49.3)	5.1	33.8
Credit to equity	–	(60.3)	–	–	(0.2)	(60.5)
At 1 April 2023	1,344.2	(28.0)	(10.2)	(49.3)	(9.5)	1,247.2
Charge/(credit) to income	205.8	15.7	(3.3)	(167.8)	2.0	52.4
Charge to equity	–	4.1	3.1	–	5.7	12.9
At 31 March 2024	**1,550.0**	**(8.2)**	**(10.4)**	**(217.1)**	**(1.8)**	**1,312.5**

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 £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Tax losses £m	Other £m	Total £m
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	(49.3)	5.1	33.8
Credit to equity	–	(60.3)	–	–	(0.2)	(60.5)
At 1 April 2023	1,344.2	(28.0)	(10.2)	(49.3)	(14.9)	1,241.8
Charge/(credit) to income	205.8	15.7	(3.3)	(167.8)	7.4	57.8
Charge to equity	–	4.1	3.1	–	5.7	12.9
At 31 March 2024	**1,550.0**	**(8.2)**	**(10.4)**	**(217.1)**	**(1.8)**	**1,312.5**

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

	2024 £m	2023 £m
Deferred tax asset	**(237.5)**	(97.0)
Deferred tax liability	**1,550.0**	1,344.2
	1,312.5	1,247.2

Company

	2024 £m	2023 £m
Deferred tax asset	**(237.5)**	**(102.4)**
Deferred tax liability	**1,550.0**	**1,344.2**
	1,312.5	**1,241.8**

27 Retirement benefit schemes

a) Defined benefit pension schemes

i) Background

The Group operates a number of defined benefit pension schemes. The Severn Trent Pension Scheme ('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 2024. 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.

ii) Amounts included in the balance sheet arising from the Group's obligations under defined benefit pension schemes

	Group		**Company**	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Fair value of assets	**1,764.8**	1,744.5	**1,949.6**	1,946.8
Present value of the defined benefit obligations	**(1,976.9)**	(2,023.1)	**(1,976.9)**	(2,023.1)
	(212.1)	(278.6)	**(27.3)**	(76.3)
Presented on the balance sheet as:				
Net retirement benefit obligation	**(212.1)**	(278.6)	**(27.3)**	(76.3)

The Schemes' assets were as follows:

	Group		**Company**	
	2024	2023	**2024**	2023
STPS and STMIPS	**£m**	£m	**£m**	£m
Fair value of scheme assets				
Equities	**20.7**	188.4	**20.7**	188.4
Annuity policies*	**83.2**	87.7	**83.2**	87.7
Corporate bonds	**429.8**	237.0	**429.8**	237.0
Liability driven investment funds (LDI)	**872.5**	259.2	**872.5**	259.2
Property	**216.0**	239.6	**216.0**	239.6
Contributions due from Scottish Limited Partnerships	**–**	–	**184.8**	202.3
Cash	**142.6**	732.6	**142.6**	732.6
	1,764.8	1,744.5	**1,949.6**	1,946.8

*In July 2021, the STMIPS Trustees completed the purchase of a bulk annuity contract with JUST, an insurance company, to secure the benefits of all members of the MIPS. The Trustees continue to pay benefits to members as before the transaction, but these cashflows are now matched exactly by income from JUST.

Some of the invested assets have quoted prices in active markets, but there are equities, corporate bonds and LDI investments which are unquoted, amounting to £1,161.5 million (2023: £419.0 million), the increase since the previous year reflects the increased investment in unquoted LDI assets.

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

ii) Amounts included in the balance sheet arising from the Group's obligations under defined benefit pension schemes (continued)

Movements in the fair value of the schemes' assets were as follows:

	Group		Company	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Fair value at 1 April	**1,744.5**	2,595.3	**1,946.8**	2,814.3
Interest income on scheme assets	**80.6**	76.8	**80.6**	76.8
Contributions paid by the group/company	**67.4**	99.8	**39.4**	72.3
Return on plan assets (excluding amounts included in finance income)	**(16.8)**	(899.5)	**(16.8)**	(899.5)
Scheme administration costs	**(3.9)**	(4.0)	**(3.9)**	(4.0)
Benefits paid	**(107.0)**	(123.9)	**(107.0)**	(123.9)
Unwind of discount on contribution due from SLPs	**–**	–	**10.5**	10.8
Fair value at 31 March	**1,764.8**	1,744.5	**1,949.6**	1,946.8

Movements in the present value of the schemes' defined benefit obligations were as follows:

	Group		Company	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Present value at 1 April	**(2,023.1)**	(2,732.9)	**(2,023.1)**	(2,732.9)
Past service credit	**–**	8.3	**–**	8.3
Interest cost	**(94.0)**	(80.7)	**(94.0)**	(80.7)
Actuarial gains/(losses) arising from changes in demographic assumptions	**5.8**	(16.4)	**5.8**	(16.4)
Actuarial gains arising from changes in financial assumptions	**52.6**	730.7	**52.6**	730.7
Actuarial losses arising from experience adjustments	**(25.2)**	(56.0)	**(25.2)**	(56.0)
Benefits paid	**107.0**	123.9	**107.0**	123.9
Present value at 31 March	**(1,976.9)**	(2,023.1)	**(1,976.9)**	(2,023.1)

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.

iii) Amounts recognised in the income statement in respect of these defined benefit schemes

	Group	
	2024	2023
	£m	£m
Amounts (charged)/credited to operating costs		
Past service credit	**–**	8.3
Scheme administration costs	**(3.9)**	(4.0)
	(3.9)	4.3
Amounts charged to finance costs		
Interest cost	**(94.0)**	(80.7)
Amounts credited to finance income		
Interest income on scheme assets	**80.6**	76.8
Total amount (charged)/credited to the income statement	**(17.3)**	0.4

The actual return on scheme assets was a gain of £63.8 million (2023: loss of £822.7 million).

Actuarial gains and losses have been reported in the statement of comprehensive income.

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)
iv) Actuarial risk factors

The schemes typically expose the Group to actuarial risks such as investment risk, inflation risk and longevity risk for so long as the benefits are not insured.

Investment risk

The Group's contributions to the schemes are based on actuarial calculations which make assumptions about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long term then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

Each scheme’s investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach, reference is made to both the maturity of the liabilities and the funding level of that scheme. A number of further strategies are employed to manage underlying risks, including liability-matching asset strategies, diversification of asset portfolios and interest rate hedging.

Currently the STPS has a balanced approach to investment in equity securities, debt instruments and real estate. Due to the long-term nature of the scheme liabilities, the Group and the STPS Trustees consider it appropriate to invest a portion of the scheme assets in equity securities and in real estate to leverage the return generated by the fund, but has reduced this allocation over the year. The STMIPS is now primarily invested in bulk annuity insurance contracts with JUST with a small residual amount of invested assets remaining.

Inflation risk

The benefits payable to members of the schemes are linked to inflation measured by the RPI or CPI, subject to caps. The Group's contributions to the schemes are based on assumptions about the future level of inflation. If inflation is higher than the levels assumed in the actuarial calculations then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

The schemes use LDIs within the asset portfolios to hedge against the value of liabilities changing as a result of movements in long-term interest rate and inflation expectations. This structure allows the schemes to both hedge against these risks and retain capital investment in assets that are expected to generate higher returns.

Longevity risk

The Group's contributions to the schemes are based on assumptions about the life expectancy of scheme members after retirement. If scheme members live longer than assumed in the actuarial calculations then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

Benefit risk

The Group is aware of a case involving Virgin Media and NTL Pension Trustee, which could potentially lead to additional liabilities for some pension schemes and sponsors, including (if applicable) the Group. This case is subject to appeal and the impact (if any) is not known and will be assessed if relevant in future.

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:

	2024	2023
	% pa	% pa
Price inflation – RPI	**3.2**	3.3
Price inflation – CPI	**Pre 2030: 2.2** **Post 2030: 3.1**	2.3 3.2
Discount rate	**4.9**	4.8
Pension increases in payment	**3.2**	3.3
Pension increases in deferment	**3.2**	3.3

The assumption for RPI inflation is derived with reference to the difference between the yields on longer-term fixed-rate gilts and on index-linked gilts. RPI is expected to be more closely aligned with CPI from 2030 onwards, which is reflected in the corresponding assumption for CPI inflation.

In setting the discount rate, we construct a yield curve. Short-dated yields are taken from market rates for AA corporate bonds. Long-dated yields for the curve are based on the average yield available on long-dated AA corporate bonds. We project the expected cash flows of the schemes and adopt a single equivalent cash flow weighted discount rate taking account of this constructed yield curve.

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

v) Actuarial assumptions (continued)

The mortality base table assumptions are based on those used in the latest triennial funding valuation of the STPS. The mortality assumptions adopted at the year end for accounting purposes and the life expectancies at age 60 implied by the assumptions are as follows:

	2024		2023	
	Men	**Women**	Men	Women
Mortality table used	**S3PMA**	**S3PFA_M**	S3PMA	S3PFA_M
Mortality table compared with standard table	**98%**	**91%**	98%	91%
Mortality projections	**CMI 2022**	**CMI 2022**	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	**0%**	**0%**	40%	40%
Weighting factor given to data for 2022	**40%**	**40%**	n/a	n/a
Remaining life expectancy for members currently aged 60 (years)	**25.8**	**28.5**	25.8	28.6
Remaining life expectancy at age 60 for members currently aged 40 (years)	**27.0**	**29.7**	26.9	29.8

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 £24 million
Price inflation[2]	Increase/decrease by 0.1% pa	Increase/decrease by £20 million
Mortality[3]	Increase in life expectancy by 1 year	Increase by £72 million

1 A change in discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the Schemes.

2 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant pension increases. This would be expected to be offset by returns on LDI assets within the asset portfolios used to hedge against the value of liabilities, as set out in the inflation risk section of note 27 a) iv).

3 The change in assumption reflects the risk that life expectancy rates might increase.

In reality inter-relationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these inter-relationships. Also, in practice any movement in obligations arising from assumption changes are likely to be accompanied by movements in asset values – and so the impact on the accounting deficit may be lower than the impact on the obligations shown above.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

(vi) Effect on future cash flows

Contribution rates are set in consultation with the trustees for each Scheme and each participating employer.

The average duration of the benefit obligation at the end of the year is 13 years for STPS and 9 years for STMIPS.

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 have established.

Payments of £8.2 million per annum through an asset-backed funding arrangement will also continue to 31 March 2032 for the STPS. Further inflation linked payments of £15.0 million per annum are being made through an additional asset backed funding arrangement, with payments having started in the financial year ending 31 March 2018 and continuing to 31 March 2031.

These contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed. There are no deficit reduction contributions payable by the Group for STMIPS.

27 Retirement benefit schemes (continued)

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 £33.9 million (2023: £28.5 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme. As at 31 March 2024, no contributions (2023: nil) in respect of the current reporting period were owed to the schemes.

28 Provisions

Group

	Insurance £m	Regulatory £m	Other £m	Total £m
At 1 April 2023	12.1	47.7	13.5	73.3
Charged to income statement	16.0	–	–	16.0
Utilisation of provision	(12.1)	(23.5)	(2.5)	(38.1)
Unwinding of discount	–	–	0.1	0.1
Other net additions	–	11.6	–	11.6
At 31 March 2024	**16.0**	**35.8**	**11.1**	**62.9**

	2024 £m	2023 £m
Included in		
Current liabilities	**43.0**	47.2
Non-current liabilities	**19.9**	26.1
	62.9	73.3

Insurance includes provisions in respect of Lyra Insurance Guernsey Limited, a captive insurance company and a wholly owned subsidiary of the Group, and insurance deductibles in Severn Trent Water Limited. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

Regulatory comprises provisions for works in response to legally enforceable undertakings to regulators. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations, commercial disputes, either from continuing or discontinued operations, and potential environmental claims. The associated outflows are estimated to arise over a period up to ten years from the balance sheet date.

Company

	Insurance £m	Regulatory £m	Other £m	Total £m
At 1 April 2023	12.1	47.7	13.5	73.3
Charged to income statement	16.0	–	–	16.0
Utilisation of provision	(12.1)	(23.5)	(2.5)	(38.1)
Unwinding of discount	–	–	0.1	0.1
Other net additions	–	11.6	–	11.6
At 31 March 2024	**16.0**	**35.8**	**11.1**	**62.9**

	2024 £m	2023 £m
Included in		
Current liabilities	**43.0**	47.2
Non-current liabilities	**19.9**	26.1
	62.9	73.3

29 Share capital – Group and Company

	2024	2023
	£m	£m
Total issued and fully paid share capital		
601,250,100,000 ordinary shares of 0.1p (2023: 1,250,100,000)	**601.3**	1.3

On 26 March 2024 the Company issued 600,000,000,000 ordinary shares of 0.1p at par value.

30 Share Premium – Group and Company

	2024	2023
	£m	£m
As at 1 April and 31 March	**249.7**	249.7

31 Hedging reserve – Group and Company

	Hedging reserve
	£m
At 1 April 2022	(26.7)
Total comprehensive income for the year	0.1
Reserves transfer	26.2
At 1 April 2023	(0.4)
Total comprehensive income for the year	9.6
At 31 March 2024	**9.2**

The hedging reserve arises from gains or losses on interest rate swaps and energy swaps taken directly to equity under the hedge accounting provisions of IFRS 9.

32 Capital management – 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 are set out in the Company’s Annual Performance Report, which is available at stwater.co.uk.

The Group's capital at 31 March was:

	2024 **£m**	2023 £m
Cash and cash equivalents	**426.1**	9.4
Loans due from parent company	–	154.5
Borrowings (note 23)	**(7,767.8)**	(7,072.5)
Valuation adjustments*	**49.5**	70.2
Adjusted net debt	**(7,292.2)**	(6,838.4)
Equity attributable to owners of the Company	**(2,828.3)**	(2,299.4)
Total capital	**(10,120.5)**	(9,137.8)

* The valuation adjustments which comprise exchange gains/losses on amounts borrowed in foreign currencies, adjustments on foreign currency debt in fair value hedges and accounting adjustments on debt acquired with subsidiaries, are included in the carrying values of debt instruments, included in borrowings. However, as the foreign currency debt instruments are economically hedged, the sterling value of the matching hedge reflects the Group’s sterling obligations. The accounting adjustments on acquisition will be amortised over the life of the debt and do not represent a liability that will be settled in cash. The valuation adjustments above result in adjusted net debt reflecting the Group's sterling obligations.

33 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:

	2024 £m	2023 £m	**Valuation techniques and key inputs**
Cross currency swaps			Discounted cash flow
Assets	**23.1**	34.5	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Liabilities	**(19.0)**	(0.9)	
Interest rate swaps			Discounted cash flow
Assets	**39.2**	40.5	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(6.6)**	(10.0)	
Energy swaps			Discounted cash flow
Assets	**0.1**	0.5	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	**8.8**	7.3	Future cash flows on the RPI leg of the instrument are estimated based on observable forward inflation indices. Future cash flows on the CPI leg of the instrument are estimated based on the future expected differential between RPI and CPI (‘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	**1,685.3**	1,603.8	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 2022	(3.7)	1,564.0
Net gains recognised in profit or loss	11.0	39.8
At 31 March 2023	7.3	1,603.8
Net gains recognised in profit or loss	1.5	81.5
At 31 March 2024	**8.8**	**1,685.3**

These Level 3 instruments are valued using unobservable inputs. In valuing the inflation swaps, we have identified the unobservable input as the CPI wedge. A change of 10bps in the CPI wedge would result in a change in the carrying value of £5.1 million.

33 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:

	2024		2023	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**347.5**	**347.5**	545.4	527.4
Other loans	**147.9**	**155.9**	146.8	157.9
Bank overdraft	**2.0**	**2.0**	5.4	5.4
	497.4	**505.4**	697.6	690.7
Fixed rate debt				
Other loans	**4,950.1**	**4,713.9**	4,241.6	4,014.6
Lease liabilities	**109.2**	**109.2**	103.2	103.2
	5,059.3	**4,823.1**	4,344.8	4,117.8
Index-linked debt				
Bank loans	**150.7**	**141.9**	144.0	137.1
Other loans	**2,060.4**	**1,614.7**	1,886.1	1,798.0
	2,211.1	**1,756.6**	2,030.1	1,935.1
	7,767.8	**7,085.1**	7,072.5	6,743.6

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.

34 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 35 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 35 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/CPI/CPIH and the Group holds RPI/CPI swaps to mitigate the risk of divergence between RPI and CPIH.

a) Market risk

The Group is exposed to fluctuations in interest rates and, to a lesser extent, exchange rates. The nature of these risks and the steps that the Group has taken to manage them are described below.

i) Interest rate risk

The Group's 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:

	2024 £m	2023 £m
Adjusted net debt (note 37)	**7,292.2**	6,838.4
Cash and cash equivalents	**426.1**	9.4
Loan due from parent company and group undertakings	**–**	154.5
Interest bearing financial liabilities	**7,718.3**	7,002.3

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.

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.

34 Risks arising from financial instruments – Group (continued)

a) Market risk (continued)

i) Interest rate risk (continued)

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.

2024	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Bank overdraft	(2.0)	–	–	(2.0)
Bank loans	(347.5)	–	(150.7)	(498.2)
Other loans	(145.1)	(4,929.9)	(2,033.9)	(7,108.9)
Lease liabilities	–	(109.2)	–	(109.2)
	(494.6)	**(5,039.1)**	**(2,184.6)**	**(7,718.3)**
Impact of swaps not matched against specific debt instruments	275.0	(275.0)	–	–
Interest-bearing financial liabilities	**(219.6)**	**(5,314.1)**	**(2,184.6)**	**(7,718.3)**
Proportion of interest-bearing financial liabilities that are fixed		**69%**		
Weighted average interest rate of fixed rate debt		**4.09%**		
Weighted average period for which interest is fixed (years)		**8.9**		

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)	(1,858.3)	(6,204.3)
Lease liabilities	–	(103.2)	–	(103.2)
	(633.8)	(4,366.2)	(2,002.3)	(7,002.3)
Impact of swaps not matched against specific debt instruments	275.0	(275.0)	–	–
Interest-bearing financial liabilities	(358.8)	(4,641.2)	(2,002.3)	(7,002.3)
Proportion of interest-bearing financial liabilities that are fixed		66%		
Weighted average interest rate of fixed rate debt		4.05%		
Weighted average period for which interest is fixed (years)		9.9		

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 £3.4 million (2023: £25.9 million) in the income statement.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2024	2023	**2024**	2023	**2024**	2023
	%	%	**£m**	£m	**£m**	£m
Pay fixed rate interest						
5 – 10 years	**5.46**	5.46	**(75.0)**	(75.0)	**(6.6)**	(10.0)
	5.46	5.46	**(75.0)**	(75.0)	**(6.6)**	(10.0)

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:

	2024		2023	
	1.0%	**-1.0%**	1.0%	-1.0%
	£m	**£m**	£m	£m
Profit or loss	**2.9**	**(3.2)**	2.3	(2.8)
Cash flow	**(1.6)**	**1.6**	(2.8)	2.8
Equity	**2.9**	**(3.2)**	2.3	(2.8)

34 Risks arising from financial instruments – Group (continued)

a) Market risk (continued)

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. 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 (2023: 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.

Certain swaps, where the terms of the receivable leg of the swap closely match the terms of the underlying debt and are therefore expected to be effective hedges, have been accounted for as fair value hedges. The notional value and fair value of these swaps is shown in note 35 a).

The Group also has cross currency swaps with a sterling notional value of £526.4 million (2023: £98.3 million) which are not accounted for as fair value hedges. Economically these swaps act to mitigate the exchange rate risk of debt within the Group which is denominated in foreign currency and also swap the interest from fixed rate to floating, but they are not designated hedges under IFRS 9. This has led to a charge of £13.1 million (2023: income of £7.1 million) in the income statement, as well as an exchange gain of £2.8 million (2023: loss of £7.4 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.

	Euro	**US Dollar**	**Yen**	**AUD**
2024	**€m**	**$m**	**¥bn**	**$m**
Borrowings by currency	**(519.9)**	**(220.0)**	**(10.3)**	**(40.0)**
Cross currency swaps - hedge accounted	**19.9**	**70.0**	**10.3**	**40.0**
Cross currency swaps - not hedge accounted	**500.0**	**150.0**	**–**	**–**
Net currency exposure	**–**	**–**	**–**	**–**

	Euro	US Dollar	Yen	AUD
2023	€m	$m	¥Bn	$m
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	–	–	–	–

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 21.

Cash deposits and derivative contracts are only placed with high credit quality financial institutions, which have been approved by the Board. Group Treasury monitors the credit quality of the approved financial institutions and the list of financial institutions that may be used is approved annually by the Board. The Group has policies that limit the amount of credit exposure to any one financial institution.

Credit risk analysis

At 31 March, the aggregate credit limits of authorised counterparties and the amounts held on short term deposits were as follows:

	Credit limit		**Amount deposited**		**Number of counterparties**	
	2024	2023	**2024**	2023	**2024**	2023
	£m	£m	**£m**	£m		
Triple A range	**450.0**	–	**195.6**	–	**3**	–
Double A range	**200.0**	150.0	**135.0**	–	**2**	2
Single A range	**425.0**	770.5	**94.9**	–	**5**	16
	1,075.0	920.5	**425.5**	–	**10**	18

34 Risks arising from financial instruments – Group (continued)

b) Credit risk (continued)

The fair values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
	2024	2023
	£m	£m
Single A range	**71.2**	82.8

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:

	2024	2023
	£m	£m
2 – 5 years	**1,000.0**	700.0
5 years	**–**	100.0
	1,000.0	800.0

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.

2024 **Undiscounted amounts payable:**	**Floating rate**	**Fixed rate**	**Index-linked**	**Trade and other payables**	**Payments on financial liabilities**
	£m	**£m**	**£m**	**£m**	**£m**
Within 1 year	(137.5)	(202.8)	(91.6)	(177.5)	**(609.4)**
1 - 2 years	(34.7)	(722.3)	(40.0)	–	**(797.0)**
2 - 5 years	(298.0)	(1,027.5)	(360.3)	–	**(1,685.8)**
5 - 10 years	(844.6)	(2,661.3)	(439.5)	–	**(3,945.4)**
10 - 15 years	–	(1,337.1)	(177.3)	–	**(1,514.4)**
15 - 20 years	–	(1,079.9)	(308.9)	–	**(1,388.8)**
20 - 25 years	–	–	(409.1)	–	**(409.1)**
25 - 30 years	–	–	(725.4)	–	**(725.4)**
30 - 35 years	–	–	(3,699.8)	–	**(3,699.8)**
35 - 40 years	–	–	(25.8)	–	**(25.8)**
40 - 45 years	–	–	(400.2)	–	**(400.2)**
Total	**(1,314.8)**	**(7,030.9)**	**(6,677.9)**	**(177.5)**	**(15,201.1)**

Undiscounted amounts receivable:	**Trade and other receivables**	**Cash and short term deposits**	**Amounts due from group undertakings**	**Receipts from financial assets**
	£m	**£m**	**£m**	**£m**
Within 1 year	651.4	426.1	87.5	1,165.0
1-2 years	5.3	–	–	5.3
Total	**656.7**	**426.1**	**87.5**	**1,170.3**

34 Risks arising from financial instruments – Group (continued)

c) Liquidity risk (continued)

ii) Cash flows from non-derivative financial instruments (continued)

2023 Undiscounted amounts payable:	Floating rate	Fixed rate	Index-linked	Trade and other payables	Payments on financial liabilities
	£m	£m	£m	£m	£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)
Total	(356.0)	(5,233.5)	(6,730.4)	(128.6)	(12,448.5)

Undiscounted amounts receivable:	Trade receivables	Cash and short term deposits	Amounts due from group undertakings	Receipts from financial assets
	£m	£m	£m	£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

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		
2024	**Interest rate swaps**	**Inflation swaps**	**Energy swaps**	**Cash receipts**	**Cash payments**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Within 1 year	**8.4**	**0.6**	**–**	**27.0**	**(32.8)**	**3.2**
1 – 2 years	**6.4**	**0.6**	**0.1**	**44.8**	**(42.1)**	**9.8**
2 – 5 years	**10.9**	**2.3**	**–**	**213.7**	**(214.4)**	**12.5**
5 – 10 years	**2.1**	**7.5**	**–**	**656.0**	**(627.5)**	**38.1**
10 – 15 years	**–**	**–**	**–**	**62.2**	**(56.4)**	**5.8**
	27.8	**11.0**	**0.1**	**1,003.7**	**(973.2)**	**69.4**

				Cross currency swaps		
2023	Interest rate swaps	Inflation swaps	Energy swaps	Cash receipts	Cash payments	Total
	£m	£m	£m	£m	£m	£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

34 Risks arising from financial instruments – Group (continued)

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. In anticipation of this the Group has entered into CPI/RPI swaps with a notional value of £350 million (2023: £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/RPI rather than interest rates. The sensitivity at 31 March of the Group’s profit and equity to changes in CPI/RPI is set out in the following table. This analysis relates to financial instruments only and excludes any RPI impact on Severn Trent Water’s revenues and Regulated Capital Value, or accounting for defined benefit pension schemes.

	2024		2023	
	+1.0%	**-1.0%**	+1.0%	-1.0%
	£m	**£m**	£m	£m
Profit or loss	**(16.4)**	**16.4**	(16.4)	16.4
Equity	**(16.4)**	**16.4**	(16.4)	16.4

35 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**	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Euro	**11.4**	11.4	**5.6**	6.4
US dollar	**55.4**	23.2	**(0.8)**	3.1
Yen	**59.9**	59.9	**(5.7)**	3.6
Australian Dollar	**21.5**	–	**(1.7)**	–
	148.2	94.5	**(2.6)**	13.1

35 Hedge accounting – Group (continued)

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 may be 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	
	2024	2023	**2024**	2023	**2024**	2023
Period to maturity	**%**	%	**£m**	£m	**£m**	£m
2 – 5 years	**1.73**	1.73	**100.0**	100.0	**7.8**	9.9
5 – 10 years	**1.83**	1.83	**248.0**	248.0	**31.4**	30.6
	1.80	1.80	**348.0**	348.0	**39.2**	40.5

The Group recognised a gain on hedge ineffectiveness of £0.7 million (2023: loss of £1.3 million) in gains/losses on financial instruments in the income statement in relation to interest rate swaps.

(ii) Energy swaps

The Group has entered into a series of energy swaps under which it has agreed to exchange the difference between fixed and market prices of electricity at six-monthly intervals up until 31 March 2026.

Details of energy swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract price		Notional contracted amount		Fair value	
	2024	2023	**2024**	2023	**2024**	2023
Period to maturity	**£/MWh**	£/MWh	**MWh**	MWh	**£m**	£m
Less than 1 year	–	44.7	–	43,680	–	0.5
1 – 2 years	**75.1**	–	**39,420**	–	**0.1**	–
	75.1	44.7	**39,420**	43,680	**0.1**	0.5

c) Cumulative fair value adjustments

At the year end the cumulative fair value adjustments arising from the corresponding continuing hedge relationships were as follows:

2024

	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	**–**	**(147.5)**	**–**	**(1.8)**

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)

The carrying amount of hedged items and the cumulative amount of fair value adjustments on the hedged items relate to fair value hedges.

36 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 £7.6 million (2023: £9.2 million) related to equity settled share based payment transactions.

The weighted average share price of Severn Trent Plc during the period was £25.78 (2023: £27.65).

At 31 March 2024, there were no options exercisable (2023: 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 2020, 2021, 2022 and 2023 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% (2023: 100%).

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards
Opening 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 1 April 2023	573,274
Transferred to Severn Trent Plc	(292,543)
Granted during the year	120,773
Vested during the year	(83,868)
Lapsed during the year	(1,200)
Outstanding at 31 March 2024	**316,436**

Details of LTIP awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	Normal Date of Vesting	2024	2023
July 2020	2023	**–**	188,080
July 2021	2024	**84,542**	181,632
July 2022	2025	**111,116**	203,562
July 2023	2026	**120,778**	–
		316,436	573,274

The awards outstanding at 31 March 2024 had a weighted average remaining contractual life of 1.5 years (2023: 1.1 years).

Details of the basis of the LTIP scheme are set out in the Directors' remuneration report on pages 151 and 152.

36 Share based payment – Group (continued)

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.

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 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 1 April 2023	3,401,704	1,981p
Transferred during the year	200,251	2,183p
Granted during the year	1,385,479	2,120p
Forfeited during the year	(33,615)	2,118p
Cancelled during the year	(242,686)	2,179p
Exercised during the year	(758,772)	1,770p
Lapsed during the year	(7,054)	1,985p
Outstanding at 31 March 2024	**3,945,307**	**2,067p**

Sharesave options outstanding at 31 March were as follows:

			Number of awards	
Date of grant	**Normal date of exercise**	**Option price**	**2024**	2023
January 2018	2023	1,652p	**–**	101,990
January 2019	2024	1,474p	**201,991**	203,612
January 2020	2023 or 2025	1,787p	**133,129**	787,550
January 2021	2024 or 2026	1,860p	**771,978**	808,539
January 2022	2025 or 2027	2,307p	**601,549**	689,996
January 2023	2026 or 2028	2,183p	**869,787**	810,017
January 2024	2027 or 2029	2,120p	**1,366,873**	–
			3,945,307	3,401,704

The awards outstanding at 31 March 2024 had a weighted average remaining contractual life of 2.0 years (2023: 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:

	2024			2023		
	LTIP	**SAYE**		LTIP	SAYE	
		3 year scheme	**5 year scheme**		3 year scheme	5 year scheme
Share price at grant date (pence)	**2,791**	**2,555**	**2,555**	2,858	2,674	2,674
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 (%)	**4.0**	**4.4**	**4.4**	3.7	4.0	4.0
Risk free rate (%)	**n/a**	**3.7**	**3.6**	n/a	3.5	3.6
Fair value per share (pence)	**2,773**	**469**	**470**	2,842	526	542

Expected volatility is measured over the three years prior to the date of grant of the awards or share options. Volatility has been calculated based on historical share price movements.

The risk-free rate is derived from yields at the grant date of gilts of similar duration to the awards or share options.

The dividend yield is calculated using the expected dividend for the year divided by the share price at the date of grant.

37 Cash flow statement – Group

a) Reconciliation of operating profit to operating cash flows

	2024 £m	2023 £m
Profit before interest and tax	**496.4**	482.7
Depreciation and impairment of property, plant and equipment	**366.8**	360.6
Depreciation of right-of-use assets	**3.9**	2.2
Amortisation of intangible assets	**30.4**	29.9
Pension service credit	**–**	(8.3)
Defined benefit pension scheme administration costs	**3.9**	4.0
Defined benefit pension scheme contributions	**(67.4)**	(99.8)
Share based payments charge	**7.6**	9.2
Profit on sale of property, plant and equipment and intangible assets	**(3.2)**	(2.3)
Fair value uplift on forestry assets	**(2.6)**	–
Release of deferred credits	**(16.6)**	(16.1)
Contributions and grants received	**49.5**	45.1
Provisions charged to the income statement	**16.0**	8.1
Utilisation of provisions for liabilities and charges	**(38.1)**	(15.1)
Operating cash flows before movements in working capital	**846.6**	800.2
Increase in inventory	**(2.0)**	(2.7)
Increase in amounts receivable	**(62.9)**	(138.8)
Increase in amounts payable	**50.2**	89.6
Cash generated from operations	**831.9**	748.3
Tax received	**9.0**	6.1
Tax paid	**–**	(13.9)
Net cash generated from operating activities	**840.9**	740.5

b) Non-cash transactions

Non cash investing and financing cash flows disclosed in other notes are:

- Acquisition of right-of-use assets (note 18).
- Acquisition of infrastructure assets from developers at no cost (note 16).
- Shares issued to employees for no cash consideration under the LTIP (note 36).

c) Exceptional cash flows

There were no cash flows from items classified as exceptional in the income statement (2023: nil).

d) Reconciliation of movement in cash and cash equivalents to movement in adjusted net debt

	At 1 April 2023 £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 2024 £m**
Net cash and cash equivalents	4.0	420.1	–	–	–	–	**424.1**
Bank loans	(689.4)	197.5	–	(5.8)	–	(0.5)	**(498.2)**
Other loans	(6,274.5)	(802.4)	18.1	(102.9)	2.8	0.5	**(7,158.4)**
Leases	(103.2)	9.1	–	–	–	(15.1)	**(109.2)**
Fair value accounting adjustments	47.9	–	(18.1)	–	–	–	**29.8**
Exchange on currency debt not hedge accounted	22.3	–	–	–	(2.8)	0.2	**19.7**
Loans due from parent company	154.5	(154.5)	–	–	–	–	**–**
Adjusted net debt	**(6,838.4)**	**(330.2)**	**–**	**(108.7)**	**–**	**(14.9)**	**(7,292.2)**

Liabilities from financing activities comprise loans due to parent company, bank loans, other loans and leases.

37 Cash flow statement (continued)

e) Liabilities from financing activities

	Bank loans	Other loans	Lease liabilities	Derivatives	Total
	£m	£m	£m	£m	£m
At 1 April 2022	(755.7)	(5,525.9)	(108.8)	18.1	(6,372.3)
Cash flow	80.5	(551.4)	11.4	(11.2)	(470.7)
Fair value adjustments	–	0.9	–	–	0.9
Inflation adjustment 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)	65.0	59.0
At 1 April 2023	(689.4)	(6,274.5)	(103.2)	71.9	(6,995.2)
Cash flow	197.5	(802.4)	9.1	(4.4)	(600.2)
Fair value adjustments	–	18.1	–	–	18.1
Inflation uplift on index-linked debt	(5.8)	(102.9)	–	–	(108.7)
Foreign exchange	–	2.8	–	–	2.8
Other non-cash movements	(0.5)	0.5	(15.1)	(21.9)	(37.0)
At 31 March 2024	**(498.2)**	**(7,158.4)**	**(109.2)**	**45.6**	**(7,720.2)**

38 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 (2023: 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 2024 the Group and Company's maximum liability under these arrangements was £0.6 million (2023: £9.4 million).

c) Claims under the Environmental Information Regulations 2004 regarding property searches

In April 2020, a group of over 100 personal search companies commenced proceedings against all water and sewerage undertakers in England and Wales, including Severn Trent Water Limited as well as Severn Trent Property Solutions Limited. The Claimants alleged that information held by Severn Trent Water Limited, and licensed on a non-exclusive basis to Severn Trent Property Solutions Limited, to produce Con29DW and CommercialDW water and drainage searches is 'Environmental Information' for the purposes of the Environmental Information Regulations 2004 and, accordingly, should have been provided for free.

The High Court handed down judgment on the Stage 1 Trial (i.e. points of law and matters of fact rather than any damages element) on 28 June 2024 and found overwhelmingly in favour of the Defendants. On the basis of the judgment in the Stage 1 Trial, we anticipate being able to seek a substantial recovery of legal costs in respect of defending this claim.

In terms of next steps, the parties will now make submissions to the Court in respect of consequential matters flowing from the judgment, including recovery of legal costs and, if the Claimants are so minded, seeking leave to appeal. We will oppose any application to appeal and will seek our legal costs for the Stage 1 Trial in any event.

d) Ongoing combined sewer overflow investigations

Ofwat and the Environment Agency are each conducting their own investigations into the wastewater industry, to investigate compliance with the conditions of environmental permits. Ofwat has launched specific enforcement investigations against six sewerage companies, but Severn Trent is not included in those cases. The Environment Agency's investigation of all English sewerage companies is continuing and it is not yet clear what the outcome of those investigations will be. We have responded quickly and comprehensively to all questions from the regulators and have had open conversations with them on the issues under investigation.

e) Leigh Day Claim

The Group has received a claim for £239 million excluding interest on behalf of a class comprising certain consumers of STW (on an opt-out basis) who have allegedly been overcharged for sewerage services as a result of an alleged abuse of a dominant position. This is an industry-wide issue and five other defendants have had similar claims made against them. The certification hearing is timetabled to take place in September 2024. We consider this claim to be speculative and we reject the alleged basis of the sums claimed. Accordingly, we intend to robustly defend the claim in its entirety.

39 Financial and other commitments – Group and Company

a) Investment expenditure commitments

Capital commitments are as follows:

	2024 £m	2023 £m
Contracted for but not authorised in the financial statements	**863.5**	630.1

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 wastewater services.

40 Post balance sheet events – Group and Company

There have been no post balance sheet events.

41 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	
	2024 £m	2023 £m	**2024** £m	2023 £m	**2024** £m	2023 £m
Sale of services	**3.7**	0.4	**–**	–	**264.7**	259.5
Purchase of services	**6.4**	5.5	**0.4**	0.4	**–**	–
Net interest income/(expense)	**0.4**	–	**(1.7)**	3.7	**5.3**	3.9
Dividends paid to related parties	**300.0**	428.0	**–**	–	**–**	–
Balances outstanding at 31 March:						
Amounts due from related parties	**87.5**	85.8	**–**	–	**–**	–
Amounts due to related parties	**(81.6)**	(83.0)	**(2.2)**	(3.2)	**–**	–
Loans due from related parties	**–**	0.2	**–**	154.5	**–**	–

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.

	2024 £m	2023 £m
Short-term employee benefits	**5.4**	4.6
Service contract non-executive director benefits	**0.8**	0.9
Share based payment	**5.0**	5.4
	11.2	10.9

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 27.

42 Alternative performance measures – Group

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures ('APM's). The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own APMs, these might not be directly comparable with other companies' APMs. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

a) Exceptional items

Exceptional items are income or expenditure which individually or, in aggregate if of a similar type, should, in the opinion of the Directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level. There were no exceptional items in the years ended 31 March 2024 and 2023.

b) Adjusted net debt

Adjusted net debt comprises borrowings excluding fair value accounting adjustments on debt, net cash and cash equivalents, and loans to joint ventures. Foreign currency borrowings that are hedged by cross currency swaps are included at the notional principal of the sterling payable leg of the swap. See note 35.

In the prior year, a different measure of net debt was used that included remeasurements for changes in fair value of financial liabilities in fair value hedging relationships, cross currency swaps that were 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. However, the definition has been revised so as to better reflect interest bearing liabilities less assets, a measure of adjusted net debt that more closely reflects the Group's sterling amounts required to settle the obligations. For clarity, we refer to our new measure as adjusted net debt.

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.

	2024	2023
	£m	£m
Net finance costs	**297.3**	355.3
Net finance costs from pensions	**(13.4)**	(3.9)
Capitalised interest	**68.1**	54.7
	352.0	406.1
Average net debt	**7,181.7**	6,547.7
Effective interest cost	**4.9%**	6.2%

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 indexation adjustments on index-linked debt).

	2024	2023
	£m	£m
Net finance costs	**297.3**	355.3
Net finance costs from pensions	**(13.4)**	(3.9)
Indexation adjustments	**(108.0)**	(210.2)
Capitalised interest	**68.1**	54.7
	244.0	195.9
Average net debt	**7,181.7**	6,547.7
Effective cash cost of interest	**3.4%**	3.0%

This is used as it shows the average finance cost that is paid in cash.

42 Alternative performance measures – Group (continued)

e) PBIT interest cover

The ratio of PBIT to net finance costs excluding net finance costs from pensions.

	2024	2023
	£m	£m
PBIT	**496.4**	482.7
Net finance costs	**297.3**	355.3
Net finance costs from pensions	**(13.4)**	(3.9)
Net finance costs excluding net finance costs from pensions	**283.9**	351.4

	ratio	ratio
PBIT interest cover ratio	**1.7**	1.4

This is used to show how the PBIT of the business covers the financing costs associated only with net debt on a consistent basis.

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.

	2024	2023
	£m	£m
PBIT	**496.4**	482.7
Depreciation (including right-of-use assets)	**370.7**	362.8
Amortisation	**30.4**	29.9
EBITDA	**897.5**	875.4
Net finance costs	**297.3**	355.3
Net finance costs from pensions	**(13.4)**	(3.9)
Net finance costs excluding finance costs from pensions	**283.9**	351.4

	ratio	ratio
EBITDA interest cover ratio	**3.2**	2.5

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

g) Adjusted effective current tax rate

The current tax charge for the year, excluding prior year charges and current tax on financial instruments, divided by profit before tax and net gains on financial instruments.

		2024		2023
		Current tax thereon		Current tax thereon
	£m	**£m**	£m	£m
Profit before tax	**257.8**	**–**	189.0	–
Adjustments:				
Net gains on financial instruments	**(58.7)**	**–**	(61.6)	–
	199.1	**–**	127.4	–
Adjusted effective current tax rate		**0.0%**		0.0%

42 Alternative performance measures – Group (continued)

h) Operational cashflow

Cash generated from operations less contributions and grants received.

	2024	2023
	£m	£m
Cash generated from operations	**831.9**	748.3
Contributions and grants received	**(49.5)**	(45.1)
Operational cashflow	**782.4**	703.2

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.

	2024	2023
	£m	£m
Purchase of property, plant and equipment	**(1,214.9)**	(669.4)
Purchase of intangible assets	**(29.0)**	(39.7)
Contributions and grants received	**49.5**	45.1
Proceeds on disposal of property, plant and equipment	**4.6**	11.8
Cash capex	**(1,189.8)**	(652.2)

This APM is used to show the cash impact of the Group’s capital programmes.

43 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.