



Severn Trent **Sustainable Bond**

Allocation Report 2021

WONDERFUL ON TAP

SEVERN
TRENT

Introduction from our CEO

Climate change is a key challenge of our generation and, as a water company, we're well-placed to play a role in helping the UK become a sustainable, low-carbon economy. We take care of one of life's essentials, so a healthy environment is vital to the long-term sustainability of our business.

Therefore, we are taking positive action to mitigate climate change and ensure we are resilient to its impact. We also operate in pursuit of a strong social purpose. This encourages and enables us to show our customers they can trust us to be a force for good in our communities, and helps us attract the diverse and talented people we need if we are to succeed.

This year, Covid-19 has undoubtedly had an impact on every part of life. Our focus now is to want to bounce back stronger than ever from its effects, and building back greener is part of this.

Alongside our business plan for the next five years, we have also made many other ambitious commitments that support our purpose of taking care of one of life's essentials. There's our Triple Carbon Pledge—committing to net zero operational carbon emissions, 100% renewable energy and an all-electric vehicle fleet, by 2030.

And our decision to invest £1.2 billion by 2025 in environmental initiatives that include planting 1.3 million trees and boosting the biodiversity of 5,000 hectares of land in our region. We'll work with around 9,000 farmers to find sustainable ways to improve water quality.

In March 2021, we submitted our proposed Scope 1, 2 and 3 emissions targets to the Science Based Targets Initiative, committing us to significantly reducing our greenhouse gas emissions by 2030, in line with the goals of the 2015 Paris Agreement. This year, as part of our commitment to be a force for good in our region we also announced our partnership with the Birmingham 2022 Commonwealth Games, to support its ambition to create the most sustainable games yet, and leave a lasting legacy for future generations.

Our plans to help address social issues are just as ambitious— for example, our Community Fund donates 1% of our profits each year to projects in our local communities which need help the most. This year, we also created an emergency Coronavirus Fund, donating an additional £1million to help local charities deal with the effects of the pandemic.

All in all, we set ourselves bold ambitions that we believe will benefit all our stakeholders over the long term. We know we can play a leading role in our sector in addressing the issues above, and in safeguarding the long-term sustainability of our business and our region. We've made some clear commitments on our path to being a green leader. We know we still have plenty to do, but as you'll see in the report, we're making strong progress.



A handwritten signature in black ink that reads 'Liv'.

Liv Garfield,
Chief Executive

Our Purpose: 'taking care of one of life's essentials'

Our Purpose underpins our approach to sustainability

In taking care of one of life's essentials, our business relies on people, communities and the environment. Sustainability is not a new or separate direction, but something that has always been at the heart of our business. But having an agreed sustainability framework allows us to draw together our environmental, social and governance ambitions while at the same time pursuing them as an integral part of our business plan.

Taking care of the environment

Our customers trust us to secure their long-term water supply, so ensuring a sustainable water cycle and the health of the natural environment in our region is critical. We're also in a position to both protect and enhance the wider environment by making the most of our resources and acting to mitigate climate change. We establish partnerships and make investments to pursue all these aims.

Helping people to thrive

As a provider of one of life's essentials, we're committed to serving every household and business in our region. We're determined to make a real difference, not just for our customers, but others in the communities we serve, including those who are vulnerable or under-served. And we provide a fair and inclusive place to work for our colleagues, the vast majority of whom are also customers, giving us a uniquely strong connection to our region.

Being a company you can trust

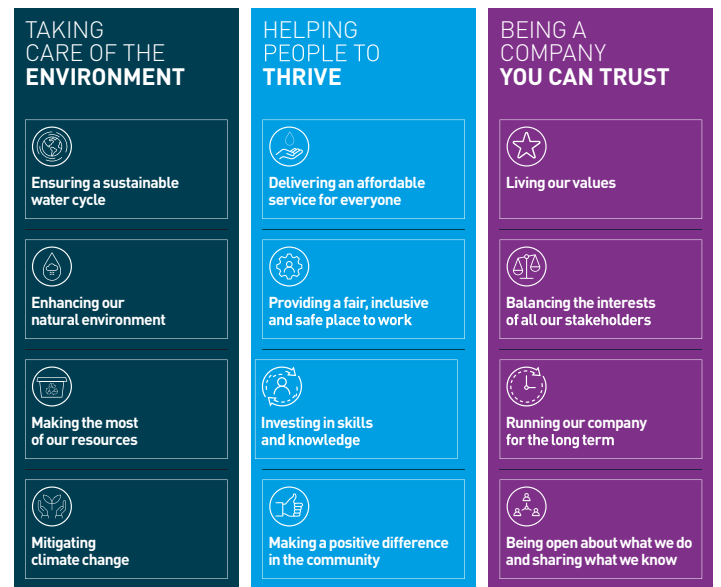
As a company providing an essential public service, we believe we should do so with a strong sense of social purpose. To earn the trust of our stakeholders, we must keep our promises, report clearly and openly on our progress, and create a governance framework that ensures effective decision making for the benefit of all.

SUSTAINABILITY FRAMEWORK

United Nations Sustainable Development Goals



BEING SOCIALLY PURPOSEFUL



Our sustainability framework draws together our **environmental, social and governance (ESG)** ambitions. While those ambitions will still be delivered as part of our business plan, **fully embedded in the way we work**, this framework helps us to articulate how we deliver **our purpose**.

This **sustainability framework** sets the foundations for how we intend to run our business **for the next five years and beyond**.



Sustainability runs through our business

Green commitments

Biodiversity

- Improving the biodiversity of 5,000 hectares of land.
- Planting 1.3 million trees.

Reducing leakage

- 15% reduction in by 2025.

Catchment management

- Working with 9,000 farmers in 44 catchments to prevent pollution of raw water.

Green communities

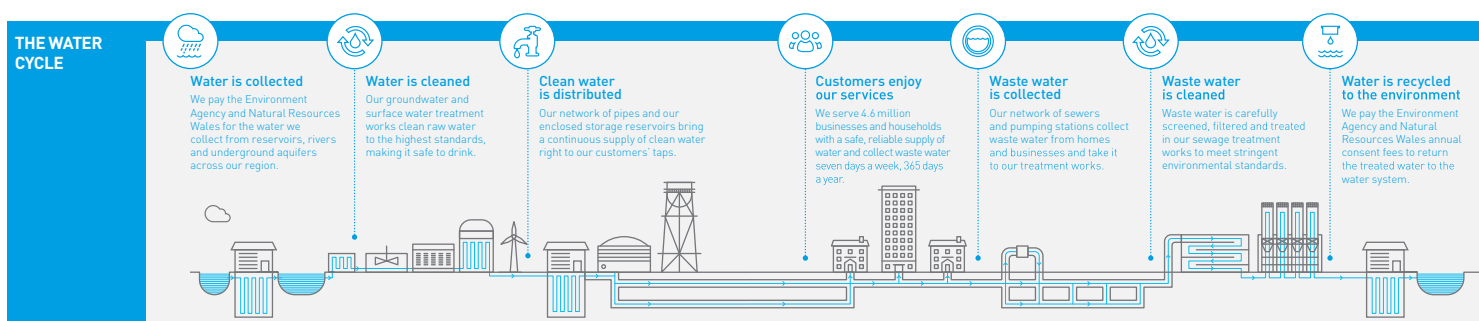
- £0.6m of new natural capital created through 'green communities'.

Triple Carbon Pledge

- 100% renewable energy by 2030.
- Carbon neutral by 2030.
- 100% electric vehicles by 2030.

Improving the environment

- Improve the quality of over 50% of rivers in the region by 2025.



Social commitments in AMP7

Social mobility

- 1000 jobs offered in social mobility cold spots.

Supporting those in need

- Supporting 195,000 customers who struggle to pay their bills.
- £3.5m trust fund donations annually, 2.62 social return on investment.

Education and behaviours change

- 155,250 customers committed to changing their water use.

1% community dividend

- Funding projects focussed on the well-being of the region.

Covid response

With many more customers facing financial difficulty due to the pandemic, we've simplified our processes to make it easier to get onto our support schemes – for example, offering auto-enrolment rather than the usual application procedure.

We also launched our Back-on-Track scheme, offering a 50% discount to customers who've been made redundant or furloughed as a result of the pandemic. In addition, we worked with Leicester City Council to help provide financial assistance through the Government's Covid Winter Support Fund.

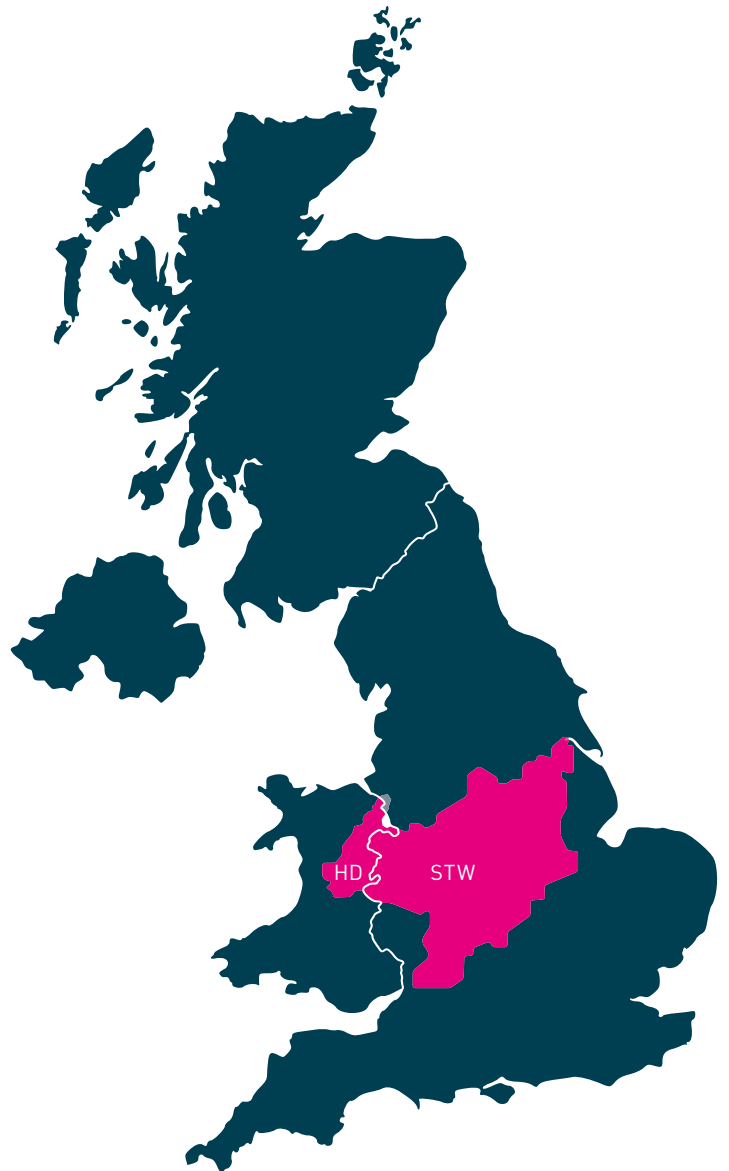
Delivering essential services sustainably

What we do

We provide clean water every time our customers turn on the tap. To do that, we collect it from reservoirs, rivers and underground aquifers across our region, then our treatment works clean it to the highest standards and make it good to drink. Our network of pipes and storage reservoirs brings a continuous supply of safe, reliable water to the taps of 4.6 million households and businesses in the Midlands and Wales every day of the year. We also remove their wastewater in an affordable, sustainable and reliable way through our network of sewers and pumping stations. At our sewage works, we carefully screen, filter and treat the wastewater to stringent environmental standards before returning it to the water system and recycle waste products to fertilise the land.

How we do it

We aim to anticipate and meet changing customer demands and wider society needs for water. To supply and collect water, we look after some of the UK's most impressive natural bodies of water and watercourses, and maintain over 49,000 km of clean water pipes and over 92,000 km of sewer pipes. To do this, we attract, develop and retain over 6,500 talented people from all backgrounds and walks of life. We also build strong supplier relationships to support our business operations, working with about 2,800 direct suppliers. Our work is regulated by Ofwat, Drinking Water Inspectorate ('DWI'), Environment Agency ('EA'), Natural England and Natural Resources Wales who we work with to help ensure the right outcomes for customers and the environment.

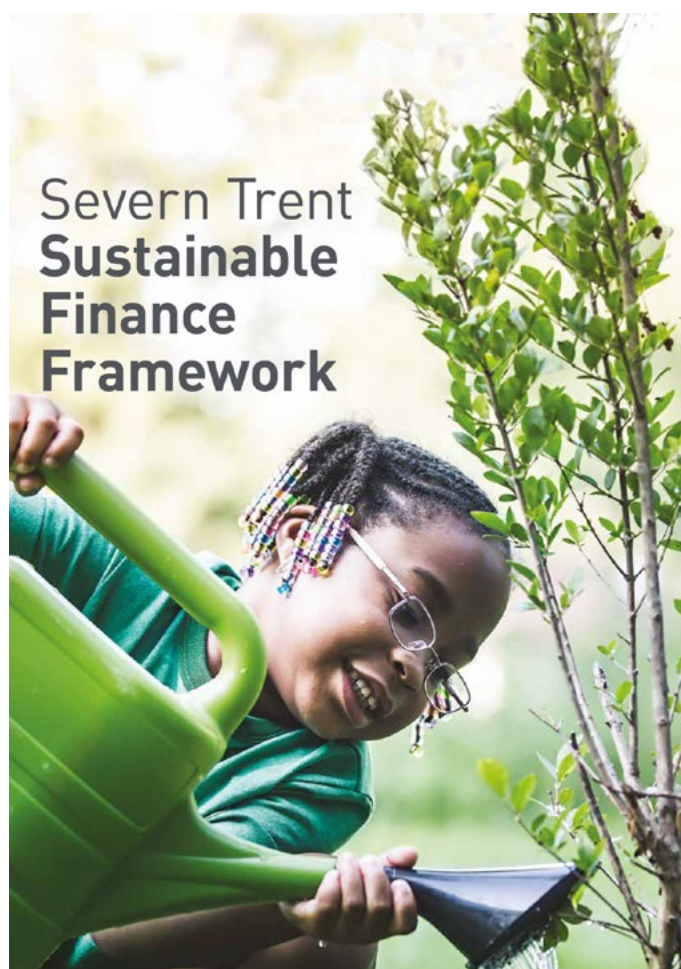


Our Sustainable Finance Framework

In November 2019, Severn Trent published its Sustainable Finance Framework under which Severn Trent Plc and its subsidiaries can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across its activities.

This Framework is based on the existing international standards:

- The Green Bond Principles (“GBP”), Social Bond Principles (“SBP”) and Sustainability Bond Guidelines (“SBG”) as published by the International Capital Market Association (“ICMA”) in June 2018.
- The Green Loan Principles (“GLP”) and Sustainability Linked Loan Principles (“SLLP”) as published by the Loan Market Association (“LMA”) in March 2018 and March 2019.












**SUSTAINABLE
DEVELOPMENT GOALS**

- The Framework was reviewed by DNV-GL who issued a Second Party Opinion.
- Used to fund eligible investments which fall within Social or Green Eligible Categories.
- These are aligned with our nine Business Plan outcomes and the UN Sustainable Development Goals.

A copy of the Framework can be found [here](#).

Severn Trent issued its inaugural £300m sustainable bond under the Framework in June 2020. This bond targeted the Eligible Categories highlighted below:

Use of proceeds

Category	ICMA SBP/GBP Category	Our Business Plan Outcomes									
		Lowest possible bills	Good to drink	Water always there	Wastewater safely taken away	A service for everyone	An outstanding experience	A thriving environment	A positive difference	A company you can trust	UN Sustainable Development Goal
Social	Affordable Basic Infrastructure	✓	✓	✓	✓	✓					
	Access to essential Services					✓	✓				
	Food security		✓	✓				✓			
	Socioeconomic advancement and empowerment					✓			✓	✓	
Green	Renewable Energy							✓			
	Energy Efficiency							✓			
	Pollution Prevention and Control				✓			✓			
	Environmentally Sustainable Management of living natural resources and land use			✓	✓			✓			
	Terrestrial and aquatic biodiversity conservation							✓			
	Clean Transportation							✓			
	Sustainable water and wastewater management	✓	✓	✓	✓	✓	✓	✓	✓	✓	
	Climate change adaptation			✓	✓			✓			
	Eco-efficient and/or circular economy, adapted productions, production technologies and processes							✓			

Sustainable bond Governance

The Sustainable Finance Framework was established in November 2019, under which Severn Trent Plc and its subsidiaries can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across its activities.

The Principles are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the Green, Social and Sustainability Bond and Green and Sustainability Linked Loan market by clarifying the approach for this financing.

Allocation reporting

How much of the financing raised has been allocated and to which sub-portfolio (Social or Green or Both Green and Social).

A brief description of assets and expenses financed or refinanced with the proceeds and selected case studies if applicable.

The balance of the unallocated proceeds and type of temporary investments.

The division of the allocation between new financing and refinancing.

Subsequent details of allocations will be released annually thereafter within the Impact Report, and as necessary following material developments.

The report includes a number of case studies demonstrating environmental and social impacts of the expenditure.

Key features of Sustainable Bond

In June 2020, Severn Trent Utilities Finance Plc issued its first sustainable bond, a 20 year £300m bond with a fixed coupon of 2%.

Key features

Issuer	Severn Trent Utilities Finance Plc
Currency	GBP
ISIN	XS2182065149
Size	£300m
Net Proceeds	£296.2m
Issue date	2 June 2020
Maturity date	2040
Coupon	2.000%
Allocated	£296.2m
Allocated %	100%

A dedicated sustainability report is available on our website [here](#).



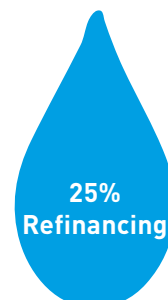
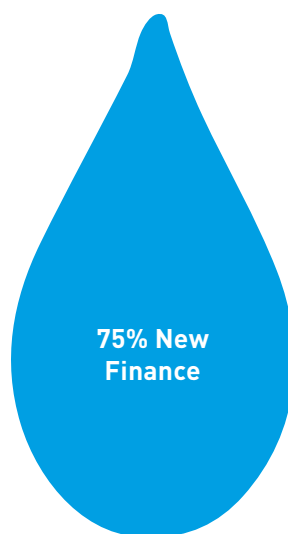
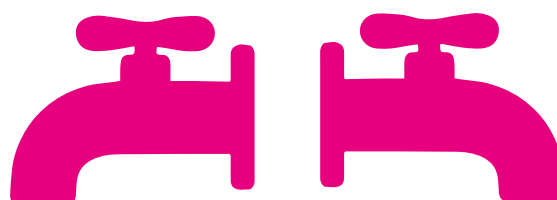
Allocation of proceeds

The proceeds from the sustainable bond issue have been fully allocated against new financing and refinancing. New financing is defined as expenditure incurred in financial year 2020/21, refinancing is defined as expenditure incurred in financial year 2019/20. As at the date of the report all proceeds have been allocated between new financing and refinancing based on the chart below.



Although most of our assets and expenditures could be eligible, when it comes to existing assets and expenditures, we will aim to refinance **Eligible Sustainable Investments** that have been completed or charged (in the case of operating expenditures) 3 years prior to the date of financed raised.








The **Sustainable Finance Framework** allows us to use the proceeds for both financing and refinancing expenditure. As part of the bond road show we stated we would allocate most of the proceeds to new finance. On this basis we have decided to allocate 75% to new finance and 25% to refinancing.



In the Sustainable Finance Framework we mapped the ICMA green eligible categories and social eligible categories against our Business Plan Outcomes. These Business Plan Outcomes are underpinned by Performance Commitments.

For the purposes of our Allocation Report we have identified eligible expenditure as comprising expenditure that contributes to the achievement of the Business Plan Outcomes and/or Performance Commitments. The following table provides an analysis of the expenditure mapped against our Business Plan Outcomes and Performance Commitments.

Table 1 – Sustainable bond allocation

Business Plan Outcome	Sub-Portfolio		2019/20	2020/21	Total
A positive difference	Social		2.2	1.8	4.0
A service for everyone	Social		1.7	1.8	3.5
Good to drink	Green		14.9	28.6	43.5
The lowest possible bills	Green		-	0.8	0.8
A thriving environment	Green		17.8	84.7	102.5
Wastewater safely taken away	Green		11.6	37.6	49.2
Water always there	Green		25.8	66.9	92.7
Total			74.0	222.2	296.2

¹ Reported values are sourced from Severn Trent's accounting system SAP.

² Project expenditure is tagged in SAP and allocated to the Business Plan Outcomes which are defined in our PR19 Business Plan submission. The allocations are made based on analysis performed by our Business Planning team and Strategic Asset Planning team as part of the allocation reporting process. Social assets and expenditures are included separately where they are considered to align with the Social Eligible Categories.

³ Eligible project expenditure comprises expenditure that has been attributed to the Business Plan Outcomes in accordance with the Use of Proceeds outlined on pages 10 and 11 of the Sustainable Finance Framework.

⁴ Expenditure has been assessed for eligibility and inclusion in the Eligible Categories and the alignment with these has been confirmed by the Sustainable Finance Committee.

In 2015, the United Nations published the Sustainable Development Goals (SDGs). They are comprised of 17 individual targets spanning a wide range of topics from poverty and inequality to climate change and biodiversity. Our sustainability ambitions contribute to the UN Sustainable Development Goals. Our work touches all 17 of the goals in some way, but here we've outlined our most significant.

United Nations Sustainable Development Goals

We have outlined our most significant contributions to the 17 goals through our core businesses and the way we run our company.

Core Business Impact



Ensure availability and sustainable management of water and sanitation for all.



Ensure access to affordable, reliable, sustainable and modern energy for all.



Take urgent action to combat climate change and its impacts.

Significant Impact



Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.



Ensure sustainable consumption and production patterns.



Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Moderate Impact



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.



Achieve gender equality and empower all women and girls.



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.



Reduce inequality within and among countries.



Make cities and human settlements inclusive, safe, resilient and sustainable.



Case studies



Case study – our new academy, a thriving environment



Learning and skills development for Severn Trent and our communities

Our Academy provides the structure for us to have the most skilled workforce in the industry. The Academy provides training across all aspects of Severn Trent's business – with a syllabus launched in July 2020 and a purpose-built facility opened in Coventry in February 2021. As well as operations and engineering skills, the syllabus includes the whole range of business skills, from customer service to leadership and management. It offers learning opportunities for everyone, whatever stage of their career, as well as the potential for people to re-skill if they wish or need to. We've invested £10 million to give our Academy a genuine focus on experiential learning, providing learners with the opportunity to test the theory they learn in the classroom, and build the confidence to apply what they've learnt on our water network.

KICKSTART SCHEME

Joining the government's Kickstart Scheme

At Severn Trent, we've committed to hosting 500 Kickstarters over the course of the year, putting them into all sorts of roles across the business – in operational and customer facing teams, and support functions such as technology, HR, finance and engineering. As well as learning on the job, they'll spend four hours a week developing employability skills through our new Academy training facility – significantly more than the scheme requires.

Case study – Farming for Water

Improving the quality of our rivers

How farmers manage their land in our catchments is one of the key determinants of the health of our region's ecosystem, both on land and in water. Discharges from agriculture are the most significant cause of any failure to meet the Government's targets for good ecological status in rivers.

Our catchment-management programme, Farming for Water, works directly with farmers to reduce these discharges, at the same time as boosting on-farm biodiversity, providing grants and free advice to help achieve our aims, and improve the farm environment.

Now we are investing to expand Farming for Water further. Through extensive analysis, we've identified areas where water quality is especially sensitive to how the land and crops are managed, allowing us to prioritise. In some of our catchments we estimate we can reduce farming's contribution to phosphates in watercourses by up to 66%.

Our ambitious plans cover 44 catchments and 432,000 hectares, and will see us working with two-thirds of all farmers in our region. This is way above our regulatory commitment to achieve 16 successful catchment management schemes (when a scheme has met a specific pollution target) by 2025. At the end of year 1, we are ahead of target with six catchments, and remain on track to meet the 2025 target with a further 10 catchments.



Case study – The Great Big Nature Boost



A greater, bigger biodiversity commitment

Between 2015 and 2020, we improved the biodiversity of 244 hectares of land. We've seen such good results from our work that we're embarking on one of the UK's larger nature projects, our Great Big Nature Boost (GBNB). Through this, by 2027 we aim to improve biodiversity across 5,000 hectares of land in our region.

Making an impact as part of GBNB, we'll:

- Plant over 1.3 million trees grown by UK nurseries, providing homes for our native wildlife, contributing to natural flood management and sequestering carbon.
- Create wildflower meadows to encourage the insects and birds that are natural predators of pests - farmers then use less pesticide, reducing the risk of agricultural run-off into local rivers.
- Restore moorland in the Upper Peak District, which provides important habitat for some wonderful bird species - healthy moorland helps to make soil less prone to erosion and reduces the impact of flooding.
- Restore bog and peatland - healthy peat bogs trap and store millions of tonnes of carbon and absorb vast quantities of water, acting like big sponges.

Helping beavers create wetland habitats

Beavers are a 'keystone species', meaning their activity can actually create wildlife habitats in wetlands, bringing a wide range of ecological and economic benefits, especially in enhancing plant and animal diversity. On the Willington Wetlands nature reserve, a former gravel quarry, Derbyshire Wildlife Trust is encouraging this activity by developing an enclosed Eurasian beaver release site. Here, GBNB support will help provide the ideal conditions for these wetland engineers.



Case study – reducing leaks



When water leaks from pipes before it reaches our customers, not only is it wasted, but so is the energy we used to treat it and move it around. It also affects our reputation with our customers, who consider it a key issue, so we aim to reduce leakage as much as possible. We also have a commitment with the rest of the UK water sector to triple the rate of leakage reduction by 2030.

We've achieved our leakage target for nine of the past ten years, and have now set goals to reduce it by 15% by 2025, and 50% by 2045. We'll do this by finding and fixing leaks earlier and faster, ideally before they begin to cause a problem.

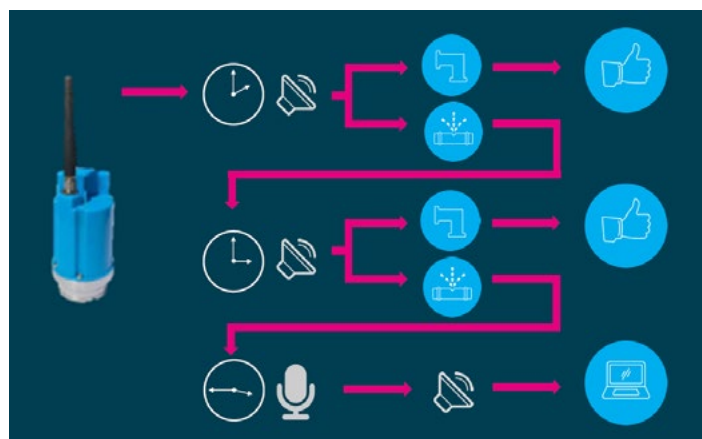
We've invested in our teams of water-network technicians, and equipped them with 40,000 data loggers. Some are based on water pressure, but most are acoustic loggers. These trigger an alarm remotely for us to investigate, which is much faster than being physically on the network detecting leaks.

6 CLEAN WATER AND SANITATION



How do the loggers work?

- Loggers wake up between 2-4am, listening out for new leaks on the pipe network.
- Alarms and sound files are sent to the office for analysis.
- Fieldwork dispatched to find the leak.



Deloitte assurance report

Deloitte have reviewed this Allocation Report and provided limited assurance over selected information contained within the 'Key features' table on page 8 and the 'Sustainable bond allocation' table on page 10.

Deloitte's limited assurance opinion is available on our website.



