

EXPLAINING OUR TAX CONTRIBUTION 2021/22

WONDERFUL ON TAP

SEVERN
TRENT

FOREWORD

At Severn Trent, we know that when we are united by our clear social Purpose, we can drive positive change and deliver better outcomes for all our stakeholders – our customers, our colleagues, our investors, the society we live in and the environment we depend on. Our approach to tax is no exception. We are committed to managing our tax affairs in a responsible manner, paying the right amount of tax at the right time in compliance with UK tax rules and acting in accordance with the values set out in our corporate responsibility framework.

Paying tax is one of the important ways that we contribute to society. The contributions we make help fund vital public services and investment in people and public infrastructure. We believe that building trust with our customers, colleagues and other stakeholders on issues such as tax is important to the long-term sustainability of our business. This is why we are committed to paying our fair share of tax and helping our stakeholders understand our tax position and the contributions we make.

Over the past year, we are delighted to have retained our Fair Tax Mark for the third year running. This much sought-after recognition demonstrates we're a company that's committed to managing our tax affairs responsibly and supporting measures aimed at enhancing tax transparency.

We chose not to claim any of the Government's COVID 19 business support measures and were able to contribute over £125m in taxes to the public finances in the year.

We hope you enjoy reading our report.

James Bowling
Chief Financial Officer



OUR APPROACH TO TAX IS DRIVEN BY THE INTERESTS OF ALL OF OUR STAKEHOLDERS



Customers

The effective management of our tax affairs is in the best interests of our customers as it helps to keep our bills as low as possible. This is particularly true for our regulated business where the taxes we pay are included in the calculation of customers' bills.



Colleagues

Our colleagues tell us they want to work for a socially responsible business that pays the right amount of tax at the right time, complies with all relevant tax laws and is open and transparent about its tax affairs.



Shareholders

As a listed business, responsible and efficient management of our tax affairs helps us deliver attractive, sustainable post tax returns in the form of dividends.



Government Agencies

We maintain an open and transparent relationship with Government Agencies including Ofwat, HMRC and the Valuation Office Agency (VOA) and ensure they are kept up to date with business developments.



Communities

The communities we serve have an interest in how we manage our taxes and want us to act in a socially responsible way.

We make a significant financial contribution to our communities through the business rates we pay direct to local authorities as well as broader taxes.

Our Approach to Tax

- We will manage our tax affairs responsibly, recognising the interests of all our stakeholders;
- We will not undertake aggressive tax planning or any planning that is not aligned with the economic and commercial activities of our business;
 - We will make use of widely claimed incentives offered by Government to encourage investment; and
- We will maintain an open, transparent and collaborative relationship with HMRC consistent with maintaining our good working relationship.

A copy of our tax strategy is available at www.severntrent.com/content/dam/stw-plc/responsibility/tax-strategy.pdf. Our tax strategy is reviewed annually and approved by the board. Compliance with our strategy is tested regularly by our internal audit function.

TAX RISK MANAGEMENT FRAMEWORK

We do not see governance as something we do because we have to; it is ingrained in the way we behave, how we make decisions, how we run our business and, ultimately, how we build trust. The Severn Trent Board is fully committed to open and transparent reporting [Governance Report FY22 – Chair’s introduction].

Our Tax Strategy outlines our approach to tax risk management. Through good tax governance we manage tax risks by ensuring roles and responsibilities for tax are clearly defined and understood. We have operational procedures and controls in place which are written by the business and ensure day to day management of the risks identified. When addressing tax risk, we consider the impact on our business and our stakeholders.

As part of our overall risk management framework, all tax risks are reviewed annually for both the possibility of occurrence and the potential impact on our objectives. We have a robust tax risk framework through which we identify key risks and implement controls to minimise the occurrence and impact of these risks.

What are our key tax risks and how are they managed?

Key Tax Risk	How our key risks are managed
Tax legislation	One key tax risk is the introduction of unanticipated tax practice or legislative changes. We actively engage with the relevant tax authorities to mitigate these risks and work with the water industry, through Water UK, to assess and communicate the impact of any such changes on our business.
Financial reporting	We implement strong tax compliance procedures and controls which ensure the presentation of our tax position in our financial reports is accurate, complete and transparent. Our annual report and accounts are subject to an independent third party audit to give added assurance to the reader on the robustness of the disclosures.
Tax compliance	Our wider risk management framework and governance process give us confidence that the tax returns we file are correct and complete and can be traced through the accounting system to the underlying source data, giving assurance to our commitment to pay the right amount of tax at the right time.

As our Senior Accounting Officer, James Bowling (our CFO) is ultimately responsible for tax governance within Severn Trent and certifies on an annual basis that we have taken reasonable steps to ensure we have appropriate tax accounting arrangements in place so that our tax liabilities are calculated accurately.

James is supported by an experienced team of tax and finance professionals with water industry expertise. The team works hand in hand with the business to mitigate tax risk and engages with external tax advisers on more complex areas of tax or where there is tax uncertainty.

TAX TRANSPARENCY

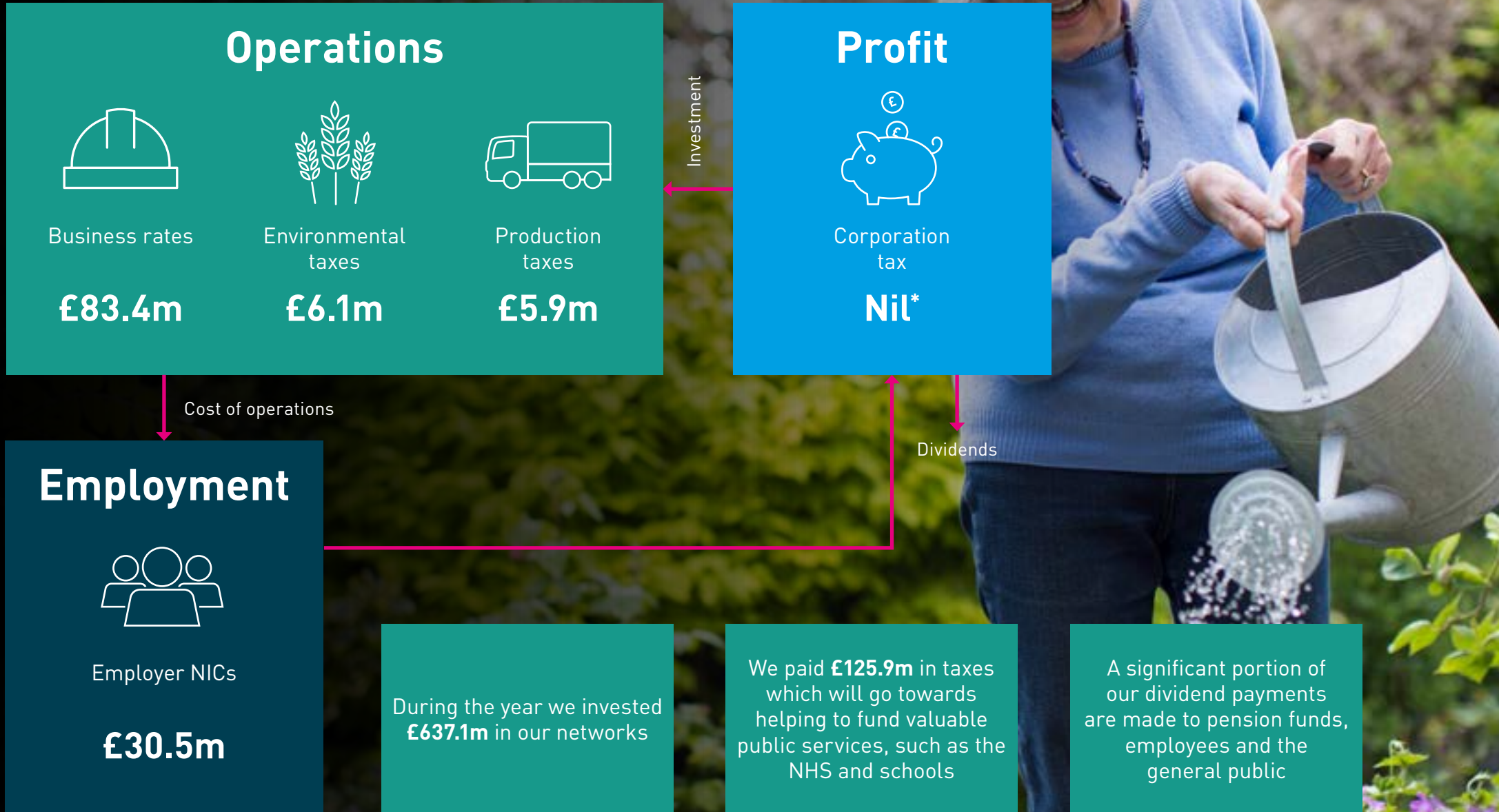
We support measures aimed at enhancing tax transparency and are committed to providing regular information on our tax affairs in a clear and straightforward way for our stakeholders and provides them with confidence that we are paying our fair share of tax.

To this end, we provide transparent disclosure of our tax affairs, the amounts and types of taxes we pay and where we pay tax.

This year, we retained the Fair Tax Mark. It recognises that we're a company that does the right thing – paying the right amount of corporation tax, in the right place at the right time. Most importantly, this accreditation shows our customers that we are a responsible business taking a great deal of pride in being open and transparent in how we do things.



WHAT TAXES DO WE PAY?



* Due to changes in government policy allowing accelerated tax relief for investment (explained on the next page).

CORPORATION TAX

We pay corporation tax on our profits, almost all of which are generated in the UK, so they're subject to UK corporation tax at the current rate of 19%.


Corporation Tax changes announced by the UK Government and the impact on Severn Trent's corporation tax profile.

In March 2021, the UK Government announced the introduction of a new capital allowance 'super deduction' tax relief, available from 1 April 2021 to 31 March 2023. It is our approach to make use of widely claimed incentives, like the super deduction, offered by Government to encourage investment where they align with our business objectives and help us invest in our operations and people (as outlined in our Tax Strategy).

During the year we invested £637.1m in our networks and part of this investment will qualify for the super deduction. The changes announced to the capital allowance regime have reduced our current tax payable in the year to nil. The benefit we receive from this change is largely timing - we account for this timing difference through deferred tax.

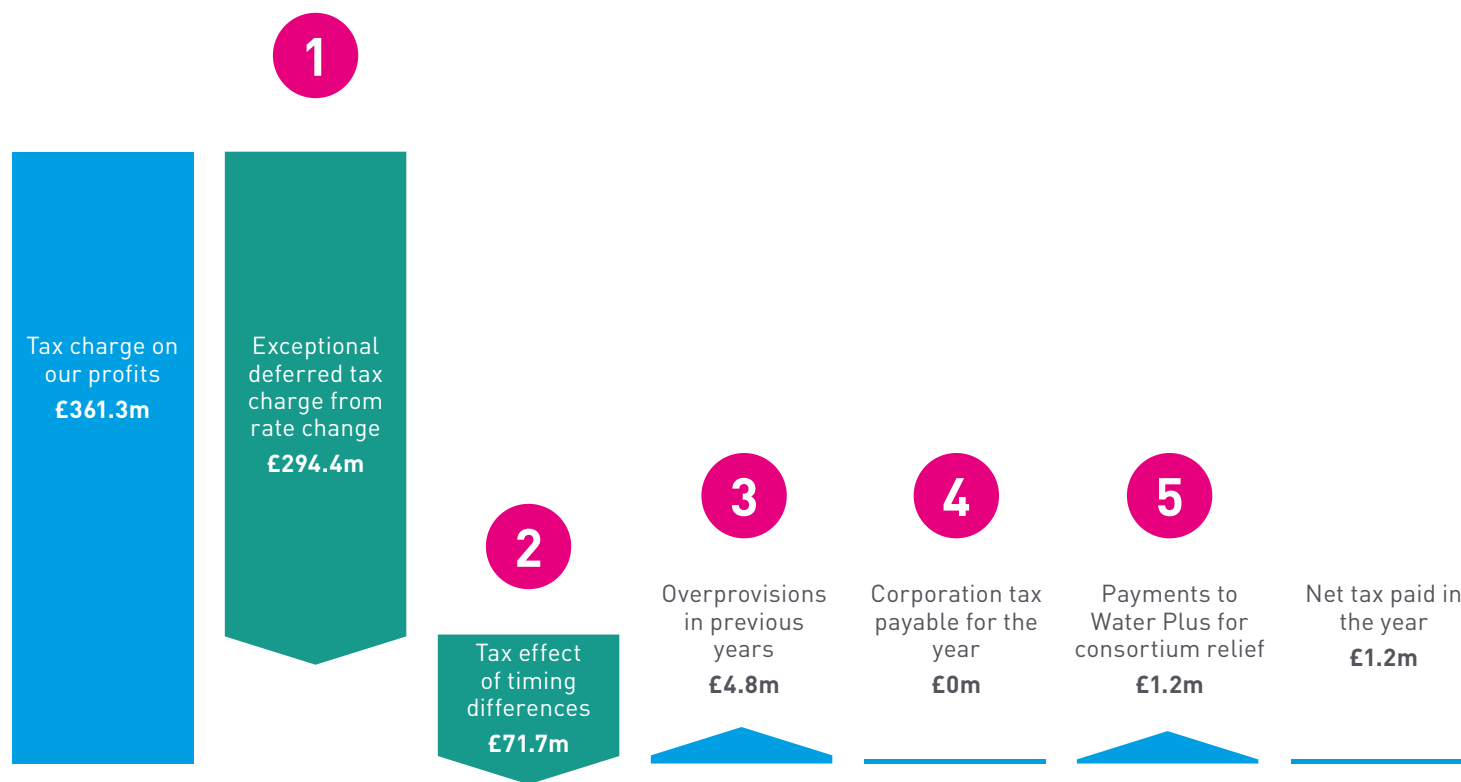
Also announced in the UK Budget was an increase in the main rate of corporation tax from 19% to 25% from 1 April 2023. We expect the impact of the increase in the corporation tax rate to result in higher corporation tax payments in future years beyond 1 April 2023 which is also reflected in our deferred tax charge.

The chart overleaf shows why the tax we paid in the year was lower than the charge in our accounts.

A young boy with short dark hair, wearing a festive green and red Christmas sweater with yellow dots, is looking up and smiling at an adult whose face is partially visible on the right side of the frame. The background is a plain, light-colored wall.

One example of a project expected to qualify for the super deduction is the roll out of a large-scale trial of smart water meters in our region to help customers save water and save money on their water bills as part of our Green Recovery programme.

WHY OUR TAX PAID WAS LOWER THAN THE CHARGE IN OUR INCOME STATEMENT



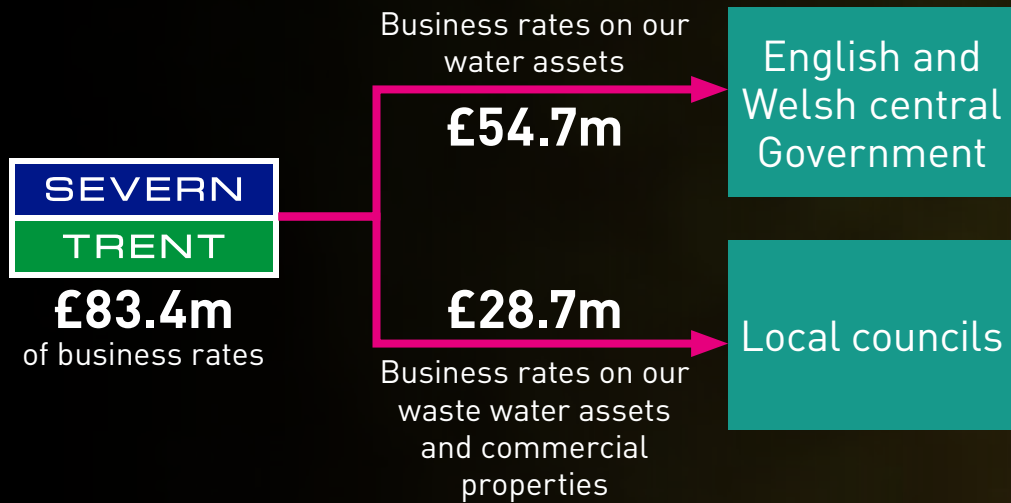
- 1 The increase in the main rate of corporation tax to 25% from **1 April 2023** means we have had to restate our deferred tax provision. This has not affected the amount of tax we needed to pay in the year.
- 2 The tax charge on our profits includes amounts that are payable to HMRC now (current tax) and amounts that may become payable in the future, for which tax relief is received earlier than items are charged to our income statement (deferred tax).
- 3 We estimate our tax charge when we prepare our accounts and make adjustments in later periods to arrive at the amount of tax we owe.
- 4 No cash tax liability is estimated for **2021/22**.
- 5 Consortium relief allows Water Plus, our joint venture, to surrender a share of its losses to us instead of claiming loss relief from HMRC. We set these losses against amounts we owe to HMRC and pay Water Plus for the relief claimed. There is no impact on the overall amount of tax paid to HMRC.

BUSINESS RATES

We pay business rates on all non-domestic property and infrastructure unless subject to a relief.

Business rates on our water assets, such as our pipelines and service reservoirs, are paid directly to central government. We work with the Valuation Office Agency ahead of each revaluation to ensure that the amount paid for these assets is fairly assessed.

We pay business rates on our waste water assets, such as sewage treatment works, directly to the local council where the assets are located, which means the tax goes directly to the communities we serve. We regularly review the individual valuations for each of our sites to ensure that the correct business rates are being paid for these sites.



NATIONAL INSURANCE CONTRIBUTIONS

We manage two types of National Insurance Contributions (NICs):

- **Employer NICs** are a cost to us of employing our colleagues and are based on their salaries.
- **Employee NICs** are costs incurred by our colleagues that we collect and pay to the UK Government on our colleagues' behalf.

How does the UK Government use our National Insurance Contributions?

In 2021/22 we employed on average **7,118** colleagues and paid **£30.5m** in Employer NICs, while also collecting **£22.1m** in Employee NICs.



ENVIRONMENTAL TAXES

The process of providing clean water and cleaning waste water consumes a lot of energy. The consumption of energy is an area that the Government chooses to tax to encourage environmentally positive behaviours.

The energy we use in our business is either generated from our waste and renewables businesses or purchased from renewable sources. Across the Severn Trent group, we currently generate renewable energy equivalent to 52% of our total electricity use and purchase the remainder from third parties, incurring £6.1m of Climate Change Levy this year.

Reducing our energy use and self-generating renewable, green energy tackles the main sources of our emissions and brings financial benefits for both ourselves and our customers. We have signed up to the triple pledge of:

- **Net zero carbon emissions by 2030.**
- **100% renewable energy use by 2030.**
- **100% electric vehicles by 2030** (where suitable models are available).

We are delivering these through innovative means such as energy generation from sewage, food waste and energy crops in addition to other sources such as solar, wind and hydroelectricity. We are determined to play a leading role in addressing our own impact on climate change, the impact of our supply chain and adapting to the challenges that climate change may bring in the future.

We are on track with our Triple Carbon Pledge, and now only buy fully renewable-backed electricity from our energy suppliers. Our electric vehicle fleet continues to increase in size. Our Severn Trent Green Power business recycles over 500,000 tonnes of green and mixed food waste each year. The green energy produced from food waste helps us meet our net zero targets and keep our energy costs down.



PRODUCTION TAXES

Production taxes include taxes on our transport activities and insurance policies.

We operate around the clock to ensure that our customers receive the high standard of service they expect from us. Transport is an essential part of delivering this service.

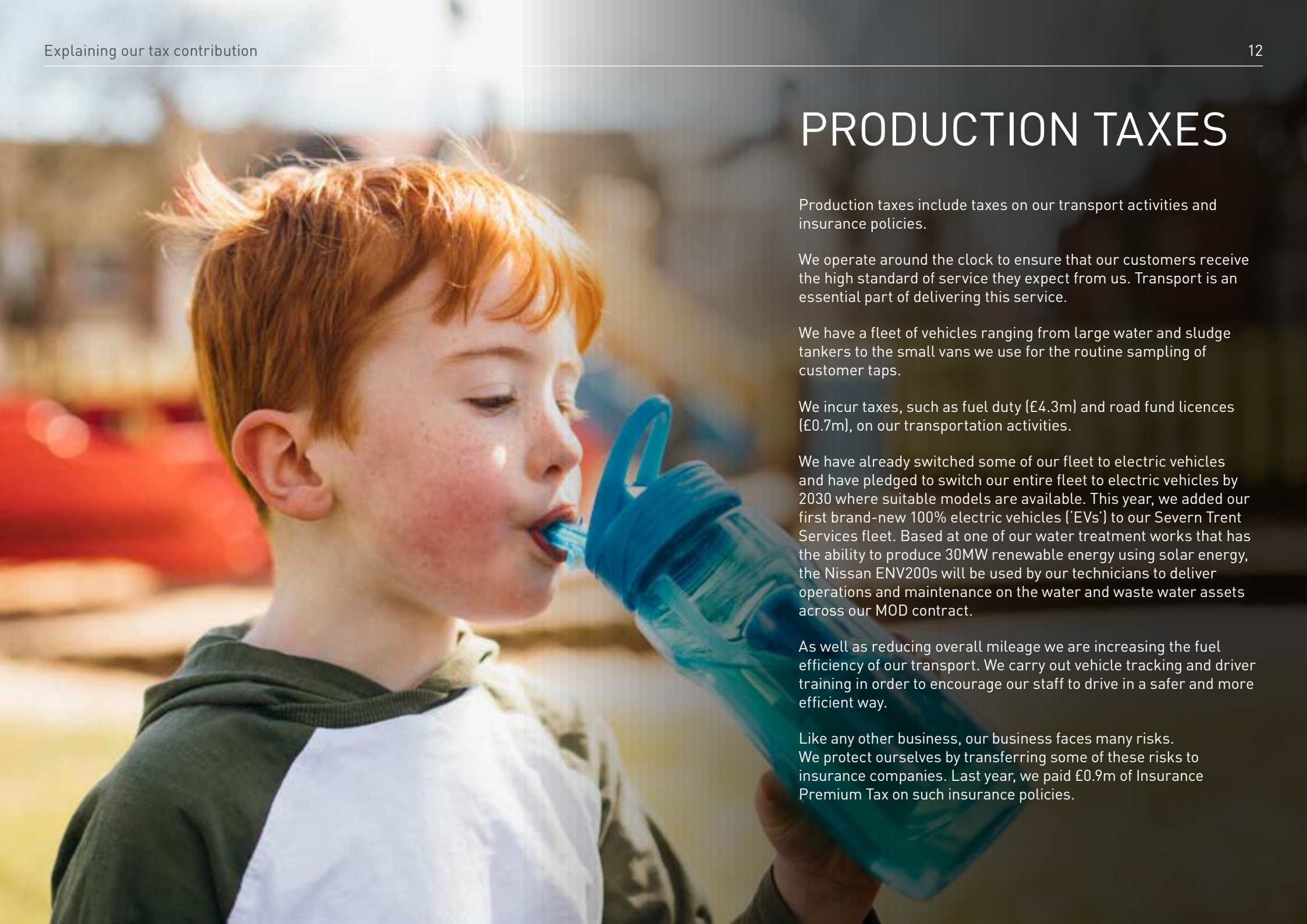
We have a fleet of vehicles ranging from large water and sludge tankers to the small vans we use for the routine sampling of customer taps.

We incur taxes, such as fuel duty (£4.3m) and road fund licences (£0.7m), on our transportation activities.

We have already switched some of our fleet to electric vehicles and have pledged to switch our entire fleet to electric vehicles by 2030 where suitable models are available. This year, we added our first brand-new 100% electric vehicles ('EVs') to our Severn Trent Services fleet. Based at one of our water treatment works that has the ability to produce 30MW renewable energy using solar energy, the Nissan ENV200s will be used by our technicians to deliver operations and maintenance on the water and waste water assets across our MOD contract.

As well as reducing overall mileage we are increasing the fuel efficiency of our transport. We carry out vehicle tracking and driver training in order to encourage our staff to drive in a safer and more efficient way.

Like any other business, our business faces many risks. We protect ourselves by transferring some of these risks to insurance companies. Last year, we paid £0.9m of Insurance Premium Tax on such insurance policies.



COUNTRY BY COUNTRY DATA

We seek to declare profits in the country where the economic substance arises and therefore substantially all of our profits are generated in the UK and are subject to UK corporation tax.

Details of our global activities are provided below:

Country of operation	Tax jurisdiction	Total revenue	Profit/loss Before tax	Income Tax Accrued	Number of Employees Country of operation	Employee costs*	Footnote
UK	UK	1,947.5	122.7	(4.8)	7,118	366.5	1
Guernsey	Guernsey / UK	1.1	1.4	0	0	0	2
South Africa	South Africa	0	0	0	0	0	3
Hong Kong	UK	0	150.0	0	0	0	4
Group		1,948.6	274.1	(4.8)	7,118	366.5	

* Employee costs includes all costs of paying wages, salaries, social security, pension and share based payments

1. Severn Trent is one of the UK's largest water companies. We operate through regulated and non-regulated businesses. Our regulated businesses provide water and sewage services to more than 4.8 million households and businesses in the Midlands and Wales. Our non-regulated businesses design, build and operate water assets, as well as providing renewable energy generation, property development, developer services and property searches.
2. Lyra Insurance Guernsey Limited is a wholly owned subsidiary company incorporated in Guernsey. It was established to provide insurance services to the Group. The company is subject to the UK Controlled Foreign Company (CFC) rules and therefore the Group incurs tax at the UK Corporation Tax rate on its profits.
3. Severn Trent Africa Proprietary Limited was a dormant company incorporated in South Africa that was wound up in the year.
4. Athena Holdings Limited is a wholly owned subsidiary company incorporated in Hong Kong. The principal activity of the company is to act as an investment holding company. The company is tax resident in the UK and therefore has no impact on the Group's overall tax position.

	Research and Development	Holding/ managing intellectual property	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or Support Services	Provision of services to unrelated parties	Internal Group Finance	Insurance	Holding shares or other equity instruments	Dormant	Dissolved
Severn Trent Green Power (Cassington) Limited			X								
Severn Trent Green Power (CW) Limited			X								
Severn Trent Green Power (West London) Limited			X								
Severn Trent Green Power Composting Limited									X		
Severn Trent Green Power (Ardley) Limited			X								
Severn Trent Green Power (Hertfordshire) Limited			X								
Severn Trent Holdings Limited									X		
Severn Trent Investment Holdings Limited									X		
Severn Trent LCP Limited							X				
Severn Trent Leasing Limited							X				
Severn Trent Metering Services Limited							X				
Severn Trent Overseas Holdings Limited									X		
Severn Trent Plc									X		
Severn Trent Property Solutions Limited						X					
Severn Trent Reservoirs Limited							X				
Severn Trent Retail and Utility Services Limited					X						
Severn Trent Services (Water and Sewerage) Limited						X					
Severn Trent Services Defence Holdings Limited									X		
Severn Trent Services Defence Limited						X					
Severn Trent Services Holdings Limited									X		
Severn Trent Services International (Overseas Holdings) Limited									X		
Severn Trent Services International Limited						X					
Severn Trent Services Operations UK Limited						X					
Severn Trent Services UK Limited											X
Severn Trent Trimpley Limited							X				

	Research and Development	Holding/managing intellectual property	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or Support Services	Provision of services to unrelated parties	Internal Group Finance	Insurance	Holding shares or other equity instruments	Dormant	Dissolved
Severn Trent Utilities Finance Plc							X				
Severn Trent Water Limited						X					
Severn Trent Wind Power Limited			X								
Severn Trent WWIF Limited	X										
Severn Trent Limited Partnership							X				
Severn Trent 2017 Limited Partnership							X				
Aqua Deva Limited										X	
Chester Water Limited									X		
Debeo Debt Recovery Limited										X	
Dee Valley Services Limited										X	
Dee Valley Water (Holdings) Limited									X		
Energy Supplies UK Limited										X	
North Wales Gas Limited										X	
Northern Gas Supplies Limited										X	
Severn Trent MIS Trustees Limited										X	
Severn Trent Pension Scheme Trustees Limited										X	
Severn Trent PIF Trustees Limited										X	
Severn Trent SSPS Trustees Limited										X	
Wrexham Water Limited										X	
Lyra Insurance Guernsey Limited								X			
Athena Holdings Limited									X		

KEY TERMS

Business rates	Taxes charged on our properties and infrastructure.
Corporation tax	The tax we pay on the profits we earn.
Employer National Insurance Contributions (NICs)	Taxes charged on employing our colleagues.
Environmental taxes	Taxes designed to promote environmentally positive behaviour including taxes on the energy we use, such as Climate Change Levy.
Production taxes	Taxes charged on our transportation activities, such as fuel duty and vehicle excise duty, and insurance policies, such as Insurance Premium Tax.
Taxes incurred	Includes all taxes that represent a cost to us of running our business.

WONDERFUL ON TAP

