Severn Trent Water Limited

Report and financial statements
For the year ended 31 March 2021

Company number 2366686

Severn Trent Water Limited

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www.stwater.co.uk

Contents

VISION AND PURPOSE
TAKING CARE OF ONE OF LIFE'S ESSENTIALS

Our **Strategic Framework**

Purpose – **taking care of one of life's essentials**

At Severn Trent, we believe our clear social purpose helps drive the right strategic decisions for our business, our stakeholders and the environment we depend on.

It is underpinned by our strong Values and borne out in our culture which governs how we think and behave, from fostering a diverse and inclusive working environment to rewarding all of our people fairly.

Strategic outcomes

1 A company **you can trust**

2 A positive **difference**

3 **Lowest possible** bills

4 A service **for everyone**

5 An outstanding **experience**

6 Good to **drink**

7 Water **always there**

8 Waste water **safely taken away**

9 A thriving **environment**

Online at severntrent.com

Sustainability pillars

Taking care of the environment
- Ensuring a sustainable water cycle
- Enhancing our natural environment
- Making the most of our resources
- Mitigating climate change

Helping people to thrive
- Delivering an affordable service for everyone
- Providing a fair, inclusive and safe place to work
- Investing in skills and knowledge
- Making a positive difference in the community

Being a company you can trust
- Living our Values
- Balancing the interests of all our stakeholders
- Running our company for the long term
- Being open about what we do and sharing what we know

Online at severntrent.com/sustainability-strategy

Our Values

Online at severntrent.com

Culture

Our culture is focused on nurturing and promoting the health of the natural environment and the wellbeing of our customers, colleagues and communities.

Stakeholder engagement

Effective stakeholder engagement is a priority for every member of the Severn Trent team, from the frontline to the Board. Our emphasis is on tracking the outcomes of our engagement, encouraging a two-way dialogue and making sure this helps inform our decision making.

Rewarding our people

We are committed to rewarding all of our people fairly, sharing rewards with our communities through the Severn Trent Community Fund and returning value to our shareholders, many of whom are also our employees.

Online at severntrent.com

Severn Trent Water Limited
Strategic report
For the year ended 31 March 2021

Who we are

We provide clean water and waste water services and develop renewable energy solutions through our business.

Regulated water and waste water

Severn Trent Water Limited and its subsidiary, Hafren Dyfrdwy Cyfyngedig, are two of eleven regulated water and waste water businesses in England and Wales. We provide high quality services to more than 4.6 million households and businesses in the Midlands and Wales.

Our Regulated water and waste water business includes the wholesale water and waste water activities of Severn Trent Water Limited and its retail services to household customers, and Hafren Dyfrdwy Cyfyngedig. Unless stated otherwise, the information in this report relates to Severn Trent Water Limited, which makes up 98% of our total customer base.

The primary activities we focus on

- Wholesale operations and engineering
- Household customer services

Where we operate

Our region stretches across the heart of the UK, from the Bristol Channel to the Humber, and from North and mid-Wales to the East Midlands.

STW Turnover £1,699.5m (2019/20: £1,714.6m)	**Litres of drinking water supplied each day** 2.0 billion litres
STW Profit before interest and tax £457.9m (2019/20: £546.7m)	**Litres of waste water treated per day** 3.1 billion litres
STW Adjusted profit before interest and tax £457.9m (2019/20: £546.7m)	**Employees**[2] 6,668
Households and businesses served 4.6 million	

1. Alternative Performance Measures are defined in note 41 to the financial statements.
2. Average employees

Purpose in **Action**

As a purpose-led business with a strong focus on our social impact, we were pleased to have made strong progress in a number of important areas, taking care of one of life's essentials and doing the right thing for our customers, our colleagues, society and the environment.

Triple Carbon Pledge

In 2019 we announced our Triple Carbon Pledge – committing to net-zero operational carbon emissions, 100% renewable energy and an all-electric fleet by 2030, subject to the availability of vehicles. In 2020 we also announced our decision to invest £1.2 billion in environmental initiatives including planting 1.3 million trees and boosting the biodiversity of 5,000 hectares of land in our region.

Severn Trent Academy

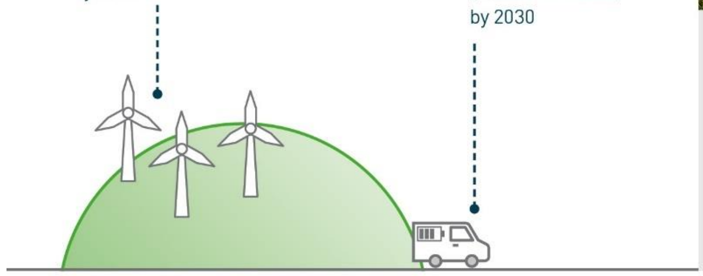
Our Academy opened in Coventry in February 2021 and our range of learning programmes are already training our engineers and leaders of the future, giving our people opportunities for growth, development and more rewarding careers.

Advancing our response to climate change

We are determined to play a leading role in addressing the impact of climate change and mitigating our own impact, the impact of our supply chain and adapting to the challenges that climate change may bring in the future. In March 2021, we submitted our proposed Scope 1, 2 and 3 emissions targets to the Science Based Targets initiative, committing us to significantly reduce our greenhouse gas emissions by 2030.

100%
Renewable energy
by 2030

100%
Electric vehicles (where available)
by 2030



Supporting our suppliers

Along with our employees, our suppliers support us in serving our customers. During the year we accelerated payments to our supply chain, helping small and medium-sized enterprises in our region with crucial cash flow throughout the COVID-19 pandemic.

Severn Trent Community Fund

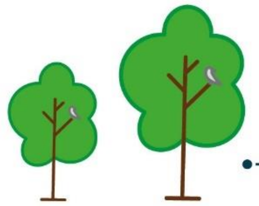
Our Community Fund donates 1% of our profits each year to projects in our local communities which need the most help, and so far we have awarded £1.5 million to 93 projects. This year we also launched our £1 million COVID-19 Emergency Fund and have donated to 339 local charities to help them deal with the effects of the pandemic. We also donated almost £1 million as part of our water saving charity challenge.

Caring for our colleagues

Our people are fundamental to delivering one of life's essentials and we believe our culture is what makes us special.

Kickstart scheme

In January 2021 we welcomed the first of our 'Kickstarters' as part of our ambitious plans to support 500 unemployed 16 to 24 year olds into employment with paid work experience and skills development.



1.3m
Planting 1.3 million trees
by 2030

Diversity and inclusion initiatives

Our teams are passionate about creating an environment where everyone can feel comfortable bringing their whole self to work. During the year we launched our new diversity and inclusion offering via our Academy and developed a specific diversity and inclusion focus in our employee QUEST survey.

Running an **Efficient Water Business**

We provide clean water every time our customers turn on the tap, and remove their waste water in an affordable, sustainable and reliable way.

We are committed to acting to protect our planet and lead the way in combating climate change in our industry. We do this through the important relationships we maintain with our key stakeholders.

Delivering our Purpose and Living our Values

RESOURCES & RELATIONSHIPS WE RELY ON

Resources

Physical assets
A resilient, well maintained network of clean water pipes and reservoirs, sewers and pumping stations.
We maintain over 49,900 km of clean water pipes and over 92,800 km of sewer pipes.
Principal Risks: 2 and 3

Natural resources
Water from reservoirs, rivers and underground aquifers are essential to support Severn Trent's operations and value creation.
We look after some of the UK's most impressive natural resources.
Principal Risks: 2, 3, 6 and 7

Financial capital
We have a strong balance sheet and are able to access a range of capital markets to fund future operations.
Our combined STW and HD gearing is 64.5% (2019/20: 64.4%).
Principal Risks: 8 and 9

Relationships

Our customers and communities
Are at the heart of everything we do. We aim to anticipate and meet changing customers' and wider societal needs.
We serve 4.6 million households and businesses.
Principal Risks: 2 and 3

Our people and culture
Our culture and Values support Doing the Right Thing and drive delivery of our strategy. We look to attract, develop and retain talented people from all backgrounds.
We directly employ over 6,500 people.
Principal Risk: 1

Our suppliers and contractors
Strong supplier relationships support our business operations in line with our modern slavery commitments.
We work with around 2,800 direct suppliers.
Principal Risk: 5

Our regulators
Our industry is regulated by Ofwat and several other regulators and public bodies.
We proposed an ambitious package of investments aimed at delivering long-term, sustainable benefits for current and future generations in our region.
Principal Risks: 4 and 10

THE WATER CYCLE

Water is collected
We pay the Environment Agency and Natural Resources Wales for the water we collect from reservoirs, rivers and underground aquifers across our region.

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

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

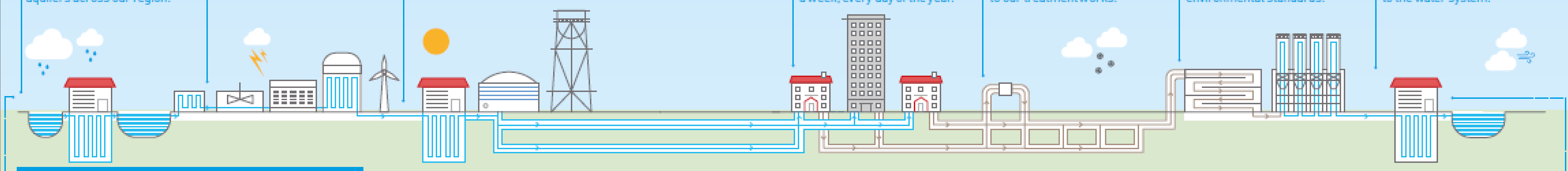
Customers enjoy our services
We serve 4.6 million households and businesses with a safe, reliable supply of water and collect waste water seven days a week, every day of the year.

Waste water is collected
Our network of sewers and pumping stations collect waste water from homes and businesses and take it to our treatment works.

Waste water is cleaned
Waste water is carefully screened, filtered and treated in our sewage treatment works to meet stringent environmental standards.

Water is recycled to the environment
We pay the Environment Agency and Natural Resources Wales annual consent fees to return the treated water to the water system.

ADDRESSING CLIMATE CHANGE AS A PRIORITY



Taking care of one of life's essentials at every step

OUR INVESTMENTS IN RENEWABLE ENERGY PRODUCTION

Providing clean water and cleaning waste water is an '**energy hungry**' process so we use waste and renewables to help us power our operations.

The green energy produced from food waste forms part of Severn Trent's Triple Carbon Pledge – achieving net-zero operational carbon emissions, 100% renewable energy and an all-electric fleet of vehicles, subject to the availability of vehicles, by 2030.

GENERATING & PRESERVING LONG-TERM VALUE

Physical assets
Replaced 48 km of our water mains (2019/20: 260 km).
Strategic outcomes: 7/8

Natural resources
We are on track to improve 5,000 hectares of land across our region by 2027.
We planted around 290,000 trees this year, on track to meet our 1.3 million target by 2030 as part of our Great Big Nature Boost.
Strategic outcomes: 2/9

Financial capital
Sector leading ODI performance.
Gearing close to the regulatory model leading to stable credit ratings.
Strategic outcomes: 1/3

Our customers and communities
One of the lowest bills in England over the last decade for Severn Trent Water.
Hafren Dyfrdwy customers continue to have the lowest average combined bills in Wales.
We helped over 150,000 customers through financial schemes (2019/20: c.70,000).
Strategic outcomes: 2/3/4/5

Our people and culture
Developing people from all backgrounds in line with our Social Mobility Programme.
Over 15% of our graduates and apprentices are from a Black, Asian and minority ethnic backgrounds (2019/20: 30%).
Strategic outcomes: 1/2

Our suppliers and partners
Building sustainable relationships that provide mutual benefit.
Over 1,000 suppliers have signed up to our Sustainable Supply Chain Charter since 2016.
Strategic outcomes: 1/2/4/5

Our regulators
We stimulate regulatory debates to improve services for customers across the industry.
Strategic outcomes: 1/2/5/9

CHAIR'S STATEMENT

FULFILLING OUR ROLE IN SOCIETY

"Severn Trent's Purpose is to 'take care of one of life's essentials' and this year, more than ever, has underlined the importance of delivering our Purpose and living our Values in everything we do – delivering for our customers, inspiring our people, generating a positive impact for our communities and the environment and reinforcing that in the long term all those interests are aligned. Our strategy is working and we are confident that we are in a strong position for the challenges and opportunities ahead."

Our Purpose

In our 2019/20 Annual Report we introduced our new company Purpose and Values which were developed collaboratively by our people, for our people. We know that what we do is crucial for everyone who lives and works in our region – be that in the water they drink, the jobs we create, the communities we support and the nature enjoyed by us all. Our Purpose of 'taking care of one of life's essentials' – underpinned by our Values of Having Courage, Embracing Curiosity, Showing Care and Taking Pride – reflects the deep connection that we have with the communities we serve.

Now, more than ever before, we must lead with our Purpose and act as a force for good. Our AMP7 strategic outcomes – focused on the customers and communities we serve and the environment that we depend on – are fully aligned with this objective. It is not only about demonstrating that we are a socially responsible company, it is about doing great business in an authentic way to make a real difference for all of our stakeholders.

Our performance

The COVID-19 pandemic has dominated 2020/21 and has placed extraordinary demands on every one of us as individuals, families, communities and employees of an essential service provider. Our priority throughout the year has been ensuring our operational and financial resilience to serve our customers and play our part to make a positive impact for the good of our stakeholders and wider society, whilst also protecting the health and wellbeing of our employees.

This year has seen our Company successfully achieve a series of important milestones, culminating in Ofwat proposing on 17 May 2021 that we can invest £565 million (2017/18 prices) in our ambitious Green Recovery programme. This will deliver long-term growth for the Company alongside new investment to support our ESG ambitions. Our impressive operational performance is discussed in detail in Liv's Chief Executive's Review. In this report, I want to take the opportunity to look at the bigger picture by highlighting the positive difference we have made for our stakeholders, the resilience of our operations throughout the year, and underline our commitment to being a force for good in the communities we serve – which is now, more important than ever before.

Delivering for our customers while keeping our people safe

Our people take very seriously the responsibility that comes with providing an essential service that touches the lives of millions. Their passion and commitment shines through in everything they do – through embracing change or adapting to unexpected incidents and extreme weather events during the year. I have been humbled by the way in which they have continued to work safely on the front line or switched to working at home with remarkable adaptability. It has been particularly uplifting to witness the spirit in which our colleagues have taken on these challenges. I would like to record particular thanks to our people who continued to work on the front line throughout the COVID-19 pandemic, meeting customers, solving problems and working tirelessly to keep our services running smoothly 24 hours a day, seven days a week.

Our people were supported by the expert management of the evolving situation by our Executive Team – who had clear objectives to: ensure our people had access to the correct personal protective equipment ('PPE'); increase our internal communications to ensure our people were kept informed; and apply focus on employees' mental health during the lockdowns. The Company also continued to deliver on important projects throughout the pandemic to ensure the Company's long-term future resilience. Liv provides more detail within her Chief Executive's Review.

At an industry level, shockwaves from the tragic accident at Avonmouth in December 2020 were felt across the sector and had a profound impact across our business. In response to the event, we immediately suspended all activity related to Dangerous Substances and Explosive Atmospheres Regulations 2002 ('DSEAR') and undertook comprehensive surveys at all of our bioresources sites as well as a comprehensive review of all our high risk actions. For those colleagues at Wessex Water who suffered personally, and those families and friends affected, I extend my deepest sympathy.

Delivering resilient financial performance and sharing the rewards

Under our industry's regulatory framework, high levels of customer service create financial rewards through customer ODI outperformance. This means that we are able to share the benefits of our work with all stakeholders when we perform well. Over the course of AMP6, we reinvested £220 million generated by our outperformance back into our business, including supporting vulnerable customers, improving water quality and enhancing security. Additionally, it enabled us to support our communities through activities such as:

- Allocating over £1.5 million of funding through the Severn Trent Community Fund to 93 projects in our region;
- Donating an additional £1 million through our COVID-19 Emergency Fund to over 300 charities;
- Donating almost £1 million as part of our water saving charity challenge;
- Accelerating payments to our supply chain, helping small and medium-sized enterprises in our region with crucial cash flow at this challenging time; and
- Embracing the Government Kickstart Scheme with our ambitious plans to support 500 unemployed 16 to 24 year old's into employment with paid work experience and skills development.

We are proud that, despite exceptionally challenging circumstances, we delivered excellent operational performance this year that enabled resilient financial results – with turnover of £1,699.5m million (2019/20:£1,714.6 million). Liv and our Chief Financial Officer, James Bowling, will explain in more detail later in this report.

Advancing our response to climate change

Climate change is a key challenge of our generation and, as a water company, we are better placed than many other businesses to experience and understand the scale of the challenge ahead. We are determined to play a leading role in addressing the impact of climate change through mitigating our own impact, the impact of our supply chain and adapting to the challenges that climate change may bring in the future. Further detail on our climate change action plan can be found within Liv's Chief Executive's Review and within our dedicated Sustainability Report, available on our website.

The Severn Trent Plc Remuneration Committee has considered the alignment of the Company's remuneration framework to support delivery of the Company's Sustainability Framework even more closely. The 2021 Severn Trent Plc Remuneration Policy (the 'Policy') proposes the introduction of a second, sustainability-focused, performance measure in the Company's Long-Term Incentive Plan ('LTIP'). Further detail can be found within the Directors' Remuneration Report on pages 118 and 119.

Your Board

My focus continues to be on maintaining a strong, value-adding team, with a diverse range of professional backgrounds, skills and perspectives. Succession planning is a key priority for the Board and Severn Trent Plc Nominations Committee and, to inform this work, I commissioned an externally facilitated Board Effectiveness evaluation during the year, which 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. You can read more about the Board Evaluation process on page 107.

We welcomed Sharmila Nebhrajani to the Board on 1 May 2020 and her extensive induction programme took place during the year. Many of the one-to-one meetings were held virtually due to the ongoing pandemic, however, Sharmila was able to visit a number of our operational sites once restrictions were lifted and COVID-secure measures were in place. Further detail can be found on page 110.

As announced on 19 March 2021, Dominique Reiniche intends to retire from the Board on 8 July 2021, having served on the Board for almost five years. On behalf of the Board, I would like to thank Dominique for her service to Severn Trent and her valuable contribution to the Board's work.

Outlook

At the end of my first year as Chair of your Board, I have spent time reflecting on everything that I have learned about Severn Trent thus far – the talent and commitment of our employees, the focus on operational excellence and resilience, our contribution to society and our environmental achievements. This inspires me and reinforces that our strategy is working and that Severn Trent is in a strong position for the challenges and opportunities ahead. The impact of the COVID-19 pandemic will continue to present a degree of uncertainty for some time to come. However, we are well placed to respond to the challenges that may bring.

Finally, I want to thank everyone involved in this most challenging of years – our customers, communities, regulators and suppliers. But above all, thank you to our colleagues, for their unfaltering commitment to fulfil our Purpose to 'take care of one of life's essentials'.

Christine Hodgson

Chair

CHIEF EXECUTIVE'S REVIEW

SUSTAINABILITY AT THE HEART OF OUR BUSINESS

Advancing our response to climate change -

"Climate change is a key challenge of our time and we're well placed to understand the scale of the challenge ahead. We're determined to play a leading role in mitigating the impact of climate change and ensuring that we are resilient to its impact – and in doing so, create value for all our stakeholders."

I'm delighted to present my Chief Executive's Review for 2020/21, providing you with an update on our performance and my personal highlights of the year.

This year, more than any other, has reinforced my view of Severn Trent's strengths, our Values and our resilience. We asked a lot of our people this year and I'm delighted that their efforts are reflected in our excellent performance. I want to thank each and every one of them for their amazing commitment – and for all they do for Severn Trent, our customers and communities – 24 hours a day, seven days a week. It is an honour to work alongside you.

As the COVID-19 pandemic unfolded – and our key workers focused on maintaining normal business operations for our customers – I was clear that we needed to focus on three keys priorities for our stakeholders.

Firstly, we wanted to be there every step of the way for our customers. We supported customers struggling to pay – through the WaterSure scheme for those on low incomes and our Big Difference Scheme, which offers bill discounts of 10%-90% for eligible customers. We also introduced a temporary social tariff to help support our vulnerable customers through a challenging time and made sure that our vulnerable customers knew we were there for them with targeted communications and support through our Priority Services Register.

Secondly, we knew we had to help make a difference to our communities. So we established our £1 million COVID-19 Emergency Fund to support charities and community projects at the forefront of our region's COVID-19 response. We launched a virtual education zone to help parents with home-schooling – with activities, games and stories to inspire the next generation of water users.

And finally, we knew we needed to embrace and support our colleagues within Severn Trent, with a particular focus on mental health. Our 'Caring for our Colleagues' programme and Companywide virtual events, 'Share a Smile' and 'Awesome Awards', lifted all of our spirits throughout the year. As ever, our priority remains the safety and wellbeing of our people and customers and we ensured that all our key worker employees had access to the correct PPE and our IT infrastructure enabled our non-key worker employees to work safely from home so we could be there for our customers 24 hours a day, seven days a week. As reported last year, we did not make any redundancies or furlough any of our employees as a result of COVID-19 and we are maintaining our all-employee bonus in recognition of our colleagues' hard work over the last year. You can read more about our COVID-19 response on pages 17-19 of this report.

Our performance – powered by our Purpose

Our Purpose to 'take care of one of life's essentials' – underpinned by our Values of Having Courage, Embracing Curiosity, Showing Care and Taking Pride – is more important than ever. We believe that by living our Values in everything we do, we'll deliver really strong benefits for our colleagues, our customers, our communities, and ourselves. And at the end of our first year in AMP7, we have made excellent progress and we're on a strong trajectory for the rest of this AMP, which will set us up to move seamlessly into the next AMP to come.

In terms of some of my highlights this year, it's clear that we've truly ingrained our performance culture in Severn Trent which has helped us deliver fantastic operational performance. We have delivered gross customer ODI outperformance of £80.5 million for the year with all areas, including water, waste and retail, in reward.

I'm immensely proud of our operational performance – and it's down to our people who have worked tirelessly over the last year to keep our services running smoothly 24 hours a day. Their hard work has delivered year-on-year improvements of 8.9%, 30% and 60% in water quality complaints, blockages and Compliance Risk Index ('CRI') respectively – c.80% of our measures (across water, waste and retail) have met or exceeded target. We have also seen a 21% year-on-year improvement in pollution incidents this year, reinforcing that our relentless focus in this area has really begun to move the needle.

I talk a lot about customer service and customer experience and I'm delighted that we were highlighted in the Top 20 most improved organisations within the January 2021 UK Customer Satisfaction Index ('UKCSI') and are now in fifth position overall amongst utilities, and all of this against the backdrop of one of the lowest bills in England, at around £1 a day. However, £1 a day can still be a huge struggle for some customers, which is why we're also proud of the c.150,000 customers that we have supported from a financial perspective. We have also used our Community Fund to help provide support to people in our region.

Our people: working safely to deliver for customers, every day of the year
Our Value, 'Showing Care', is central to how we keep our people and communities safe in all that we do. It's how we start every shift and every meeting and our Goal Zero policy clearly sets out our target that no one should be injured or made unwell by what we do. We experienced no major safety incidents and no fatalities in the last 12 months, with a 20% improvement in Lost Time Incidents ('LTIs') this year. I was devastated to hear of the tragic accident at Avonmouth in December 2020 and its impact has been felt deeply by us all at Severn Trent. We extend our deepest condolences to colleagues at Wessex Water who suffered personally, and whose families have been affected. In response to this event, we immediately suspended activity associated with DSEAR and undertook comprehensive surveys at all of our bioresources sites as well as a comprehensive review of all our high-risk actions.

I believe passionately in building an inclusive organisation where everyone feels able to bring their whole self to work, fulfil their potential and perform at their best. An inclusive environment is the foundation of a truly diverse organisation, with all of the rewards that brings. Severn Trent has long been recognised as a global leader on gender equality and we were once again named as one of the country's top performers in the 2021 Hampton-Alexander Review – ranking second this year. In respect of broader diversity, we are working hard to increase diversity in our talent pipelines. This year, we launched our new inclusion programme to better enable careers and career progression for colleagues from ethnic minority, LGBTQ+ and disabled groups. We have also embraced the Government Kickstart Scheme with our ambitious plans to support 500 unemployed 16 to 24 year olds with paid work experience and skills development – our first cohort of 'Kickstarters' joined the Company in January 2021.

We've also continued our investment in training and I was thrilled that the Severn Trent Academy opened its doors this year. Our range of learning programmes are already training our engineers and leaders of the future, giving our people opportunities for growth, development and more rewarding careers.

I am delighted that, during a difficult year for many, our employee engagement score improved again this year – with an average score of 8.3, once again placing us in the top 5% of utilities globally. Colleagues scored the question, asking whether they would recommend us as a place to work to a friend, 8.5.

Outlook and thank you
We're proud of what we've achieved this year, and I am optimistic for the year ahead. The roll out of the COVID-19 vaccine gives me hope that the world will return to some sense of normality in the near future. And as the UK moves into recovery mode, we're ideally placed to play our part in the next phase through delivering our Green Recovery plans. We're absolutely delighted by Ofwat's encouragement for our Green Recovery plans, proposing to award Severn Trent with £565 million (2017/18 prices) across all of our project proposals. Our plans will see us delivering new, innovative trials to protect homes from flooding, increase water supplies and transform stretches of river. Our proposals will also create up to 2,500 jobs in the Midlands at a time when employment, and getting people back into work, is vital for our region. Read more about the projects we will deliver opposite.

I would like to recognise the contribution of the management team for their exceptional leadership across the Company, which has been particularly important in this past year. And we are grateful too for the stewardship, support – and challenge – from Christine and the Board.

Finally, to reinforce my warmest thanks to my colleagues and all those who supported them throughout a difficult year. We are a community of around 6,500 colleagues – who rely on our families, friends and support networks to help us be the best we can be. I am hugely grateful to everyone who helped Severn Trent – whether directly or indirectly – in supporting our customers, communities and each other over the last 12 months. You can emerge from this pandemic with a sense of pride in what we have done, and how we have helped the region we serve.

Working in partnership with the Commonwealth Games
In March 2021, we were delighted to announce our partnership with the Birmingham 2022 Commonwealth Games to support their ambitions to make this the most sustainable games yet. We're proud to be leading on making it the first carbon neutral games through a range of offsetting initiatives including enhancing nature with 2,022 acres of forest in the Midlands region and 72 mini forests representing each competing nation. Like us, the games has an ambition to leave a positive lasting legacy for future generations and we look forward to working with them in the months to come.

Liv Garfield
Chief Executive

Advancing our climate change action plans
As Christine highlighted in her report, even in the middle of the pandemic, we continue to look to the future. We are committed to playing our part in helping the UK become a sustainable, low carbon economy and the impact of climate change is considered in everything we do. We have made good progress on mitigating our impact and adapting to the challenges that climate change may bring, including the following:

- In May 2019, we made our Triple Carbon Pledge, committing to net-zero operational carbon emissions, 100% renewable energy and 100% electric fleet (where possible), by 2030.
- In March 2020, in support of our approach to climate change and broader sustainability agenda, we announced our intention to invest £1.2 billion to deliver a number of initiatives including planting 1.3 million trees, and boosting the biodiversity of 5,000 hectares of land in our region.
- . In March 2021, we submitted our proposed Scope 1, 2 and 3 emissions targets to the Science Based Targets initiative to deliver real reductions by 2030.
- On 17 May 2021, Ofwat proposed to award us £565 million (2017/18 prices) to invest in our ambitious Green Recovery programme, aimed at delivering low carbon water sources, improving river quality, and improving flooding resilience in the process. Read more on the page opposite

We have made excellent progress in reducing greenhouse gas emissions from our operations, with a total reduction of 60% to the end of 2020/21 driven by our procurement of 100% renewable backed energy. Alongside this activity, we've also increased our own renewable energy self-generation equivalent from 51% to 53% this year. And as part of our ongoing commitment to credible reduction consistent with a 1.5°C global warming scenario by 2030, addressing the targets set by the Paris Climate Agreement, we have committed to delivering the following:

- A 46% reduction in Scope 1 and Scope 2 emissions by 2030, consistent with the guidelines set out by the Science Based Targets initiative.
- A reduction in our Scope 3 emissions by engaging with over 70% of our supply chain to join us on the journey.

Of course, we are only part way through our journey – and it will require considerable effort – but I am proud that Severn Trent is taking a leading positive position in an area so critical to us all.

We are also committed to the recommendations of the Task Force on Climate-Related Financial Disclosures ('TCFD'), to provide our stakeholders with decision-useful information on climate-related risks and opportunities that are relevant to our business. This year's Annual Report includes a TCFD disclosure for the first time on pages 58 to 72, setting out our approach to implementing the recommendations of the TCFD, including how we think about the governance, strategy, risk management and metrics and targets, which underpin our approach. We aim to be fully compliant with the TCFD by the end of 2021 and will publish a dedicated TCFD Report in autumn 2021.

Green Recovery – life beyond the pandemic
I am delighted that the water sector was asked to play its part in the country's Green Recovery from the COVID-19 pandemic. Our region's economy has been one of the hardest hit by COVID-19 and, as a responsible business in our region, we proposed an ambitious package of investments aimed at delivering long-term, sustainable benefits for current and future generations in our region, through improving the environment and also creating jobs.

Our customers helped us to shape and develop the proposals and we have been delighted and encouraged by their positive engagement and feedback.

On 17 May 2021, Ofwat proposed to award us £565 million (2017/18 prices) to invest in our ambitious Green Recovery programme, providing a great opportunity to deliver long-term growth for the Company alongside new investment to support our ESG ambitions. We are delighted with this outcome and have already started work on the new investments, aimed at achieving the below goals:

Make rivers safe for swimming
We're going to encourage wild swimming by trialling the creation of two bathing rivers in stretches of the River Leam and the River Teme. In transforming them so that they're healthy enough to swim in, we will also reinvigorate the pathway to how rivers in the UK can achieve 'good ecological status'. These investments will create more leisure opportunities, improving wellbeing, and bringing in a whole series of environmental initiatives that will benefit wildlife as well as local communities.

Provide more water
for more customers We want to make sure that we're ready for the future by increasing water supplies by enough to serve a city the size of Derby. And we'll do it by using low carbon technology too, revealing new insights we can share with other companies to support the water sector's aim to be net zero by 2030.

Protect homes from flooding
A new 'nature-based' approach, in Mansfield, is another way in which we're going to reduce flooding. Working closely with local councils to install natural surface flood defences such as green embankments, ponds and grassed areas. We're aiming to protect around 90,000 customers, reduce the broader harm that flooding brings to local communities and give local people a more pleasant natural environment to enjoy.

Be leaders on removing lead
Customer-owned supply pipes are a hidden financial and health liability for many people – over 40% of households don't have the savings to fix a burst, and up to half of all pipes could contain lead, which the World Health Organisation states is unsafe at any level in drinking water. Instead of tackling the lead by adding more chemicals, we're going to fix the problem at the source. In an ambitious pilot, we'll work with local plumbers across Coventry to replace 25,000 pipes. We'll also trial new approaches to 1,000 homes in Shropshire to reveal insight on how to tackle this national problem, withdraw chemical use, and reduce the estimated 25% of leaks that come from these customer-owned pipes.

Help customers save water
We're rolling out a large-scale trial of over 150,000 smart water meters. These will help customers use water more efficiently, while also helping us reduce leakage by enough to supply a town the size of Market Harborough. This will help reduce the need for future investment in water resources that the Government has forecast is needed across the entire country.

Accelerating environmental improvements
We'll support environmental improvement to 500 km of rivers, through accelerated delivery of our Water Framework Directive statutory obligations and improvements to storm overflows – delivering benefits five years earlier than we would have done without this opportunity to contribute to the Green Recovery.

On top of the long-term benefits for customers and the environment, these investments will directly create around 2,500 jobs in the Midlands at a time when employment, and getting people back into work, is vital for our region. And we'll be recruiting and training local people, using the brilliant facilities at our new Academy, to improve skills across our region.

MARKET AND INDUSTRY OVERVIEW

Our water sector

A total of 17 regional businesses supply water services to over 50 million household and non-household customers in England and Wales. Eleven of these, including Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, provide water and waste water services; the remaining six provide water only.

Looking to the next 25 years

At Severn Trent, we are absolutely committed to drive progress in the water sector now and for generations to come. We are first and foremost driven by our Purpose – ‘taking care of one of life’s essentials’ – focused on the delivery of outcomes for the benefit of our customers and wider society. In order to maintain the high-quality service our stakeholders expect of us, it is important that we anticipate and plan for long-term trends and issues likely to impact on our activities. We review this information as part of our long-term planning and our risk management process. Read more on page 38.

Over the next 25 years and beyond we have identified many challenges and opportunities that we are likely to be faced with and how our strategic priorities will help us tackle these challenges. We are already underway with delivering our bold ambitions to make positive contributions to the environment and deliver tangible improvements for our customers, while ensuring bills remain affordable. Moving forward, working in partnership with other water and waste water companies is key to delivering water resource resilience for future generations to come. Our 2020-25 Business Plan and our Water Resource Management Plan (‘WRMP’) are both available on our website and examine the challenges and opportunities we face and how we will focus our resources to meet them.

OUR BUSINESS PLAN FOR 2020-25

1%
of profits donated to charities and community groups

15%
reduction in leakage (and a further commitment to achieve 50% by 2045)

195,000
financially vulnerable customers supported per year by 2024/25

£6.8bn
Totex allowance

9%
average bill reductions

2,100km
of rivers improved

GOING FURTHER FOR SUSTAINABILITY

50%
reduction in pollutions by 2025

5,000
hectares of biodiversity improved by 2027

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. You can read more about how we engaged with our regulators and other stakeholders this year on pages 73-74.

Policy

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

Regulation and representation

Consumer Council for Water	The Consumer Council for Water ('CCW') speaks on behalf of water consumers in England and Wales. It provides advice to consumers and takes up complaints on their behalf.
Drinking Water Inspectorate	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.
Environment Agency	The Environment Agency ('EA') allows us to collect water from reservoirs, rivers and aquifers and return it to the environment after it has been used by our customers and treated by us.
Natural England	Natural England advises the Government on the natural environment in England and helps to protect nature and the landscape, especially for plant and animal life in both fresh water and the sea.
Natural Resources Wales	Natural Resources Wales is the environmental regulator in Wales. It oversees how the country's natural resources are maintained, improved and used, both now and in the future.
Ofwat	Ofwat is the economic regulator for the industry in England and Wales. Ofwat principally exercises its duty to protect the interests of customers through periodic reviews of charges ('price reviews') every five years.

We also work with a range of other regulators including:

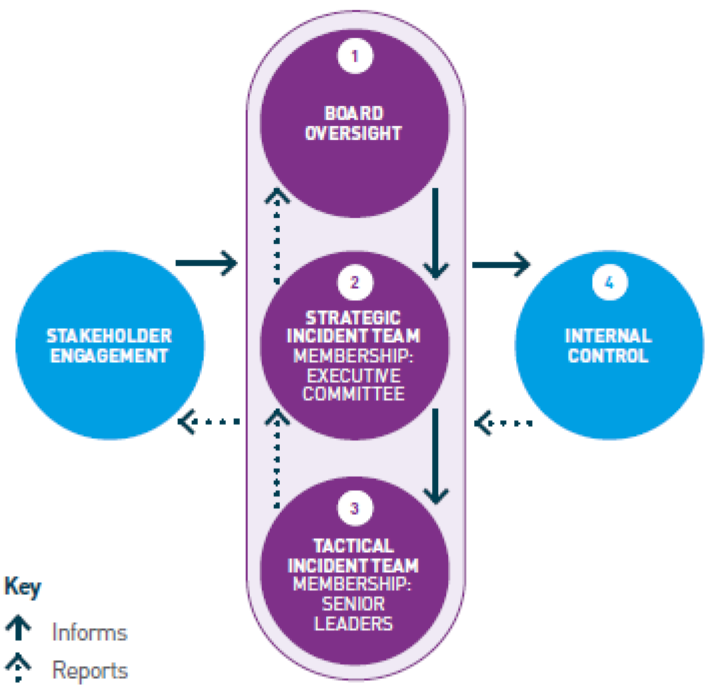
- the Health and Safety Executive to manage risk and ensure that the health and safety of our employees, customers and visitors is preserved; and
- Ofgem, the economic regulator of gas and electricity markets, whose remit extends to renewable energy generation.

OUR COVID-19 RESPONSE: ENGAGING AT EVERY STAGE

The impacts of COVID-19 are still being felt across the globe. As a socially purposeful company, we have carefully considered how we can make a positive impact for the good of our stakeholders but also for wider society.

We have a well-rehearsed approach to incident management and while COVID-19 presents many unique challenges, the governance structure we have implemented has provided a stable foundation from which we can respond to the changing situation. Our Strategic Incident Team, comprising Executive Committee members, continues to lead the swift implementation of plans and we continue to provide services to customers while keeping our people safe and well. Our COVID-19 response Governance Framework is set out below.

Our COVID-19 Governance Framework



1. The Board oversees the business's COVID-19 response and the Strategic Incident Team's response to the pandemic. It has directed senior leadership considered all scenarios associated with the pandemic, reviewed and considered potential response options, and set expectations for our approach with each of its stakeholders. The Board received regular updates on progress.
2. The Strategic Incident Team leads the Company's COVID-19 response and oversees the Tactical Incident Team. The Strategic Incident Team considers how current and developing scenarios will impact in the medium term and plans an effective response to ensure the continued resilience of our operations.
3. The Tactical Incident Team ensures that the Company maintains normal business operations, mitigates risks to core services, protects the health and wellbeing of our people and protects the health of our customers.
4. Internal controls and processes are continually reviewed and updated to enable efficient delivery throughout, beyond and during the pandemic.

Focused on effective outcomes

March 2020

All of our buildings confirmed COVID-secure.

COVID-19 Emergency Fund announced to support local charities and non-profit organisations affected by COVID-19.

We kept customers reassured and informed throughout the COVID-19 pandemic through regular content across a number of channels, including emails, social media, TV and radio.

We confirmed that we would not be taking any Government support, making any redundancies or furloughing any of our employees as a result of COVID-19.

We helped SME suppliers by moving to immediate processing of payments and continued to invest in our capital construction projects.

April 2020

Launch of 'Caring for our Colleagues' campaign.
Launch of our online Severn Trent Education Zone.

At their request, we reduced Christine's fee, and Liv and James' salaries by 25% for the first quarter of 2021/22 and donated the equivalent amount to local charities supporting the response to COVID-19 in our region.

May 2020

Launch of our industry first SMS and WhatsApp contact channels to keep customers safe and maintain contact throughout the pandemic.

August 2020

Mapping COVID-19 through our sewers
Samples from a small number of sewage treatment works were sent to specialist labs to test for remnants of COVID-19 to aid researchers in narrowing down outbreaks in smaller geographical regions. Public health officials could then act quickly to target areas at greater risk of spreading the infection.

October 2020

Launch of Back-on-Track Scheme
We introduced a temporary social tariff – Back-on-Track – to help support our vulnerable customers through a challenging time.

Our Education Team launched live online lessons for children and to support parents with home-schooling.

January 2021

We proposed an ambitious package of investments aimed at delivering long-term, sustainable benefits for current and future generations in the Green Recovery of our region.

February 2021

Launch of our 'Share a Smile' campaign.

New mental health podcast called 'Elephant Talks' with our senior leaders sharing their own experiences of mental ill health, recovery and how they look after their wellbeing.

March 2021

Supporting our colleagues by providing information on the Government's COVID-19 vaccination programme, with colleagues who have been vaccinated sharing their own stories.

Launch of our new 'Have you heard about D.E.B.S' campaign (Domestic abuse Education, Bullying and Support) to support colleagues who may be concerned for their safety, either at work or at home.

TAKING CARE OF OUR STAKEHOLDERS, COMPANY AND COLLEAGUES

This section provides a snapshot of how we have approached the COVID-19 pandemic since mid-March 2020; from managing our operational response, to mitigating as much risk as possible while providing the widest range of support possible to our stakeholders. It also directs you to sections of the Annual Report where you can find more detail on each of the matters below.

Supporting our customers

Our priority remains the safety and wellbeing of our customers and people, and we've more than doubled the number of customers we've helped to over 150,000. In October 2020 we launched our Back-on-Track Scheme specifically designed to help those who may be struggling to pay their bill as a result of the pandemic. We have kept customers reassured and informed throughout the COVID-19 period through regular content across several channels, including emails, social media, TV and radio. Our Priority Services Register supports those customers that need additional support from us at certain times. We have doubled the number of our customers registered with us to 2.6% of our customer base (2019/20: 1.2%). We continue to partner and support Local Resilience Forums by providing advice and guidance in respect of vulnerable customers and ensuring that they have access to the most up to date information to support vulnerable people in our region.
We have a range of initiatives for those struggling to pay their bills, including the WaterSure scheme for those on low incomes and our Big Difference Scheme, which offers bill discounts of 10%-90% for eligible customers. We made £3.5 million available as part of our Severn Trent Trust Fund for those who may struggle to pay their household bills.

Helping to make a difference to our communities

In 2020, in addition to helping our customers directly, we established a £1 million COVID-19 Emergency Fund and were able to support 339 local charities in dealing with the impact of the pandemic. We launched a virtual education zone to help parents with home-schooling – through activities, games, and stories to inspire the next generation of water users, and have held nearly 300 online sessions. We embraced the Government's Kickstart Scheme and have ambitious plans to support 500 unemployed 16 to 24 year olds into employment with paid work experience and skills development. We also offered an additional 69 graduate and apprentice placements this year.

Ensuring the long-term success of our Company

The Board and Strategic Incident Team have continually monitored the situation to ensure early detection of any deteriorating trends. We have modelled plausible and extreme scenarios to determine expected impacts and test the Company's financial resilience. Our strong financial position means that we are well placed to withstand the economic shocks that COVID-19 might bring. Read more in our Viability Statement on pages 49-53. We continue to monitor the impact of the COVID-19 pandemic across all areas of our business as part of our established Enterprise Risk Management ('ERM') processes and a dedicated COVID-19 Statement can be found on page 48.

Working with our suppliers and contractors

Throughout the year we have supported our supply chain by moving to immediate processing of payments for small and medium-sized enterprises. This has helped many of them through the pandemic with crucial cash flow. We're working closely and collaboratively with our whole supply chain to provide support in respect of their underlying COVID-19 plans and continuing to invest in our capital construction projects. This is an important focus given the role of our supply chain as key employers in our region. We continued to invest on our capital construction projects throughout the year.

Taking care of our colleagues

Our priority remains the safety and wellbeing of our people and customers. We are supporting our key workers with the processes, PPE and other equipment they need to continue to deliver our essential services and all of our buildings were confirmed as COVID-secure early in the pandemic. Our plans were also approved by our Trade Unions. In 2020 we announced that we would not be making any redundancies or furloughing any of our employees as a result of COVID-19 and we are maintaining our all-employee bonus in recognition of our colleagues' hard work over the last year. In 2019/20 we agreed an annual pay increase of 2.3% for the next three years to provide certainty and security for our employees and their families. In April 2020 we launched a 'Caring for our Colleagues' campaign, providing support on mental and physical wellbeing, and supported individual care plans for our people living in a vulnerable situation. In February 2021 we launched 'Share a Smile', an eight-week campaign of exclusive employee events to help give our colleagues and their families something to look forward to during lockdown. We hosted four virtual events, a Comedy Night, Pub Quiz, Bingo and Rockaoke. We also created weekly activity packs with a host of ideas for our employees to do in their own time. Colleagues shared their experiences via our dedicated 'Share a Smile' intranet hub.

KEY PERFORMANCE INDICATORS

The Key Performance Indicators (KPIs)[1] set out below represent financial and non-financial measures which we will use from this year, and throughout the current regulatory period (2020-25), to track our performance as we deliver our Purpose and the Business Plan outcomes we have committed to our customers and communities.

A company you can trust

8.1 → 8.3 (2.5% improvement)
2019/20 2020/21

Employee engagement (Score out of 10)

Once again we saw an amazing 90% of our colleagues giving feedback in our engagement survey. We had a fantastic level of engagement with Severn Trent scoring 8.3 and Hafren Dyfrdwy 8.6 out of 10. The results put us in the upper quartile of all companies in the UK and, even better, in the top 5% of utilities across the world.

For the first time ever we have a dashboard that includes diversity and inclusion (score: 8.8). Although we have scored well we know there is more to do. Our ambition is to have a workforce that reflects the communities we serve, and build an inclusive organisation where everyone feels able to bring their whole self to work, fulfil their potential and perform at their best.

0.20 → 0.16 (20% improvement)
2019/20 2020/21

Lost Time Incidents ('LTI') (Per 100,000 hours worked)

We believe passionately that no one should be hurt or made unwell by what we do. We've achieved a 20% reduction in our LTI rate (our best-ever performance).

We have a comprehensive approach to health, safety and mental wellbeing. Throughout the pandemic we ensured that all our key worker employees had access to the correct personal protective equipment ('PPE') and our IT infrastructure enabled our non-key worker employees to work safely from home so we could be there for our customers 24 hours a day, seven days a week.

Lowest possible bills

66.0 → 67.0 (stable)
2019/20 2020/21

Value for money[2] (Percentage)

For the last decade we've had the lowest bills in the industry – and we still have one of the lowest bills in England. This metric tracks our customers' opinions of the service we offer through quarterly surveys, undertaken by independent experts.

Value for money is a combination of the bill level, customers' perception of the service they receive and the way we contribute to wider society.

A positive difference

40,728
2020/21

Education Programme[2,4] (Commitment)

This measure has changed for AMP7. Alongside our education programme we are also engaging with customers to drive behaviour change.

During the year, our Education Team launched online lessons to support our customers and communities across Severn Trent and Hafren Dyfrdwy with home schooling during lockdown. These interactive sessions ran four times a day across the week, providing children (and adults) with engaging lessons about the water cycle, the importance of looking after our sewers and caring for the environment. Since October 2020 we've live-streamed more than 500 hours of content and secured over 40,000 commitments.

A service for everyone

35
2020/21

Help to Pay When You Need It[2] (% of customers)

Over the next five years we aim to support more customers who struggle to pay. We have provided assistance to 35% of our customers who needed support.

Our Big Difference Scheme, offering discounts of up to 90% for eligible customers, and our WaterSure scheme are supporting this activity. In response to COVID-19, we launched our Back-on-Track tariff to support those affected through the pandemic.

1.2 → 2.6 (>100% improvement)
2019/20 2020/21

Priority Services Register ('PSR')[2] (Percentage)

Our PSR is in place for customers that need additional support from us at certain times. Currently 2.6% of our customer base are registered with us.

We work with organisations across our region, including the energy industry, to identify customers that may benefit from being registered with us. Our ambition is to increase our priority services coverage to 9.7% of our customer base by 2025.

A thriving environment

2,632
2020/21

Biodiversity[2,4] (No. of hectares (ha))

Last year we set a bold ambition to improve over 5,000 ha of land (an area around the size of Gloucester) across our region and plant 1.3 million trees by 2030. This year we've improved 2,632 ha and planted c.290,000 trees.

By working across our own land and in partnerships, we will create a network of wildlife improvements across our whole region involving more than 70 different organisations in 2020/21, including the RSPB, Severn Rivers Trust and the National Forest.

The new Hedgerow and Woodland scheme has been a huge success, with farmers across our region able to plant c.139,000 diverse hedgerow and woodland saplings.

An outstanding experience

9th (77.65 score) — 6% improvement — 9th (82.35 score)

2019/20 2020/21

Customer Measure of Experience[2] (Index)

Ofwat's measure of customer experience ('C-MeX') places the same weighting on the perceptions of all of our customers as on those who contact us.

This year, our C-MeX score ranked ninth for Severn Trent and eleventh for Hafren Dyfrdwy in the sector. We recognise there is more to do particularly around service delivery and letting our customers know what is happening and when.

4th — 1st

2020/21

Developer Measure of Experience[2] (Index)

Ofwat's measure of service experience for developers ('D-MeX') directly compares us to our peers.

Our Developer Services customers rank us in upper quartile in Ofwat's D-MeX measure of customer experience demonstrating our approach is clearly one of the best across England and Wales. It is our ambition to lead the water industry in terms of our digital customer offering.

Good to drink

3.94 — c.60% improvement — <2

2019/20 2020/21

Compliance Risk Index[2] ('CRI') (Index)

The CRI is the Drinking Water Inspectorate's measure of water quality. Our final position in England for 2020/21 has not yet been confirmed, however we expect to see around a c.60% improvement year-on-year.

Our food factory mentality, bringing the expertise and control from food production industries into our water treatment works, alongside investment in our assets has resulted in our best-ever performance.

We're continuing to develop our flow cytometry capability, in order to rapidly identify issues and put mitigations in place.

10,394 — 8.9% improvement — 9,468

2019/20 2020/21

Drinking water quality[2,4] (No. of complaints)

Over the last few years we have embarked on a programme to improve our water quality performance.

This year marks the fourth year-on-year improvement – a reduction of over 30% since 2016/17.

Our operational teams have flushed, conditioned and cleaned a record-breaking length of pipe.

This programme has contributed to a further 8.9% improvement this year, meeting our regulatory target for the first time.

Water always there

8.7 — 31% deterioration — 11.4

2019/20 2020/21

Supply interruptions[2,4] (No. of minutes)

Earlier this year, when we were in lockdown, we saw unprecedented demand for water across our region which resulted in some of our customers experiencing low pressure or interrupted supply, leading to a year-on-year deterioration in supply interruptions performance.

Our underlying run-rate for the second half of the year has been really positive – delivering a monthly performance that beats our stretching regulatory target.

We've delivered this through a focus on network response in our control centre and out in the field, tankering team activity and proactive asset maintenance.

424.1 — 2.2% improvement — 414.6

2019/20 2020/21

Leakage[2,4] (Three-year average) (Megalitres per day ('Ml/d'))

Leakage is one of our most important measures and we have seen our lowest ever levels of District Metered Area ('DMA') leakage.

Reducing leaks is a critical component to ensuring a sustainable water cycle; reducing stress on the environment through a reduction in the volume of water that needs to be abstracted and reducing the energy used to treat water and move it around our network.

We report leakage as the volume of water we lose from the network each day as a three-year average. This year has seen us reduce leakage by 2.2% starting us on our journey to delivering a 15% reduction from our 2019/20 baseline over the next five years.

Waste water taken away safely

933 — 16% improvement — 780

2019/20 2020/21

Internal sewer flooding[2,4] (No. of incidents)

We've made a 16% year-on-year improvement, despite high-intensity storms in June and August effecting our sewer network.

In September 2020 we began our sewer sensors trial by installing more than 1,550 battery-powered smart units and we're planning to install a total of 40,000 by 2025.

These sensors will help prevent flooding from blockages caused by wet wipes, cooking fats and other unflushables by giving us a better understanding of what is happening in the sewers in real-time so we can take proactive steps to protect our customers and the environment.

5,468 — 34% improvement — 3,606

2019/20 2020/21

External sewer flooding[2,4] (No. of incidents)

Reducing external sewer flooding was our major success story of the last five years. Our continued focus led to a 34% year-on-year improvement.

We know that any incidences of sewer flooding are a problem for our customers, and we know we still have more work to do. We have started our roll out of smart sewer sensors across our network – allowing us to accurately target interventions and prevent the escape of sewage.

Waste water taken away safely

1,520 — 31% improvement — 1,050

2019/20 2020/21

Public sewer flooding[2,4] (No. incidents)

This is the first year we've had a regulatory commitment to reduce flooding that impacts public open spaces. We worked hard during 2019/20 to set the foundations for our performance and are delighted to report we've made a further improvement during 2020/21.

Activities we have undertaken across our sewer network to reduce the number of blockages and sewage spills have really helped drive down the risk of public sewer flooding.

242 — 21% improvement — 190

2019/20 2020/21

Pollutions incidents[2,4] (No. of incidents)

We've set ourselves a bold ambition to halve the number of pollution incidents by 50% by 2025 and we've made a fantastic start with a 21% year-on-year improvement.

We're continuing to expand our pollution monitoring and response capabilities. In Sutton Park, one of the largest urban parks in the UK with significant societal and environmental importance, we have deployed 150 sensors alongside a part-time ranger to monitor activity.

Our Financial KPIs

STW Turnover
£1,699.5m (2019/20:£1,714.6m)

STW Profit before interest and tax
£457.9m (2019/20: £546.7m)

STW Adjusted Profit before interest and tax[1]
£457.9m (2019/20: £546.7m)

1 see note 41 to the financial statements

REGULATED WATER AND WASTE WATER PERFORMANCE REVIEW

Our Regulated water and waste water business includes the wholesale water and waste water activities of Severn Trent Water Limited and its retail services to household customers, and Hafren Dyfrdwy Cyfyngedig. Unless stated otherwise, the information in this section relates to Severn Trent Water, which makes up 98% of our total customer base.

A COMPANY YOU CAN TRUST

Our stakeholders expect us to be a company that not only delivers on its commitments, but also considers how it delivers those commitments – being honest about progress along the way.

Engaging with our customers

Customers are at the heart of everything we do, and our proactive and continuous engagement ensures that we are truly able to understand what matters to them and deliver improvements in service. Customers have told us that they expect us to protect and improve the environment, help mitigate the effects of climate change and make a positive difference in the communities we serve. They have also told us that ensuring their bills are affordable remains a priority and we are committed to delivering against these expectations in all that we do.

Supporting our people

A happy and motivated workforce is vital to securing the trust of our customers and stakeholders and we continuously adapt how we listen, and respond to, the views of our people. We're delighted with this year's QUEST employee engagement scores in Severn Trent and Hafren Dyfrdwy (8.3 and 8.6 out of 10 respectively), placing us for a second year in a row in the top 5% of utility companies. Our strongest performing areas were growth, loyalty and satisfaction which really reflects our efforts to create an inclusive organisation where everyone feels able to bring their whole self to work, fulfil their potential and perform at their best. Page 75 sets out our diversity and inclusion programme in more detail.

We believe that no one should be injured or made unwell by what we do and we were pleased with our best ever Health Safety and Wellbeing performance this year, with a 20% improvement in Lost Time Incident's ('LTIs') this year.

Leading the way on gender diversity

Severn Trent has long been recognised as a global leader on gender equality. As at 31 March 2021, four members (33%) of our Executive Team and 22 members (43.8%) of our senior leaders were female, and we have been named second in the Hampton-Alexander Review for our performance in this area. We were ranked fifth in the UK (and 31st globally) in the Equileap Gender Equality Global Report and recognised as a global leader in the Bloomberg Gender-Equality Index, achieving a score of 71% (up from 53% last year). As at 31 March 2021, female representation in the Company was 29.21% (1,918 women) and 56% (5 women) on the Board.

Page 111 sets out a gender breakdown of Directors, senior managers and employees of the Company.

A fair approach to tax

Tax is a very public way that all businesses contribute to the society that they serve. We were delighted to be awarded the Fair Tax Mark for the second year running in recognition of our commitment to managing our tax affairs responsibly, and supporting measures aimed at enhancing tax transparency.

A POSITIVE DIFFERENCE

Because of the unique nature of what we do we can make changes right across our value chain that add up to a big difference for our communities.

Kickstart to the year
We have embraced the Government Kickstart Scheme with our ambitious plans to support 500 unemployed 16 to 24 year olds into employment with paid work experience and skills development – with our first set of 'Kickstarters' having joined us in January 2021. This is a key opportunity to help change the lives and future outlooks for young people from our communities and equip them with the experience and skills that will stand them in good stead as they look to find full-time opportunities, possibly even within Severn Trent.

Each of our 'Kickstarters' will spend 25 hours a week with us for six months and whilst the programme is a wonderful opportunity for young people in our communities, we'll also benefit from new outlooks and fresh perspectives that they can bring.

Our employability scheme
For the past five years, we have partnered with Hereward College to offer nine-month internships to students with disabilities and additional educational needs. Without such opportunities these young people are three times more likely to be unemployed than their contemporaries without disabilities – so offering real work experience can significantly boost their chances of entering paid employment after college. The programme has been hugely successful with many of our interns entering paid employment after their internships. We've started looking at ways to expand the scheme to other partner colleges in different areas of our region.

Super sewer education
During the year, our Education Team adapted their programmes and launched live online lessons to support our customers and communities who were home schooling during lockdown. These one-hour interactive sessions ran four times a day, five days a week, providing children, and adults, with engaging and virtual lessons all about the water cycle, the importance of looking after our sewers and caring for the environment.

In December 2020, we also welcomed our new Secondary Education Team, focused on inspiring young people (Key Stage 3 and above) and community groups, particularly around preventing sewer blockages. The new team has made great initial progress and has already delivered a number of school sessions.

From April 2021, our education programme will focus on water efficiency and, through our partnership with the Commonwealth Games, will also promote messages in relation to sustainability and the importance of water as a precious and finite resource.

Our £1 million COVID-19 Emergency Fund
Early in the pandemic we established our £1 million COVID-19 Emergency Fund to support those at the forefront of our region's response. Whilst we already help thousands of customers who are struggling to pay their bills or who are vulnerable, our emergency fund gave additional support to community projects and charities, helping those most in need during these difficult times. Financial support is also available through a number of our schemes that thousands of our customers are already taking advantage of.

LOWEST POSSIBLE BILLS

We are always looking for efficiencies and opportunities to innovate to keep our bills as low as possible.

Lower bills, more value
We share the belief with our customers that water should be affordable for all. Our customers' perceptions of value for money has remained stable at 67% this year, compared with 66% at the close of AMP6. We know that we're entering a challenging period as the full economic impacts of COVID-19

become clearer. However, we do so from a stronger position than we have seen in our recent history – and we've increased activity to raise awareness of support schemes available to customers to support them as we emerge from this period of prolonged uncertainty.

Our average combined bill for the year – around £1 a day – remains one of the lowest in the country, and we will continue to offer one of the lowest bills in AMP7. Our Hafren Dyfrdwy customers continue to have the lowest average combined bills in Wales.

Supporting our customers through COVID-19
As a regional business, with many of our people also being customers and members of the communities we serve, we take seriously the role we must play in supporting the communities hit hardest by the pandemic, which is why we awarded c.£3.5 million of funding to over 400 charities and not-for-profits in our region through our COVID-19 Emergency Fund, Community Fund and our Water Efficiency Savings Challenge.

We also made a real customer impact, issuing just under 4,000 trust fund grants to help our vulnerable customers through what has remained a challenging time and we also introduced a temporary social tariff called 'Back on Track' which has helped some of our customers, who have struggled to pay, apply for a reduction of up to 50% on their bill for 2021/22.

A SERVICE FOR EVERYONE

We want everyone to have access to, and be able to afford, our services. This year, more than ever, has underlined the importance of our Purpose of taking care of one of life's essentials and delivering a service for everyone.

Improving affordability
We understand that even though our bills are low, some customers have difficulty paying and we continue to do everything we can to help those who are genuinely struggling.

This year we helped over 150,000 customers with their bills, equating to 35% of our customers who struggle to pay, through a range of measures. Our Big Difference Scheme helped over 67,000 customers with over £15.5 million of support by offering them a discount of between 10% and 90% on their average bills and our WaterSure scheme has supported over 15,000 customers with over £3 million. We've also, just as importantly, worked with customers providing tips and guidance to help reduce their usage.

Our Priority Services Register allows us to establish the specific needs of our customers and tailor our support. 2.6% of our customer base are now registered with us and we're working with organisations across our region to identify customers that may benefit from being registered. Our ambition is to increase our priority services coverage to 9.7% of our customer base by 2025.

Supporting accessibility
We're focused on being there for our customers – 24 hours a day, seven days a week – through whatever channel they choose. 53% of our customers choose to contact us through digital channels and we have set ourselves the ambition of leading the water industry in 'digital'. Customers can now contact us via social media (Facebook, Twitter, Instagram), WhatsApp, Apple Chat and Webchat. Our commitment was recognised at the UK National Contact Centre Awards this year.

Throughout the year we have focused on connecting our people to our customers on a deeper level through our cultural programme, Connected Customer Culture, and we've also improved our technology to include speech analytics and better call handling to improve our services even further. We continue to learn and adapt to ensure our digital offer continues to meet customers' changing needs and provide the best experience possible for them.

Caring for our care leavers
In 2020, we launched an industry first initiative to provide financial support to care leavers as they move into independent living. A care leaver is an adult who has spent time living in the care system, away from their family. We partnered with Coventry City Council to support 400 young adults and fast-track them on to the Big Difference Scheme and receive up to 70% off their bills. We're proud to be the first utility company to join up with a local authority, offering this type of support to care leavers, and we hope to work with more local authorities across our region in the future.

AN OUTSTANDING EXPERIENCE

We want to consistently exceed our customers' expectations and deliver an outstanding experience.

Customer experience

We were highlighted in the Top 20 most improved organisations within the January 2021 UK Customer Satisfaction Index and are now in fifth position overall, and all of this against the backdrop of one of the lowest bills in England, at around £1 a day. In addition, we are upper-quartile in the 'experience' section of Ofwat's customer satisfaction measure ('C-MeX') which assesses the perceptions of all our domestic customers. However, when taking into account the views of customers who have specifically contacted us during the year, for example in regard to a leak, blockage or billing query, we rank in the median position. So, whilst we have much to be proud of with the successes outlined above, we recognise there is more to do particularly around service delivery and letting our customers know what is happening and when.

Our Developer Services customers place us in the upper quartile of Ofwat's measure of service for developers ('D-MeX'). It is our ambition to build on this success and lead the water industry in terms of our digital customer offering.
We are committed to improving our performance and offering the best service and experience to all our customers and developers.

Accelerating our digital transformation

Our digital strategy is focused on improving our customers' experience whilst also driving efficiencies to free up critical teams to resolve complex customer issues. This year, we introduced a customer-centric tech solution for our contact centres – a key stage in our journey – which saw delivery of more advanced telephony capabilities, in-queue call back functionality and enhanced call recording abilities.

In response to COVID-19, we promptly implemented COVID-secure working and home working capability for our contact centre staff to ensure that we could be there for our customers throughout the pandemic and continue to deliver great customer experience and operational performance.

A new approach to customer experience in waste
During the year we implemented a new Waste Customer Management Centre in Derby, which focuses on complex activity that forms approximately 20% of total job volumes, but contributes to c.80% of customer dissatisfaction. We are positive that this dedicated approach will drive improvements to the end-to-end customer journey within waste.

2020 National Contact Centre Award Winners
As a company, we put customers at the heart of everything we do and we were delighted to win Training/Coaching Manager of the Year and Learning and Development Team of the Year at the 2020 UK National Contact Centre Awards. We were also thrilled to win a silver award at the European Contact Centre and Customers Service Awards for 'most effective management of peak demand'.

GOOD TO DRINK

Providing a safe supply of water for our customers to enjoy is at the very heart of our Purpose of taking care of one of life's essentials.

Strong performance on water quality
Our additional investment over the last few years has continued to improve our performance on water quality complaints. This year marks the fourth year-on-year improvement – a reduction of just under 9% since last year and a 30% reduction in complaints since 2016/17. Our operational teams have also relined over 48 km of water mains this year.

The Compliance Risk Index is the Drinking Water Inspectorate's measure of water quality and we've seen significant improvements delivering c.60% year-on-year in Severn Trent and c.70% in Hafren Dyfrdwy. We are utilising technology, allowing us to more quickly address issues, ensuring we maintain exceptional quality water to our customers' taps.

Our performance has been helped by our approach to asset health in the round with our 'Overall Equipment Effectiveness' asset health dashboard, which is delivering tangible benefits through optimised planned work volumes and pre-empting failures. The associated time to complete the tasks assists us in reducing cost and improving asset performance.

Catchment management
When it comes to improving water quality, prevention is always better than a cure and we've continued to make investments to ensure that the water that enters our rivers is as clean as possible in the first place. Our Catchment and Biodiversity Team has developed new ways of working with farmers, community groups and Non-Government Organisations ('NGOs') to safeguard the delivery of our Biodiversity and Farming for Water initiatives.

During the year we held 1,811 meetings with farmers in our region and are on track to meet our ambitious engagement target of 9,000 farmers by 2025. Our Farming for Water initiatives can help us reduce phosphate levels by 50% more than traditional treatment technology.

Last year we set a new bold ambition to improve 5,000 hectares (an area around the size of Gloucester) across our region by 2027 and we have delivered 2,632 hectares of improvements this year alone.

You can read more about our approach to Catchment Management in our Sustainability Report in the 'Enhancing our Natural Environment Cycle' section.

2020 Alliancing and Partnership Initiative of the Year – Farming for Water
In 2015, we launched the Farming for Water scheme, aimed at reducing water pollution from agricultural practices and improving biodiversity across the region. In simple terms, we set the goal of reducing pollution from agriculture – pesticides, nitrate and cryptosporidium – entering our water system. The recognition is a real testament to the hard work our teams and partners have put in over the past five years and the great relationships we've cultivated at all levels.

Severn Trent's Environmental Protection Schemes ('STEPS')
Our STEPS grant schemes offer farmers and land managers – both owners and tenants – financial and technical support, to invest in tailored solutions to help tackle diffuse water pollution, protect and maintain biodiversity, and support the natural environment. STEPS has been running since 2015 and we've awarded more than 1,900 grants. Funding is prioritised for projects that will have a greater impact on our pollution reduction targets.

WATER ALWAYS THERE

We will ensure that water is always there when our customers need it – both today and for future generations.

Maintaining supply
At 11 minutes 21 seconds, we once again saw how unexpected events can impact performance. Our underlying run-rate for the second half of the year has been really positive – delivering a monthly performance that beats our regulatory target. We've delivered through a focus on: network response in our control centre and out in the field; reacting quickly and getting our teams out on the ground as soon as possible to re-direct water and repair the asset; and to further minimise the time our customers go without supply, we temporarily restore supply with our in-house team injecting water directly into the network.

Our proactive maintenance strategy is essential as we have thousands of assets on the network – our focus this year has been on the most critical valves, which thousands of customers rely on to ensure their water can be re-directed in the event of an interruption to supply. We are pleased that we have met our mains bursts target.

Water demand
Our water efficiency programme has experienced a number of successes this year including our schools education programme, providing water-efficiency advice through home visits to 11,866 customers; installing 83,000 water meters, and offering free and subsidised water-saving devices to customers. With the help of our customers, we've saved c.25 million litres a day between 2015 and 2020, and our aim is to achieve per capita consumption of 118 litres per person, per day by 2045. For our Welsh customers, we've embraced the Welsh Government's ambitions for a lead-free Wales by beating our year one target for lead pipe replacement four times over.

Improving pressure
Our customers told us how important water pressure was for them. Understanding pressure variations and behaviour in our network with data-led insight means we are not only able to carry out timely proactive maintenance, creating a calmer network, and improve the service for our customers. We have exceeded our target on our two pressure commitments: resolution of low pressure complaints and persistent low pressure.

Reducing leakage
Reducing leakage is a priority for us and we have set a goal to reduce it by 15% by 2025 and we exceeded our target this year. With an extensive network of loggers, our teams constantly monitor our network, checking for subtle changes in flow rate and pressure that may indicate leaks, and their expertise, combined with the technology we use, means we are able to detect a large percentage of leaks before they become an issue for the public. This year we have achieved our lowest ever level of District Metered Area ('DMA') leakage helping us to achieve a 2.2% year-on-year reduction. We know we need to go further and our aspiration is to achieve a 50% reduction by 2045. The Ofwat Innovation Fund is one way we can explore and understand new opportunities. We are pleased that Hafren Dyfrdwy secured funding to investigate if existing fibre networks (e.g. broadband, traffic signalling/monitoring) can be used to detect leaks alongside partners Focus Sensors, Costain, Dŵr Cymru and Portsmouth Water.

Interconnector
By 2050 the UK is projected to be home to an extra 12 million people, adding pressure on an already diminishing water supply. We continue to play our part on a national level by working with Affinity, United Utilities and Thames Water on interconnector schemes to take raw water from the North West to the South East. Each scheme of the project is at different stage of development and work continues to ensure that the carbon and environmental impacts are understood and mitigated as far as practicable.

World Water Innovation Fund (‘WWIF’)
Through our WWIF we work with 15 partners globally to collaborate on a range of circular economy and carbon offsetting projects including heat recovery from sewers, cellulose recovery and ammonia and hydrogen recovery initiatives. Read more in our Sustainability Report in the ‘Building an Innovative Business’ section.

WASTE WATER SAFELY TAKEN AWAY

Every day we take 3.1 billion litres of our customers’ waste water away, ready to be made safe to return to the natural environment.

Reducing sewer flooding and blockages

We invest tens of millions cleaning over 32,000 sewer blockages each year. The accelerated ‘Blockbuster’ work we initiated and continued into this year has been key in delivering across our flooding and pollutions commitments.

We’ve made a 16% year-on-year improvement on internal sewer flooding, despite high-intensity storms in June and August. In early 2021 we set up a Flooding Improvement Team to collaborate on the single goal of making us more ‘Storm Secure’ in the future. This team have been looking at a range of improvement areas such as: using data and predictive modelling; accelerating our flood mitigation plans; improving our customer journey; and improving information flows when flooding happens. We’ve also been working closely with our industry flood risk management partners and our local MPs.

We know we have more to do to reduce sewer flooding further. In September 2020 we began our sewer sensors trial by installing more than 1,500 battery-powered smart units in Wolverhampton and we’re planning to install a total of 40,000 by 2025. These sensors will help prevent flooding from blockages across our region caused by wet wipes, cooking fats and other non-flushables which could lead to flooding or pollution incidents and also gives us a much clearer understanding of what is happening in the sewers in real time so we can react proactively to protect our customers and the environment.

Alongside investment in infrastructure we’re also working with our communities and industries to reduce the amount of Fats, Oils and Greases (‘FOGs’) that end up in our sewers. Around 70% of blockages on our network are caused by customers flushing non-flushable wipes or FOGs down toilets and sinks – a challenge we must tackle. Our new Inspect and Resolve service continues to see reductions in repeat blockages and targeted network investments have yielded strong benefits.

Performing on pollutions

Since 2011 there have been 57% fewer incidents per 10,000 km sewer (total pollution incidents category 1-3) and this year we’ve had one of our best performances during the year, with a 21% reduction on category 1-3 waste pollution incidents, which puts us on track to hit our target to halve pollutions by the end of the AMP.

Protecting asset health

Developing a proactive, predictive approach to asset maintenance is critical to our future success. Over the past 12 months we have invested in new technology including vibration monitoring meters to determine asset health and the use of thermal imaging equipment to detect unwanted energy sources or energy losses which may affect asset or process health. Whilst the use of this technology is in its early stages, we are already observing the benefits and the technology is enabling us to take preventative action and keep our sites running smoothly.

Sewer network in Stroud
In March 2021, we announced plans to invest £25 million to improve the sewer network in Stroud by installing over two miles of pipes and upgrading many of the old Victorian sewers in the town. This is one of the largest projects we will invest in over the next five years and will provide those living in Stroud with a resilient sewer network, helping to protect homes and businesses from blockages and flooding.

The Secret Science of Sewage
The BBC Two TV programme which aired in March 2021 went behind the scenes at our largest sewage treatment works at Minworth, educating viewers all about the wonderful world of sewage and what our waste can tell us about the way we live. The programme also looked at the revolutionary science that has the potential to discover new life-changing medicine and other valuable resources hidden inside sewage.

A THRIVING ENVIRONMENT

We rely on the natural environment. Taking care of natural resources while using nature as a source of innovation and climate change mitigation is fundamental to what we do.

A positive impact on our environment
We want to drive significant environmental improvement through our biodiversity programme, and we are pleased to have made a very strong start to the AMP. Enhancing biodiversity helps build resilience in our natural ecosystems, boosting the health and quality of several areas including woods, soils, rivers and wetlands. Our biodiversity enhancements will improve water quality and therefore make this vital resource more sustainable.

Last year we announced our intention to invest £1.2 billion in environmental initiatives in order to reduce emissions, improve the environment, and support customers, through programmes such as our Great Big Nature Boost. This year we have improved 2,632 hectares of our land, which is c.53% of our bold ambition to improve 5,000 hectares across our region by 2027.

We quickly adapted our planned improvement activity in response to COVID-19 lockdown restrictions and weather fluctuations during the year. The Biodiversity and Ecology Team focused on alternative ideas including a hedgerow restoration scheme for farmers and our 'tree guard amnesty'. The partnerships we have built – including with the National Trust, Wildlife Trust, Rivers Trust and RSPB – and our relationships with our regulators – including the EA, DWI, Natural England and Natural Resources Wales – continue to make a positive contribution and we look forward to building on this.

Working with the Woodland Trust, we have planted around 290,000 trees this year and remain on track to meet our 1.3 million target by 2030. This will help provide natural protection against the worst effects of climate change.

Converting sewage waste into hydrogen
Through collaboration with researchers from Coventry University and the Organics Group we are pioneering efforts to turn waste ammonia captured at our sewage treatment facility into green fuel. Currently we destroy the waste ammonia due to its toxic properties, but the exciting programme could see it captured and converted into hydrogen. If trials are successful, we have the potential to recover up to 10,000 tonnes of green ammonia each year from our waste water treatment plants which could be converted into 450 tonnes of hydrogen.

Helping deliver the first ever carbon neutral Commonwealth Games
In March 2021, we were delighted to announce our role as the Official Nature and Carbon Neutral Supporter of the Birmingham 2022 Commonwealth Games. We are proud to be leading on making it the first carbon neutral games through a range of offsetting initiatives including enhancing nature with 2,022 acres of forest in the Midlands region and 72 mini-forests representing each competing nation.

Like us, the games have an ambition to leave a positive lasting legacy for future generations and we look forward to working with them in the months to come.

Supporting the Green Economic Recovery
We support the Government's approach to investing in a Green Recovery and, as a responsible business in our region, we proposed an ambitious package of investments aimed at delivering long-term, sustainable benefits for current and future generations in our region, through improving the environment and also creating jobs.

On 17 May 2021, Ofwat announced that we had been given the go ahead to invest £565 million (2017/18 prices) in our ambitious Green Recovery programme, providing a great opportunity to deliver long-term growth for the Company alongside new investment to support our ESG ambitions. We are delighted with this outcome and have already started work on the new investments, aimed at supporting the wider national agenda on climate change, delivering long-term flooding resilience, addressing national river quality, reducing water consumption, improving additional water supply resilience and acting as a leader on removing lead from customer-owned supply pipes. In addition, our Green Recovery projects will create direct employment opportunities with us over the next four years and further employment opportunities with our delivery partners and in the wider supply chain.

Resource Recovery and Innovation Centre
Our Resource Recovery and Innovation Centre at Spernal provides a full-scale plug-and-play testbed where we can develop new technologies and undertake demonstrations and trials in a safe, controlled environment. We are investigating technology, including how low energy treatment processes aid the recovery of materials from waste water.

New THP facility at Stoke Bardolph
In 2020 we received permission from the EA to vary our existing environmental permit for our Stoke Bardolph Sewage Treatment Works enabling us to construct a new Thermal Hydrolysis Plant ('THP') and biogas upgrading unit. Commissioning of the new plant is almost complete and the THP plant is being used for the pre-treatment of all sludges prior to digestion, facilitating the production of an enhanced sludge product at this site. The biogas plant upgrades the biogas produced on-site through anaerobic digestion and makes it suitable for injection into the National Gas Grid for onward use by end consumers. The new plant increases the efficiency of our gas production and our contribution to a net-zero carbon UK.

CHIEF FINANCIAL OFFICER'S REVIEW

At the end of a challenging year I'm pleased to report a resilient financial performance in line with our expectations. A summary of the results for the year is set out below:

	2021	2020	Change	
	£m	£m	£m	%
Turnover	**1,699.5**	1,714.6	(15.1)	(0.9)
PBIT	**457.9**	546.7	(88.8)	(16.2)
Net finance costs	**(177.6)**	(177.3)	(0.3)	0.2
Gains/losses on financial instruments and impairment of loans receivable	**9.7**	5.2	4.5	(86.5)
Profit before tax	**290.0**	374.6	(84.6)	(22.6)
Tax	**(51.1)**	(151.4)	100.3	66.2
Profit for the year	**238.9**	223.2	15.7	7.0

As expected, our turnover this year reflected the rebasing of tariffs under the price review, and the significant impact of the COVID-19 lockdowns. This time last year we guided to a £50 million to £85 million reduction in revenue, and we have seen the impact at the low end of this range, as higher domestic usage helped mitigate the significant decline in non-household consumption. Under the regulatory model we will be able to recover the shortfall in this year's allowed wholesale revenue in 2022/23. This decline in revenue was offset on a reported basis by a £33 million reclassification of deferred income and diversions income now released to revenue (previously credited to operating costs).

PBIT was down (16.2)% to £457.9 million. In addition to the impact of lower revenue, we spent more through our net labour, hired and contracted and other cost lines to support our strong customer ODI performance, and saw anticipated increases in power and chemical costs and depreciation. Our bad debt costs were down year-on-year, as strong household customer cash collections helped reduce our underlying bad debt charge, only partly offset by the additional provision we have made to account for forecasted COVID-19 related rises in unemployment.

We continue to benefit from both low inflation on our index-linked debt and fixed debt issued at low interest rates in recent years. Our effective interest cost was 20 bps lower at 3.4% (2019/20: 3.6%) and our effective cash cost of interest was 10 bps higher at 3.1% (2019/20: 3.0%).

Our full effective tax rate was 17.6% and our adjusted effective tax rate was 10.8%, up from 10.1% in 2019/20 largely due to lower pension contributions in the year.

Reported Group profit after tax increased to £238.9 million (2020: £223.2 million).

Operational cash flow was £794.2. million, a reduction of £82.4 million as a result of lower PBIT partially offset by higher depreciation and amortisation and improved cash collection from household customers. Cash capex was £205.4 million lower than the previous year, when we completed major end of AMP6 projects. Net cash outflow before changes in net debt was £60.9 million (2019/20: £379.2 million).

Our net debt was £6,174.0 million (2020: £ 6,091.2 million) and regulated gearing was 64.5% (2020: 64.4%) reflecting strong capital management despite the impact of low inflation on our RCV. In April 2021 we renewed our £1.0 billion revolving credit facility, extending its maturity to 2026. Our cash flow requirements are now funded to December 2022.

Severn Trent Water's RoRE for the year was 5.8%, 190 bps above the base return of 3.9%. This outperformance came from our customer ODIs, following continued outperformance on our Waste measures and improvements in Water, and financing, as the continued reduction in our effective interest cost exceeded the drag of lower inflation in the year compared to Ofwat's Final Determination assumption. This outperformance was partly offset by higher totex reflecting early investment to enhance our resilience and support ODI performance and the COVID-19 related bad debt charge.

Turnover and underlying PBIT

Turnover for the Group was £1,699.5 million (2019/20: £1,714.6 million) and underlying PBIT was £457.9 million (2019/20: £546.7 million).

	2021	2020	Better/(worse)	
	£m	£m	£m	%
Turnover	**1,699.5**	1,714.6	(15.1)	(0.9)
Net labour costs	**(160.1)**	(155.9)	(4.2)	(2.7)
Net hired and contracted costs	**(187.9)**	(175.4)	(12.5)	(7.1)
Power	**(100.0)**	(94.2)	(5.8)	(6.2)
Raw materials and consumables	**(62.0)**	(55.4)	(6.6)	(11.9)
Bad debts	**(39.9)**	(42.4)	2.5	5.9
Other costs	**(175.7)**	(142.7)	(33.0)	(23.1)
	(725.6)	(666.0)	(59.6)	(8.9)
Infrastructure renewals expenditure	**(151.0)**	(149.6)	(1.4)	(0.9)
Depreciation and amortisation	**(365.0)**	(352.3)	(12.7)	(3.6)
Adjusted PBIT	**457.9**	546.7	(88.8)	(16.2)

The key components of the £15.1 million decline in revenue were:

- A below-inflation annual increase in regulated revenue, largely as a result of the price review rebasing of tariffs at the start of AMP7 (£15 million)
- An increase of £33 million from the reclassification of deferred income releases and diversions income (previously credited to operating costs and infrastructure renewals expenditure – see note 2)
- A net decrease of £50 million due to lower consumption by commercial customers, partially offset by increases in domestic usage during the national lockdowns and the dry summer period.
- Other net decreases as a result of legacy refunds to non-household retailers and other adjustments (£12 million)

We carried forward ODI rewards from AMP6 of approximately £191 million in nominal prices. Our turnover in the year ended 31 March 2021 includes £38.2 million from these rewards.

Net labour costs were £4.2 million (2.7%) higher. Gross employee costs increased due to the annual pay award of 2.3% and insourcing of design activity in our Capital Delivery team. This was partially offset by higher capitalisation of employee costs, largely related to this insourcing activity.

Net hired and contracted costs were £12.5 million (7.1%) higher. Investment in activities to increase biodiversity to support blockages performance increased costs and investment in new technology solutions increased licence costs. We brought in additional resources to respond to the hot weather in early summer.

Power costs were up £5.8 million due to the expected rise in pass-through costs and additional consumption to meet higher household demand for water, with some offset from an increase in self-generation and lower variable tariffs in the first half of the year.

Household cash collection was 5% higher year on year – 3.5% from higher tariffs and consumption and 1.5% from improved targeting of older debt. As a result, the element of our bad debt charge relating to historical collections reduced by £7.5 million to £30.9 million. Despite this strong performance, and the range of social tariffs we have made available for struggling customers, our expectation is that the rise in unemployment forecast by the Bank of England for next year will result in more customers falling into arrears. In anticipation of this, and based on the forecast available at the year end, we recorded an additional bad debt charge of £9.6 million (2019/20: £2.2 million) against amounts already billed but not yet collected at the year end. Taken together, our bad debt charge as a percentage of household revenue was 3.0% (2019/20: 3.2%).

Raw materials and consumables increased by £6.6 million due to chemical costs on new Water Framework Directive schemes, and COVID-19 related consumables.

Reported other costs rose by £33.0 million. Before the £15.5 million reclassification of deferred income releases to turnover, other costs were up £16.9 million. This increase was primarily due to:

- A £6.0 million subscription cost for the new Ofwat Innovation fund for AMP7, which is offset within our household tariffs in turnover.
- Increased insurance charges of £3.9 million
- A £3.6 million increase in Community Support during the pandemic, and
- A number of smaller items including £2.2 million higher business rates (due to inflationary increases this year and significant rebates in the prior year).

Infrastructure renewals expenditure was £1.4 million higher in the year reflecting the completion of AMP6 projects, including our Trunk Mains Renewal Programme, enhancing the resilience of our network as we enter AMP7.

Depreciation and amortisation was £12.7 million higher than the prior year, following the capitalisation of new assets and increased investment in data technology assets with shorter lives creating operational efficiencies in our network.

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.
Severn Trent Water’s RoRE for the year ended 31 March 2021 is set out in the following table:

	2020/21 %
Base return	3.9
Enhanced RoRE returns	0.3
ODI outperformance[1]	1.7
Totex performance	(0.7)
Financing outperformance	0.6
Regulatory return for the year[2]	**5.8**

1. ODI performance includes PCC and forecast D-MeX outturn.
2. Calculated in accordance with Ofwat guidance set out in RAG 4.07.

We have delivered RoRE of 5.8% in the year, outperforming the base return by 1.9% as a result of:

- ODI performance of 1.7%, driven by continued strong performance on waste measures, including blockages and sewer flooding, and improvements in water measures, including water quality, CRI and low pressure.

- Our totex position of (0.7)% reflects early investment to enhance our resilience and support ODI performance, as well as the higher COVID-19 related bad debt charge.
- Financing performance of 0.6%, from the continued reduction in our effective interest rate, offset by the drag of lower inflation in the year compared to Ofwat's FD assumption.

Net finance costs

Net finance costs for the year were £0.3 million higher than the prior year at £177.6 million. Average net debt increased to £6,036.5 million (2019/20: £5,928.3 million) and our effective cash cost of interest (excluding indexation adjustment on index-linked debt and pensions-related charges) was 3.0% (2019/20: 3.0%). Interest cost on index-linked debt decreased by £13.6 million due to lower inflation, and as a result our effective interest cost fell to 3.3% (2019/20: 3.6%).

Capitalised interest of £30.1 million was £14.1 million lower year-on-year due to the lower level of capital activity compared to last year.

Our earnings before interest, tax depreciation and amortisation (EBITDA) interest cover was 4.8 times (2019/20: 5.4 times) and adjusted PBIT interest cover was 2.7 times (2019/2020: 3.3 times). See note 41 for further details.

Gains/losses on financial instruments

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

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

We hold interest rate swaps with a net notional principal of £653 million floating to fixed, and cross currency swaps with a sterling principal of £141 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 £8.2 million (2019/20: gain of £9.9 million) in relation to these instruments.

Note 12 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 85% of our estimated wholesale energy usage for 2021/22.

Taxation

Note 13 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 £24.9 million (2019/20: £33.0 million) and the deferred tax charge was £26.2 million (2019/20: £28.3 million before the exceptional deferred tax charge arising from the change of rate).

In March 2020 the increase in the corporation tax rate to 19% resulted in an exceptional deferred tax charge in the income statement of £90.1 million and a credit to reserves amounting to £2.5 million.

Our full effective tax rate this year was 17.6% (2019/20: 40.4%), which is lower than the UK rate of corporation tax (19%), due to income not subject to corporation tax.

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 underlying 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 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.

Our adjusted effective current tax rate was 10.8% (2019/20: 10.1%) (see note 41).

In March 2021 the UK Government announced its intention to increase the rate of corporation tax to 25% with effect from 1 April 2023. If this rate had applied at the balance sheet date the deferred tax liability for the Group would have been £282.2 million higher.

	2021 £m	2020 £m
Cash generated from operations	**794.2**	876.6
Net capital expenditure	**(584.6)**	(790.0)
Net interest paid	**(179.4)**	(176.8)
Tax paid	**(26.9)**	(28.2)
Swap termination payment	**(0.2)**	(0.3)
Free cash flow	**3.1**	(118.7)
Dividends	**(64.0)**	(244.0)
Change in net debt from cash flows	**(60.9)**	(362.7)
Non cash movements	**(21.9)**	(28.3)
Change in net debt	**(82.8)**	(391.0)
Net debt 1 April	**(6,091.2)**	(5,700.2)
Net debt at 31 March	**(6,174.0)**	(6,091.2)

	2021 £m	2020 £m
Cash and cash equivalents	**12.1**	15.2
Bank overdraft	**–**	–
Net cash and cash equivalents	**12.1**	15.2
Loans due (to)/from parent company	**52.0**	(158.8)
Bank loans	**(980.8)**	(1,219.8)
Other loans	**(5,177.4)**	(4,765.4)
Lease liabilities	**(111.8)**	(115.8)
Cross currency swaps	**31.9**	60.4
Loans due from joint ventures	**–**	93.0
Net debt	**(6,174.0)**	(6,091.2)

We generated £794.2 million cash from operations (2019/20: £876.6 million). Operating cash flows were lower mainly due to lower PBIT, partly offset by higher depreciation and amortisation and a higher decrease in working capital than the previous year.

Net capital expenditure including contributions and grants of £584.6 million (2019/20: £790.0 million).

Our net interest payments were higher at £179.4 million (2019/20: £176.8 million).

Dividends were paid in line with our policy, maintaining a balance between returns to shareholders and an appropriate capital structure.

These cash flows, together with accounting adjustments to the carrying value of debt, resulted in an increase of £82.8 million in net debt (2019/20: £391.0 million).

At 31 March 2021 we held £12.1 million (2020 £15.2 million) in net cash and cash equivalents. Average debt maturity was around 13 years (2020: 14 years). Including committed facilities, our cash flow requirements are funded until December 2022.

Net debt at 31 March 2021 was £6,174.0 million (2020: £6,091.2 million). Group net debt, expressed as a percentage of estimated Regulatory Capital Value at 31 March 2021 was 64.6% (2020: 64.4%).

The estimated fair value of debt at 31 March 2021 was £1,464.7 million higher than book value (2020: £886.2 million higher). The increase in the difference to book value is largely due to lower interest rates at the balance sheet date.

We continue to carefully monitor market conditions and our interest rate exposure. Given the flatness of the yield curve we believe it is appropriate to reduce our exposure to floating rates of interest. At 31 March 2021, 67% of our debt was at fixed rate, 8% was in floating and 25% was index-linked.

Our long term credit ratings are:

Agency	**Rating**	**Outlook**
Moody’s	Baa1	Stable
Standard and Poor’s	BBB+	Stable

Pensions

We have three defined benefit pensions arrangements, two from Severn Trent and one from Dee Valley Water. The Severn Trent schemes are closed to future accrual.

The most recent formal actuarial valuations for the Severn Trent schemes (‘the Schemes’) were completed as at 31 March 2019. The agreement reached with the Trustee for the STPS, which is by far the largest of the schemes, included:

- Inflation-linked payments of £15.0 million per annum through an asset-backed funding arrangement, 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;
- Payments under another asset-backed funding arrangement of £8.2 million per annum to 31 March 2032; and
- Deficit reduction payments totalling £32.4 million increasing in line with inflation through to 31 March 2027.

In addition to these payments, the Company will directly pay the annual PPF levy incurred by the STPS (£1.4 million in 2019/20).

The Schemes have entered into additional hedging arrangements to reduce the impact of fluctuations in interest rates and inflation on the Schemes' liabilities without adversely impacting the expected return from the Schemes' assets.

Hafren Dyfrdwy participates in the Dee Valley Water Limited Section of the Water Companies Pension Scheme ("the Section"). The Section funds are administered by trustees and are held separately from the assets of the Group. The Section is closed to new entrants. The most recent formal actuarial valuation of the Section was completed as at 31 March 2017 and as a result deficit reduction contributions to the Section ceased.

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 £359.4 million (2020: £226.1 million). To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the nature of the scheme's assets or their expected returns.

The movements in the net deficit during the year were:

	Fair value of plan assets £m	Defined benefit obligations £m	Net deficit £m
At start of the period	2,414.1	(2,640.2)	(226.1)
Amounts charged to income statement	53.4	(63.0)	(9.6)
Actuarial gains/(losses) taken to reserves	212.7	(374.1)	(161.4)
Cash received/paid by the schemes	(79.8)	117.5	37.7
At end of the period	2,600.4	(2,959.8)	(359.4)

On an IAS 19 basis, the funding level was 87.8% (31 March 2020: 91.4%).

Treasury management

Our principal treasury management objectives are:

- To access a broad range of sources of finance to obtain both the quantum and lowest cost compatible with the need for continued availability
- To manage our exposure to movements in interest rates to provide an appropriate degree of certainty as to our cost of funds
- To minimise our exposure to counterparty credit risk
- To provide an appropriate degree of certainty as to our foreign exchange exposure
- To maintain an investment grade credit rating
- To maintain a flexible and sustainable balance sheet structure

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

Accounting policies and presentation of the financial statements

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards that have been endorsed by the European Union. The Company financial statements are prepared in accordance with FRS 101.

RISK MANAGEMENT

OUR APPROACH TO RISK

We think of risk as those things that could prevent us delivering our strategic objectives. Risk manifests itself in both negative and positive impacts. In identifying and categorising risk, we consider the causes, including people, process, assets and external factors, and the control environment. The successful delivery of Severn Trent's strategic objectives depends on the effective identification, understanding and mitigation of risk.

2020/21 risk landscape

This year has seen some long-term risks manifest, as a consequence of the UK's Brexit negotiation process, and short-term shocks, such as the COVID-19 pandemic. The EU-UK Trade and Cooperation Agreement, signed on 30 December 2020, avoided a no-deal Brexit, but there remains some additional risk associated with the movement of goods between the EU and UK. The implications for our supply chain, particularly in relation to chemical supplies, have been carefully managed, with dedicated working groups continually reviewing market conditions and monitoring demand against market availability. We have also approved new framework agreements for our capital supply contracts to provide additional flexibility and prevent excessive supplier concentration.

Towards the end of 2019/20, the COVID-19 pandemic presented immediate, and longer-term, human, social, economic and business effects that have potential to shape the operating context for Severn Trent for years to come. Our initial focus was on maintaining operational performance in a COVID-secure way, continuing to deliver our essential services without interruption whilst protecting our employees.

At an industry level, shockwaves from the tragic accident at Avonmouth in December 2020 were felt across the sector and had a profound impact across our business. In response to the event, we immediately suspended all DSEAR activity and undertook comprehensive surveys at all our bioresources sites as well as a comprehensive review of all our high-risk actions. February 2021 saw a cyber attack against a water treatment plant in Florida, US. The attacker attempted to alter the chemical dosing of the water, after gaining remote access to the treatment systems. The attack was promptly identified and no damage or injury resulted. The incident highlights the importance of cyber security within the water sector. Severn Trent commits significant resources and financial investment to maintain the integrity and security of assets and data (see Principal Risk 4 for more information).

Risk appetite statement

Severn Trent's Purpose is 'taking care of one of life's essentials'. No business is free of risk and to achieve our strategic objectives we often need to take calculated risks. We will, however, only accept risk that is consistent with our Purpose, Values and strategy. Risks we accept must be well understood, so that we can manage them effectively.

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

Within the Severn Trent Water Group, we operate both regulated and non-regulated businesses, which have different risk profiles and tolerances. Our water and waste water regulated businesses are monopoly providers that are economically regulated and characterised by relatively stable, inflation-linked cash flows. Our non-regulated businesses have more variable cash flows and operate in less predictable, competitive environments.

In some areas, we have risks for which we have little or no appetite. Even though we have implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely.

Our risk priorities

In addition to managing the inherent risks associated with our business, we prioritise the following:

The **health, safety and wellbeing** of our people and the communities we serve is our top priority, and we have no appetite for risks brought on by unsafe actions.

Protecting the **environment** is a key long-term commitment. We aim to enhance the water environment and improve biodiversity. We are determined to play a leading role in addressing the impact of climate change through mitigating our own impact, the impact of our supply chain and adapting to the challenges that climate change may bring in the future.

In areas such as our approach to **financing**, we look to take measured risk consistent with providing the best long-term value for our customers and stakeholders.

The Board has overall responsibility for determining the nature and extent of the risks in which Severn Trent participates and for ensuring that risks are managed effectively.

Overseeing risk
Our approach to risk management is designed to enable the business to deliver its strategic objectives while managing the inherent uncertainty that can manifest itself as both opportunities and threats to these outcomes.

We have an established Enterprise Risk Management ('ERM') process and control framework that enables us to effectively identify, evaluate and manage these risks to inform decision making in support of creation of value in a sustainable way. Our approach cannot eliminate all risk entirely, but ensures we have the right structure to effectively navigate the challenges and opportunities we face, and only accept risk that is appropriate to achieving our strategic objectives.

We operate a top-down and bottom-up model of risk management that ensures both a clear articulation of risk appetite and a comprehensive process of risk identification. Our risk management framework underneath show the groups involved in risk across Severn Trent.

Top-down
The Board has overall responsibility for oversight of risk and for maintaining a robust risk management and internal control system. The Board recognises the importance of identifying and actively monitoring our strategic, reputational, financial and operational risks, and other longer-term threats, trends and challenges facing the business.

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

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

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

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

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

Risk reporting

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

The potential causes, impact and mitigating controls related to each risk are well documented. This assessment allows us to put in place effective strategies to remediate defective controls or implement additional controls.

Business unit information is combined to form a consolidated view of risk across the Severn Trent Water Group. Our significant risks form our risk profile which is reported to the Executive Committee for review and challenge. This is then reported to the Severn Trent Plc and Severn Trent Water Limited Audit Committee and Board on a six-monthly basis. The report provides an assessment of the effectiveness of controls over each risk and action plans to improve controls where necessary.

Risk management framework

Top-down ↓ / Bottom-up ↑

Risk Governance	**Board** • Sets the risk culture. • Defines and regularly reviews risk appetite.	• Challenges the level of risk taken to pursue objectives. • Makes risk-informed decisions and provides oversight for key strategic risks.	• Responsible for effective risk oversight of enterprise-wide risks at Group level. • Undertakes annual assessment of Principal Risks.
Risk Oversight	**Executive Committee:** • Supports the Board in the management of risk. • Assesses the level of risk taken to achieve objectives; challenges the AMP7 Business Plan. • Approves significant risk mitigation strategies assigned to individual members of the Executive Committee. • Sets and evaluates risk tolerances. • Identifies and assesses Principal and Emerging Risks. • Signs-off the ERM risk framework.	**Central ERM Team:** • Applies the ERM framework. • Owns the corporate ERM management system. • Monitors and reports key risk information, including response plans and risk tolerance. • Establishes best practice risk processes across the Group. • Provides guidance and training for Risk Champions and Risk Co-ordinators. • Assists with the identification and assessment of Principal and Emerging Risks. • Facilitates risk escalation process.	**Audit Committee:** • Supports the Board in monitoring significant risks, tracking progress against risk mitigation plans. • Reviews effectiveness of our risk management and internal control processes; tests key controls in risk response plans. **Internal Audit:** • Provides assurance for significant risk mitigation strategies. • Assesses effectiveness of the risk programmes by analysis of key controls. • Evaluates internal control environment.
Risk Management	**Strategic Planning:** • Longer-term, holistic risk response plans, e.g. Water Resources Management Plan ('WRMP') and AMP7 Business Plan. • Establishes critical controls to ensure the operational effectiveness of essential services.	**Service Area Boards:** • Capital investment programme management. • Implement strategic risk management processes, such as WRMP. • Identify and monitor Emerging Risks and opportunities. • Assess all categories of risk at an operational level.	**Business Unit & Risk Champions:** • Day-to-day risk and incident management, e.g. Severn Trent Operational Risk Management ('ST-ORM') and Drinking Water Safety Plans ('DWSP'). • Identify, assess and respond to risks at a local level. • Continual monitoring of risks assigned within the business unit. • Produce risk response plans and strategies. • Define, implement and monitor key controls. • Follow ERM risk framework.

OUR PRINCIPAL RISKS

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

- Adversely impact the safety or security of the Company's employees, customers and assets;
- Have a material impact on the financial or operational performance of the Company;
- Impede achievement of the Company's strategic objectives and financial targets; and/or
- Adversely impact the Company's reputation or stakeholder expectations.

This list does not comprise all the risks that the Company may face, and they are not presented in order of importance. The nature and profile of these risks is updated each year to reflect the changing risk landscape. This year sees ten Principal Risks being reported.

There may be additional risks that emerge in the future and we undertake regular horizon scanning to identify and report these to the Board. Risks can present significant value creation and possibilities for innovation. Our Principal Risks, detailed from pages 42 to 47, include an 'Opportunities' section for each risk describing possible future events which, should they occur, could have a positive effect on the achievement of objectives or potentially reduce the risk exposure further.

*Reference to the Group refers to the Severn Trent Water Limited Group.

Strategic outcomes

- A company **you can trust**
- A positive **difference**
- **Lowest possible** bills
- A service **for everyone**
- An outstanding **experience**
- Good to **drink**
- Water **always there**
- Waste water **safely taken away**
- A thriving **environment**

Stakeholders

1. Our customers
2. Our colleagues
3. Our communities
4. Shareholders and investors
5. Suppliers and contractors
6. Regulatory and Government

Movement

- Increase in risk exposure
- No change in risk exposure
- Decrease in risk exposure
- New risk

HEALTH & SAFETY

RISK 1.

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

Strategic outcomes | **Stakeholders** 1 2 5 6

Risk mitigations

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

Change in year

In 2020/21, we did not experience any major safety incidents or fatalities and have achieved our best ever LTI rate, which equates to 20% fewer LTIs than last year.

We instigated a full review of all our high-risk activities, following the Wessex Water tragedy at Avonmouth, and have refreshed our approach to monitoring, training, documentation and assurance.

COVID-19 impact

Following the emergence of COVID-19, we have reviewed our framework and processes and revised working practices to ensure we keep people as safe as possible while delivering our essential services. Throughout the year, we have remained closely aligned to Government advice and guidance, with over 50% of our workforce working from home. For employees required to attend work, the focus has been on ensuring that workplaces are COVID-secure with extensive risk assessments continuing to be carried out on a weekly basis at all our facility-managed locations.

We have also run a very effective 'Caring for your Colleagues' campaign since March 2020 aimed at supporting both the physical and mental wellbeing of all our employees.

In response to the COVID-19 pandemic, we have revised working practices to ensure we keep people as safe as possible whilst delivering our essential services.

Opportunities

Continue to work with our extensive supply chain to share best

SERVICE FAILURE & ASSET RESILIENCE

RISK 2.

Failure to provide a safe and secure supply of drinking water to our customers and the potential for reduced public confidence in water supply.

Strategic outcomes | **Stakeholders** 1 3 4 5 6

Risk mitigations

- Comprehensive resilience plans, such as our WRMP and Drought Plan feed into our capital investment programme and Business Plan.
- Key operational employees are required to complete mandatory Water Quality Competency training.
- Investment in in-house capability to bolster response teams and facilitate an accelerated response to maintain supplies whilst repairs are undertaken, complemented by our new Academy facility.
- 24/7 control centre monitoring of our operations and assets, including real time telemetry coverage from our loggers. See Principal Risk 5.
- Strategic modelling to assess potential changes to supply and demand on our water network and the impact of climate change see Principal Risk 6.
- Regular updates to processes, standards and operational procedures.

Change in year

For 2020/21, we have separated our clean water and waste water operations into two Principal Risks to reflect the distinct risk profiles and mitigation strategies.

COVID-19 impact

In response to COVID-19, we implemented appropriate social distancing and safe working practices to keep all of our sites operational during the pandemic.

COVID-19 led to changes in usage profiles, with lower business usage and increased household demand. Our network proved to be resilient throughout this period.

Opportunities

Trial and implement new technologies and innovation to improve our water treatment processes and network operations, such as leakage detection, which can help us achieve the 15% reduction performance commitment.

SERVICE FAILURE & ASSET RESILIENCE

RISK 3.

Failure to effectively transport and treat waste water and the potential for reduced public confidence in our waste water system.

Strategic outcomes	Stakeholders
	1 3 4 5 6

Risk mitigations

- Strategic modelling to assess potential changes to supply and demand on our waste network, to reduce service issues and potential damage to the environment. See Principal Risk 7.
- 24/7 control centre monitoring of our operations and assets, including real time telemetry coverage. See Principal Risk 5. This is supported by our new in-house waste Network Response Team and Wet Well Cleansing Team, as well as installation of more than 1,500 sewer sensors.
- Key operational employees are required to complete mandatory training programmes to ensure continued competency with evolving standards.
- Educational programmes with customers to promote safe use of the waste water system, including appropriate disposal of wet wipes and cooking fat.

Change in year

For 2020/21, we have separated our clean water and waste water operations into two Principal Risks to reflect the distinct risk profiles and mitigation strategies.

COVID-19 impact

In response to COVID-19, we implemented appropriate social distancing and safe working practices to keep all of our sites operational during the pandemic.

The Company participated in COVID-19 community testing programmes, helping to identify infections through waste water testing.

Opportunities

Opportunities to trial and implement new technologies and innovation to improve our treatment processes and capacity to reduce power usage and generate more green electricity, helping achieve our ambitious sustainability targets (Principal Risk 6).

CYBER SECURITY & TECHNOLOGY RESILIENCE

RISK 4.

Cyber threats cause damage to key infrastructure assets, interruptions to core systems or data loss resulting in a negative impact on our reputation, operations, regulatory (including GDPR) compliance or finances.

Strategic outcomes **Stakeholders**

1 2 3 4 5 6

Risk mitigations

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

Change in year

The level of this risk has not changed from the prior year, reflecting that, whilst companies continue to be subject to an increasing number of attempted cyber attacks, we have stepped up our investment in and development of mitigation controls.

COVID-19 impact

The COVID-19 pandemic has created new cyber security threats and there has been an increase in cyber-related events nationally and globally during the pandemic. However, there have been no material instances impacting Group operations.

Opportunities

Take advantage of new technologies, as they become available, to help protect our systems and data.

CAPITAL PROJECT DELIVERY & SCHEME RESILIENCE

RISK 5.

Failure to design or deliver to time and cost capital projects that ensure the resilience of our operations and safety of our assets.

Strategic outcomes **Stakeholders**

1 4 5 6

Risk mitigations

- Framework agreements covering multiple contractual partners, to provide a flexible and diverse supply chain.
- Use of a gated capital process to provide assurance around design and delivery.
- AMP7 projects grouped into Major Critical, Critical, Major and Standard, allowing us to tailor our process to suit project type.
- Implementation of an in-house design team for AMP7.
- Dedicated quality and assurance teams who perform in-depth quality reviews.
- Regular contract review and performance meetings, including Key Performance Indicators ('KPIs') review and proactive supplier and market assessments.
- Appropriate regular training for contract management teams.
- Investment plans that balance affordability, efficiency and value, both in economic terms and other value areas like natural capital see Principal Risk 7.

Change in year

A strong start to AMP7 following our fast-track status, has allowed us to improve engagement with our contractor partners by providing early visibility of designs through integrated project teams.

COVID-19 impact

We were able to implement appropriate social distancing and safe working practices to keep all our capital programmes on track, and accelerated activity where the consequences of lockdown (such as quieter roads and availability of resources) supported our activity.

Opportunities

Use the experience and expertise from within our supply chain to design and deliver projects more efficiently and effectively.

CLIMATE CHANGE, ENVIRONMENT & BIODIVERSITY

RISK 6.

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

Strategic outcomes **Stakeholders**

Risk mitigations

- Scenario modelling and data reviews, to develop an understanding of the impacts climate change could have on our essential services. See Principal Risks 2 and 3.
- Our AMP7 Business Plan supports increased resilience against the potential impacts of climate change through capital scheme delivery. See Principal Risk 5.
- Climate Change Steering Groups bringing together expertise from across the business.
- Strong engagement with our supply chain to drive environmental leadership.
- In 2019, we announced our Triple Carbon Pledge – committing us to net-zero carbon emissions, 100% renewable energy and an all-electric fleet by 2030, where available. See Our TCFD Disclosures
- 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.

Change in year

On 26 May 2020, we successfully completed our inaugural Sustainable Bond issue raising £300 million for 20 years with a coupon of 2.0%. This was the first bond issue under our Sustainable Finance Framework, with the proceeds being used for green and social purposes.

COVID-19 impact

The potential for accelerated long-term or rapid short-term changes in customer usage patterns due to COVID-19 impact on lifestyle and working patterns.

Opportunities

Continued engagement with stakeholders, including our supply chain, to target innovation, on the mitigation of Scope 1, 2, and 3 emissions.

CLIMATE CHANGE, ENVIRONMENT & BIODIVERSITY

RISK 7.

We fail to positively influence natural capital in our region.

Strategic outcomes **Stakeholders**

Risk mitigations

- Strategic plans to enhance biodiversity in our region and a number of ODI commitments to protect our local environment, including river water quality, pollution incidents, biodiversity improvements and environmental compliance.
- Use of catchment management approaches to work with landowners in our region to mitigate the effect of pesticides, fertilisers and organic nutrients on the environment and biodiversity.
- Modelling to estimate the impact of increasing pressures on nature, for example, from climate change, such as, drought or extreme weather events (see Principal Risk 6) and biodiversity loss that has potential to impact ecosystems.
- In-house ecology expertise to enhance the Group's capability to work towards enhancing biodiversity.

Change in year

Our involvement in the 2022 Birmingham Commonwealth Games creates a platform to further enhance our local environment. We have committed to creating 2,022 acres of new forest as part of this programme, as well as helping make it the first ever carbon neutral games.

COVID-19 impact

COVID-19 caused delays in a number of our plans that were reliant on delivery through NGO partners and community groups. Despite these challenges, we managed to deliver biodiversity enhancements on over 2,000 hectares of land in year one, through creating alternative biodiversity grant schemes for farmers and projects with alternative delivery routes.

Opportunities

Engagement with our supply chain and customers to promote biodiversity and use of our redundant land to lead the way in our region.

FINANCIAL LIABILITIES

RISK 8.

Failure to fund our Severn Trent defined benefit ('DB') pension scheme sustainably.

Strategic outcomes	Stakeholders
	2 4 6

Risk mitigations

- The Company agreed the triennial actuarial valuation as at 31 March 2019, including repair payments of c.£55 million per annum until 2022.
- Interest rate, inflation and equity risk are managed through appropriate hedging strategies to manage downside risks, with regular monitoring in place.
- We continue to work with the Trustee in considering The Pensions Regulator's consultation on its funding code of practice.
- Deficit recovery plans are agreed by the Company, setting out the cash contributions required from Severn Trent to the Scheme.
- We are represented on the Investment Committee of the Scheme and the investment policy is formally approved by the Group Financial Director.

Change in year

While our pension deficit has increased on an IAS 19 basis, to £367.7 million (2020: £234.0 million), this is predominantly due to a short-lived spike in corporate bond yields around March 2020, which has since normalised.

We have worked with the Trustees to consider and respond to The Pensions Regulator's consultation on the funding code of practice.

COVID-19 impact

Whilst there has been an increase in national mortality rates due to the pandemic, the impact on long-term mortality is as yet unclear. We are monitoring this with the Company's and Scheme's actuaries.

Opportunities

Work with The Pensions Regulator to introduce positive changes for fund schemes that benefit our scheme members, shareholders and customers.

FINANCIAL LIABILITIES

RISK 9.

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

Strategic outcomes	Stakeholders
	2 4 6

Risk mitigations

- The Group's Treasury activity is overseen by our Treasury Committee with support from dedicated advisors.
- The Group has a diversified capital structure, in both tenor and access to global debt capital markets to mitigate risks.
- The Group maintains liquidity headroom of at least 18 months. The Severn Trent Water revolving credit facility was recently refinanced providing liquidity for a further seven years.
- Group cash balances are deposited across a range of investment grade counterparties to spread and mitigate risk.
- The proportion of the Group's debt maturing in any AMP period does not exceed 40% of the Group's total debt to reduce refinancing risks.
- Treasury policy statements and procedure manuals are in place and operating effectively. These are reviewed at least annually.

Change in year

We continue to be active in various Debt Capital Markets and have recently issued £400 million of new debt in the sterling market and a £100 million CPIH debt issue.

The Group recently refinanced its £1 billion revolving credit facility for five years (with two one-year extensions).

COVID-19 impact

We continue to stress test our business plans by modelling plausible and extreme scenarios to determine expected impacts and test the Group's financial resilience. Additional detail can be found in our Viability Statement

Opportunities

Maintaining strong liquidity levels, a strong credit rating and an attractive ESG profile, will allow us access to a broad range of financial markets optimising the Group's financing costs.

POLITICAL, LEGAL & REGULATORY

RISK 10.

Accelerating changes in the political, legal environment and environmental obligations increase the risk of non-compliance.

Strategic outcomes	Stakeholders
	4 6

Risk mitigations

- Fast-track status for our Severn Trent Water PR19 Final Determination provided early sight over the AMP7 period enabling a prompt start on our plans.
- Engagement with the UK Government, MPs, the Welsh Government, regulators and other stakeholders about the future shape and direction of the water sector, sharing our experience where possible.
- Established Governance Framework, policies and training ensuring our ongoing compliance with all applicable laws and regulations, including Competition Law and GDPR, for the operation of separate Wholesale and Retail business and between our Group businesses. This is subject to regular review.
- Control frameworks subject to regular review, on at least an annual basis, to take account of changes to legislation, regulation and our business.
- External legal advisers providing detailed reviews in respect of upcoming legislation that may affect the Group.

Change in year

There has been no significant change in the year. We await Ofwat publishing the framework and detail for PR24 in late May 2021. This will provide insight into the direction of the industry.

COVID-19 impact

We have supported Ofwat's COVID-19 initiatives, such as continued review and support for business retailers and the Green Recovery programme to boost national investment.

Opportunities

Engage with regulators to fast-track positive changes for our communities and the environment.

EMERGING RISKS

We define Emerging Risks as upcoming events which present uncertainty but are difficult to assess at the current stage. Emerging Risk management ensures these risks are identified and helps to ascertain whether we are adequately prepared for the potential opportunities and threats they pose. It aims to identify new and changing risks at an early stage and analyse them thoroughly to deduce the potential exposure to Severn Trent. We continually identify and monitor Emerging Risks with good top-down and bottom-up approaches. Management considers changing, new or emerging risks through regular review and discussion. More locally, our network of ERM Co-ordinators, ERM Champions and risk owners use techniques such as cross-functional workshops and PESTLE (Political, Economic, Social, Technological, Legal and Environmental) analysis. This culminates in an Emerging Risk horizon map reported annually to the Severn Trent Plc Audit Committee and Board. We closely monitor Emerging Risks that may, with time, become either complete ERM risks, incorporated into our existing corporate risk reporting process; have potential to be superseded by new Emerging Risks; or cease to be relevant as the internal and external environment in which we operate evolves. The Directors have carried out a robust assessment of the Company's Emerging Risks and consider the following to be risks that have the potential to increase in significance and affect the performance of the Severn Trent Water Group:

Title	Detail	Area / Factor	Time Horizon
Macroeconomic uncertainty	Continued macroeconomic uncertainty post-pandemic and adjustment to new processes set out in the EU-UK Trade and Cooperation Agreement.	Economic	**Medium**
Performance challenges	The greater disaggregated regulatory framework in AMP7 with new and more challenging operational performance targets requires us to adapt to meet our ambitions over the remaining years of the AMP.	Operational	**Medium**
Accelerating customer expectations	We have experienced a shift in customer expectations and will need to be flexible in adjusting our plans over the coming years.	Reputational	**Short – Medium**
Energy security	Despite the UK having a reliable energy system with electricity supply from a diverse range of sources, as a large energy user we are susceptible to extended power disruptions. To increase our resilience to such events, increasing our self-generation capability from renewable energy sources is being investigated as part of our Climate Change Adaptation Strategy	Technology	**Medium**
Micro plastics	Understanding and addressing the impact of micro plastics – including on natural resources and customers' health.	Health, safety and environmental	**Medium**
HS2	Direct impact on operational sites along the proposed route and the indirect impact on labour availability in the area.	Operational	**Medium – Long**

Dedicated COVID-19 Statement

Whilst global pandemics have not previously been noted as a Principal Risk, they do feature on our horizon scanning and many of the associated risks are captured within our ERM framework. We have a well-rehearsed approach to incident management and while COVID-19 presented many unique challenges, the governance structure we implemented in response to the pandemic provided a stable foundation from which we could respond to the changing situation. COVID-19 assumptions are built into our budget and business plan processes and you can read more about financial resilience testing in our Viability Statement on pages 49 to 53. Our priority remains the health and safety of our people and customers, and we are taking all possible actions to support them whilst continuing to deliver our essential services. The Board continues to receive regular updates on the Company's COVID-19 response in order to assess, monitor and respond to the evolving impact of COVID-19 on our operations and business, including impacts for all of our stakeholders.

VIABILITY STATEMENT

Assessment of current position and long-term prospects

The directors' assessment of the Group's current financial position is set out in the Chief Financial Officer's review on pages 31 to 37.

Severn Trent Water 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 Severn Trent Water has developed its plans to deliver the operational and financial performance set out in the Ofwat's determination, We have based our assessment of prospects for the next four years on these plans, subject to modifications resulting from the impacts of the COVID-19 pandemic (see below).

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

- Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions;
- Severn Trent Water's financial structure, which is close to the Ofwat notional capital structure and our plan to retain this; and
- Severn Trent Water's plans for AMP7, the successful execution of which would deliver benefits to all stakeholders and financial incentives that would help to further strengthen our financial resilience in the period beyond 2025.

We have significant investment programmes, largely funded through access to debt markets. Our strategic funding objectives reflect the long-term nature of the Severn Trent Water 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 18 months in order to limit the risk of restricted access to capital markets. Our Group treasury team actively manages our debt maturity profile to spread the timing of refinancing requirements and to enable such requirements to be met under most market conditions. The weighted average maturity of debt at the balance sheet date was 13 years.

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

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

Impact of COVID-19 on the Group's prospects

The Office for Budget Responsibility has identified the Water industry as likely to be amongst the least affected by the COVID-19 pandemic. But we are not immune to the impacts on the wider economy and in the last year we have, as expected, seen a reduction in consumption from non-household customers following the restrictions implemented by the Government. We have thankfully seen only limited changes in household customer payment behaviour but recognise that there may be a lag between the change in household financial circumstances (for example unemployment) and the change in cash collections. We have increased the availability of our range of social tariffs to help mitigate this. There was also a sharp reduction in inflation during 2020 and 2021 that will impact our revenue in financial year 2021/22 and continued low inflation in 2021 would impact revenue in 2022/23. We have updated our model of the likely impacts of COVID-19 on our medium-term plan and developed an updated assessment of our prospects allowing for the anticipated impacts of COVID-19 based, inter alia, on Government advice and Water sector specific guidance from our regulator Ofwat, We have applied our stress tests, including a 'third wave' of COVID-19, to this adjusted plan.

Period of assessment

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

However, the changing nature of regulation of the water industry and the impacts of the COVID-19 pandemic increase the uncertainty inherent in our financial projections. We have an established planning and forecasting process and the Board considers that the assessment of the Group's prospects is more reliable if based on an established process. Our latest medium-term plan extends in detail to the end of the AMP7 period in 2025, with less detailed projections looking beyond this.

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

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

Assessment of viability

In assessing our future prospects, we have considered the potential effects of risks and uncertainties that could have a significant financial impact under severe but plausible scenarios. The risks and uncertainties considered were identified in the Group's ERM process, which is described on pages 38 to 40, and from the key assumptions in the financial model. Where the risk occurs at a point in time we have assumed that it occurs at the point in the plan with the lowest headroom.

The scenarios tested are described below.

Scenario tested	Related principal risk	Mitigating actions
A severe impact from a new variant of COVID-19 leading to a prolonged 'lockdown' period resulting in lower economic activity, higher unemployment and lower inflation. The adjustments that we have made to our medium-term plan to reflect a possible new variant of COVID-19 are based on a number of assumptions and		The regulatory model includes mechanisms to adjust future revenues to balance out any under recovery when compared to the original price review. The application of these mechanisms would necessarily take into account affordability of customers' bills and therefore might be

experience gained over the last 12 months. We have modelled a further period of 'lockdown' and restrictions which might result in more severe impacts on total revenues and household bad debts, together with a larger and longer reduction in inflation, and an impact on ODIs earned.		spread into AMP8 and beyond the period considered by this statement. Reduce discretionary expenditure to mitigate the impact of lower revenue in the affected years. Lower inflation would reduce the finance cost incurred on index-linked debt [by an amount similar to the impact on revenue in the year]. Consider use of hybrid debt instruments to protect credit ratings. Consider a temporary reduction in, or re-phasing of, dividends.
An increase in the funding deficit of the Group's defined benefit pension schemes The planned funding for the Group's defined benefit pension arrangements is based on current assumptions for future inflation, asset returns and members' longevity. Outcomes adverse to our assumptions could result in a higher funding deficit. We have assessed the impact of an increase in cash contributions to the schemes to £92 million per annum. Contributions are reviewed and agreed with the Scheme trustee on a triennial basis with the next valuation of the main scheme based on the funding position at 31 March 2022.	Risk 8: Failure to fund our defined benefit pension schemes sustainably	Discuss impact on debt covenants with lenders and seek a temporary waiver if necessary. Consider use of hybrid debt instruments to protect credit ratings. Consider a temporary reduction in dividends. Identify and implement sustainable cost savings and efficiencies. Reduce working capital to support cash flow.
STW experiences a severe climate event, operational failure or other exceptional event with a very significant financial impact The Group's Enterprise Risk Management process has identified a number of risks including failure of key assets and cyber attacks that might have a significant impact on the Group's operational and financial performance. We have assessed	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 Risk 2: Failure to provide a safe and secure supply of drinking water to our customers	Reduce discretionary expenditure to cover any extra costs resulting from the event. Consider use of hybrid debt instruments to protect credit ratings. Consider a temporary reduction in dividends.

the effects of an incident with an impact of £300 million.	Risk 3: Failure to effectively transport and treat waste water Risk 4: Cyber threats cause damage to key infrastructure assets Risk 6: Severn Trent's climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain our essential services	Discuss the impact on debt covenants with lenders and seek a temporary waiver if necessary.
STW underperforms against its performance commitments Severn Trent Water operates under a regulatory model that encourages companies to deliver what customers want, using performance related rewards and penalties. Failure to deliver performance at the committed level can lead to significant penalties. We have assessed the impact of a penalty equivalent to 3% of one year's revenue.	Risk 2: Failure to provide a safe and secure supply of drinking water to our customers Risk 3: Failure to effectively transport and treat waste water	Reduce discretionary expenditure to cover any extra costs resulting from penalties. Discuss the impact on debt covenants with lenders and seek a temporary waiver if necessary.
STW incurs higher costs than planned that are not funded Significant overspending could result in a deterioration in financial metrics and performance, which might adversely impact the Group's solvency. We have assessed the impact of a 10% overspend on capital and operating expenditure in each year of the plan.	Risk 2: Failure to provide a safe and secure supply of drinking water to our customers Risk 3: Failure to effectively transport and treat waste water Risk 5: Failure to design or deliver to time and cost capital projects that ensure the resilience of our operations and safety of our assets	Reduce discretionary expenditure in the short-term. In the medium-term implement an efficiency and cost reduction programme to bring costs back in line with regulated allowances. Discuss impact on debt covenants with lenders and seek a temporary waiver if necessary. Consider a temporary reduction in dividends.
A combination of scenarios 4 & 5	See above	Reduce discretionary expenditure in the short term. Reduce working capital to support cash flow. Discuss impact on debt covenants with lenders and seek a temporary waiver if necessary. Consider a temporary reduction in dividends.

The combined scenario represents a situation where several of the severe but plausible scenarios occur simultaneously. In this situation, the same mitigating actions would be available but their application would be deeper.

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 Severn Trent Water 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 18 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 18 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.

This Viability Statement is subject to review by Deloitte, our external auditor. Their audit report is set out on page 127.

Assessment of viability

The Board has assessed the viability of the Company over a seven year period to March 2028, 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 2028.

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.

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

SUSTAINABILITY AT THE HEART OF OUR APPROACH

As a company taking care of one of life's essentials, we know that the resilience of our business is intrinsically linked to the resilience of our region, its communities and the natural environment.

Our long-standing commitment to sustainability has been clear for some time, but over the past 18 months we have worked hard to ensure it focuses on the areas we know can have a genuine impact for our region – climate change mitigation and resilience, reducing waste, taking care of nature, taking care of our people, customers and communities – and doing all of this in a transparent and genuine way. We launched our framework in March 2020 and announced our intention to invest £1.2 billion over the next five years and we are on track to do exactly that, with the opportunity to go even further with the Green Recovery proposals we submitted to Ofwat earlier this year.
Across our Annual Report and Sustainability Report we continue to improve the transparency of our reporting, making the information accessible for our stakeholders. This includes following the principles of the Global Reporting Initiative ('GRI') with a mapping to the relevant Sustainability Accounting Standards Board ('SASB') initiatives and continuing to evolve our climate risk disclosures in line with the Task Force on Climate-related Financial Disclosures ('TCFD') guidelines.

Our Purpose
Taking care of one of life's essentials

Taking care of the environment

Ensuring a sustainable water cycle
Secure water sources in the long term – through catchment management, demand reduction and climate change adaptation – so that we can deliver our services for future generations.

Enhancing our natural environment
Protect and enhance nature at each stage of the water cycle by improving biodiversity and stopping pollution; benefiting nature, local communities and our business.

Making the most of our resources
Generate renewable energy and other useful resources from our waste and aim for zero waste to landfill through our business activities.

Mitigating climate change
Play our part in reducing global carbon emissions in line with the 2015 Paris Agreement, aiming for net-zero carbon and supporting the UK's energy transition.

Linked SDGs

Helping people to thrive

Delivering an affordable service for everyone
Work with our industry to end water poverty by supporting customers who struggle to pay their bills and providing priority support to those who need it.

Providing a fair, inclusive and safe place to work
Build a workforce that is reflective of the community we serve and foster a culture where everyone can be themselves, driving better decision making and performance.

Investing in skills and knowledge
Support the skills base of our people and our region and inspire the next generation of customers to adopt more sustainable behaviours.

Making a positive difference in the community
Serve our local communities through community projects and volunteering, and global communities through charity partnerships.

Linked SDGs

We have mapped the United Nation's Sustainable Development Goals ('SDGs') to the pillars of the Sustainability Framework.

Being a company you can trust

Living our Values
Nurture a strong, open, one-team culture based on company Values that articulate what we stand for.

Balancing the interests of all our stakeholders
Understand the needs of stakeholders in order to make business decisions that benefit shareholders, society and the environment.

Running our company for the long term
Put strong governance – leadership, ethics, and management of risks and opportunities – at the heart of our business.

Being open about what we do and sharing what we know
Build trust through transparency, and work with our sector on innovative solutions to our shared challenges.

Linked SDGs

Commitments to Climate Change Timeline

2021

Science Based Targets
Submitted to SBTi in March including a 46% reduction in Scope 1 and 2 emissions and over 70% engagement target on Scope 3 emissions.

Net-Zero Roadmap
At our Capital Markets Day in September we will outline our roadmap to net zero by 2030 in more detail.

Green Recovery
Commencing work on additional projects to support nature, net zero and climate resilience as part of the Green Recovery. Read more on page 13.

Strategic Direction
We will reveal our 30-year Strategic Roadmap alongside our Environment Strategy and detail of how we will continue to adapt to changing climate.

Shareholder vote on our climate change approach
In March 2021, the Board announced its intention to put its long-term approach to climate change before shareholders, and seek a non-binding advisory vote on plans to achieve them, at the AGM on 8 July.

2022

Electric vehicle charging
Over 350 charge points installed over 65 sites.

Commonwealth Games
Supporting the games with their Carbon Neutral and Nature ambitions by planting over 2,022 acres of forest.

2023

Electric vehicles
Commitment to purchase electric vans from 2023 onwards (where available).

2025

Delivering on our AMP7 ambitions including:
- 50% reduction in pollutions;
- 15% reduction in leakage;
- Improving the quality of over 2,100 km of rivers.

2026

All company cars electric (where available).

2027

Biodiversity enhanced in over 5,000 ha in our region.

2030

- 100% electric fleet, where available.
- Net-zero operationla carbon emissions including 46% reduction in Scope 1 and 2 emissions.

Water always there

As part of our approach to becoming more resilient to climate change while reducing our own impact we have proposed a project to utilise new abstraction rights, build more storage and move water through our river system to provide over 100 Ml/d of additional water to support water-scarce homes and businesses.

Reducing pollutions

We have made great strides in reducing category 1-3 waste pollutions by 21% this year through careful management of our pipes and treatment works and educating customers, but we know we must do more to reach our 50% reduction ambition by 2025.

OUR JOURNEY TO NET ZERO

We recognise the growing threat of climate change and we want to lead the way in reducing emissions of greenhouse gases. That's why we have set our 2030 Triple Carbon Pledge and committed to meet science-based carbon targets. This means not only reducing our own operational emissions from the assets we own and operate, but also going further to reduce emissions in our supply chain.

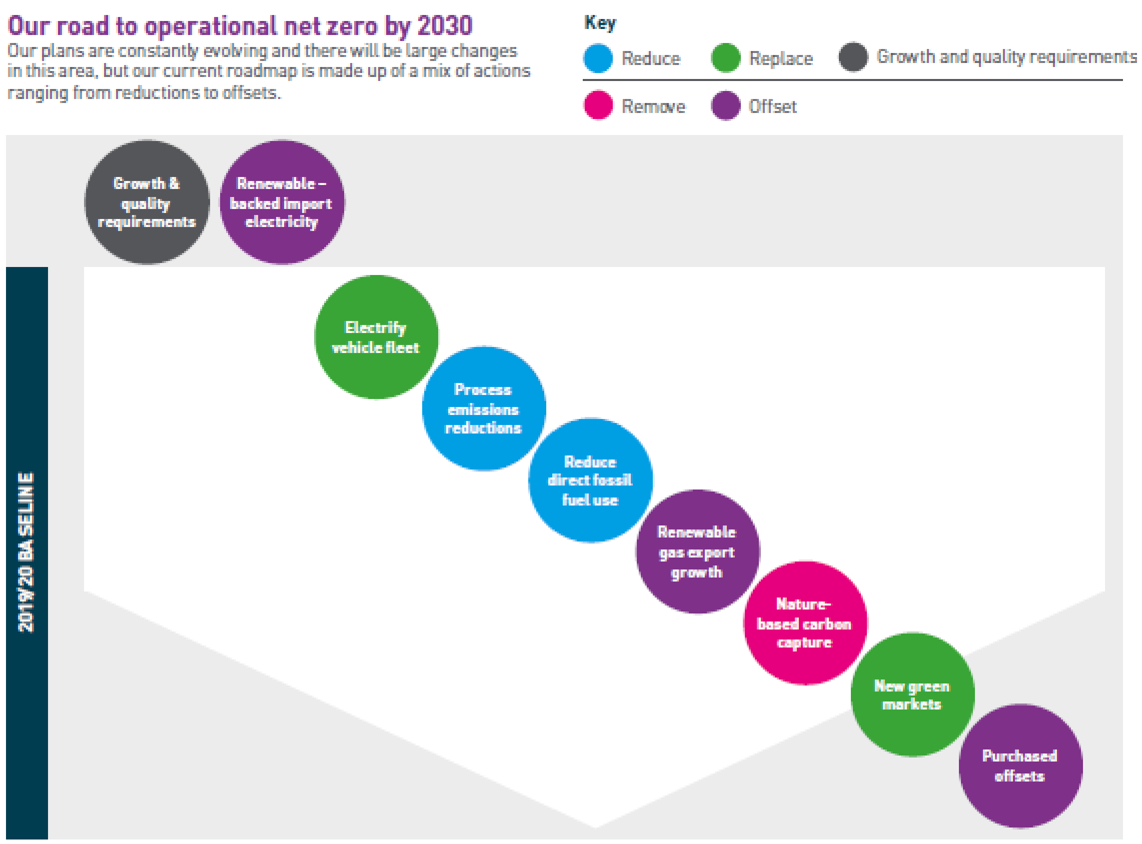
Our Triple Carbon Pledge by 2030:
Reach net operational greenhouse gas emissions of zero
The definition of this was set out in our industry 'Net-Zero Roadmap' published in November 2020.

100% of our vehicles will be electric, where available
For vans and HGVs this may mean using alternative fuels like hydrogen depending on how the market evolves.

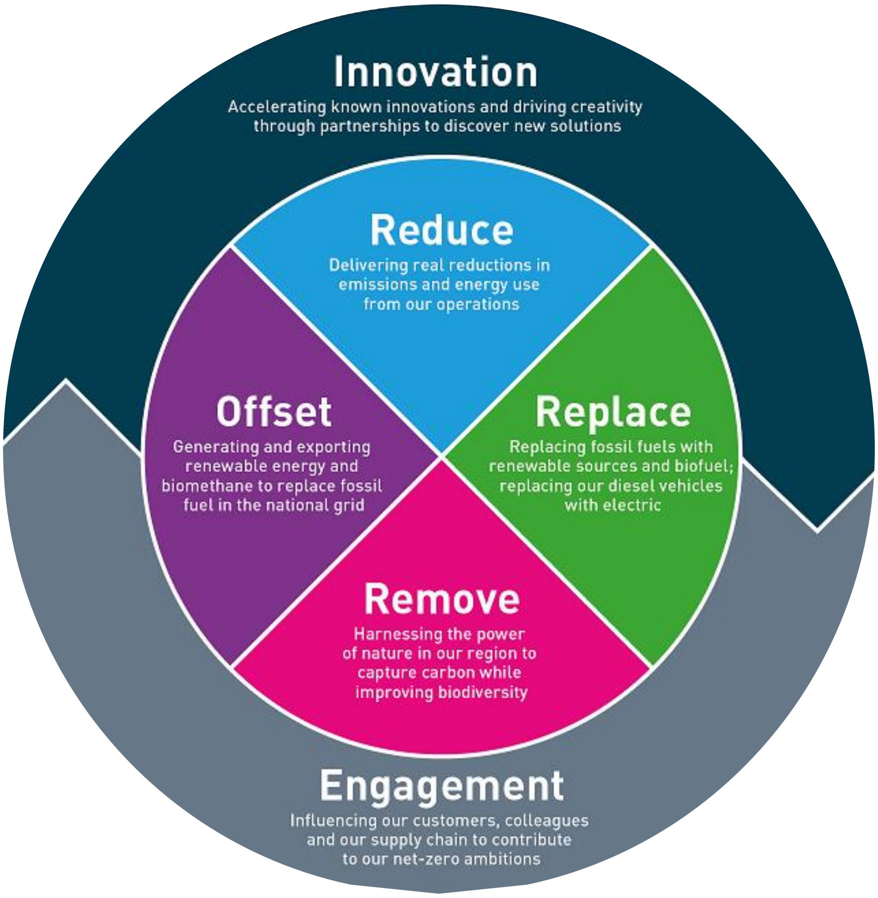
100% renewable energy
This means all the energy we use will be direct from a renewable source or via a supplier from a renewable-backed source.

We submitted our targets for verification to the Science Based Targets initiative in March 2021. Science Based Targets go further than our Triple Carbon Pledge targets by including our supply chain.

Our targets to 2030 are only the first part of our journey and ambition. Beyond 2030 we want to go beyond net zero and reduce emissions entirely.



Our approach
Our approach to reducing emissions follows the carbon hierarchy, looking to reduce and avoid first before looking to offset or remove carbon emissions.



Our top five challenges

Supply chain emissions
We do not control the supply chain and we need markets and companies to change to find solutions. For example, at present we need chemicals to treat water to meet drinking water standards. We must work with the supply chain to find zero carbon ways of manufacturing and delivering these chemicals or find alternatives in order to achieve carbon zero treatment processes.

Process emissions
Emissions of nitrous oxide and methane from waste and sludge treatment are now our largest source of greenhouse gas emissions. There are currently no feasible, or affordable alternatives to our current method of treatment and capturing will be expensive.

Offsets
It’s possible we won’t be able to completely avoid all current emissions. Therefore, in order to achieve zero carbon in the long term, carbon removal technologies will need to be available on the market which are not currently affordable or feasible.

Biogenic emissions
CO_2 is produced from sewage treatment, the combustion of biogas and the production and combustion of biomethane. Currently, we estimate but don't report these emissions because the equivalent carbon is taken in by the food grown which ultimately becomes the waste we treat and they are therefore 'short-cycle' emissions.

Markets
For some areas of our work, there are no feasible alternatives or technology readily available on the market. Where we can't develop the solutions alone, we need markets to adapt and make these available so we can find the best way to adopt the solutions. This includes carbon removal, capture and storage technologies which are not currently affordable.

OUR APPROACH TO CLIMATE CHANGE

Our approach to climate change
We are committed to the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), providing our stakeholders with decision-useful information on climate-related risks and opportunities that are relevant to our business. We seek to put sustainability at the heart of everything we do and this section sets out our approach to implementing the recommendations of the TCFD, including how we think about the governance, strategy, risk management and the metrics and targets which underpin our approach. As a company that relies on people, communities and the environment, sustainability is central to our strategy. Our strategy focuses on the positive impact we can have on the communities we serve and on the environment that we rely on. In supporting the creation of value – be that economic, environmental or social – we deliver sustainable value for all of our stakeholders. Our Sustainability Framework on page 54 is fully embedded into our overall strategy and draws together our environmental, social and governance ambitions. These are delivered as part of our Business Plan and are fully embedded in the way we work. Additional information can be found in our Sustainability Report.

Five-year TCFD disclosure roadmap
We have a strong track record of improving environmental performance and are committed to continually enhancing our reporting against the TCFD recommendations.

Year One - 2019/20
In 2019/20 we made our first TCFD disclosure within our Sustainability Report. During the year we undertook a gap analysis to better understand our material risks and opportunities and embed climate change modelling into our approach.

Year Two – 2020/21
In 2020 we established our dedicated TCFD Working Group and established our five year TCFD Roadmap. We continue to develop a full TCFD disclosure aligned to other documents due for release this year including our Climate Change Adaptation Report, Strategic Direction Statement and new Environment Strategy.

Year Three - 2021/22
In September 2021 we intend to publish a full TCFD disclosure, expanding on the information here, six months ahead of the target timeline outlined by Government. This will allow us to continue to embed and mature our processes across the Company, which will naturally be built into our ongoing business planning processes for this AMP and form a key component of the Price Review process.

Year Four - 2022/23
In the spirit of improvement our 2022/23 disclosures will include quantitative data surrounding our Scope 3 carbon reduction work with our supply chain. It will form part of proposals to Ofwat which will

be submitted in 2023. We will also explore the role that the Task Force for Nature-related Financial Disclosures ('TNFD') could have in our long-term thinking.

Year Five - 2023/24
We recognise the importance of continually reviewing the effectiveness of our approach and established mechanisms and this will be a core focus for us in year five as well as refreshing our risk assessments across both the Group and wider supply chain.

Board statement on its commitment to the 2015 Paris Agreement
The Severn Trent Water Board believes that the 2015 Paris Agreement is an important step forward in addressing the serious risks of climate change and recognises the constructive contribution we can play in tackling climate change and help the transition to a low carbon economy. It is our ambition to be a net-zero company by 2030 by building on the work we have been undertaking for many years to reduce emissions across our business and within our supply chain. In March 2020, we were the first water company in the UK to commit to developing Science Based Targets. This means that we will develop longer-term commitments to make real reductions to emissions, in line with the 2015 Paris Agreement to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C. These commitments are based on emissions targets under Scope 1 (direct emissions arising from owned or controlled sources), Scope 2 (indirect emissions arising from energy purchase) and Scope 3 (indirect emissions arising within the value chain).

During 2020/21, the Company has focused on developing targets, which include a combined Scope 1 and 2 target to sit alongside our existing emissions reduction commitments, our Triple Carbon Pledge of net-zero operational emissions, 100% energy coming from renewable sources, and 100% electric fleet by 2030, where available. From 2015 to 2020, Severn Trent has self-generated more than 50% of Severn Trent Water's electricity needs from renewable sources, reduced net carbon emissions by 40% and invested £350 million in improving a third of the rivers in its region. Additionally, we have also committed to plant 1.3 million trees and revive 5,000 hectares of land to support our plan to reduce carbon. In January 2021, we announced that we have signed up to the UN Climate Change Race to Zero campaign, pledging to deliver a net-zero water supply for customers by 2030. Led by the United Nations Framework Convention on Climate Change ('UNFCCC'), we joined other companies from around the world to rally leadership across businesses, cities, regions and investors for a healthy, resilient and zero carbon recovery.

Our net-zero scope, definition and journey align with the wider water industry commitment to reach net zero as a sector by 2030. Our Scope 3 categories make up a significant part of our overall emissions and as such we have set a Scope 3 target to engage with our supply chain and set Science Based Targets on 73% of their emissions and have worked to identify where our biggest areas of opportunity lie. We will use this to continue to build our understanding, gain a more accurate and complete picture of our current position, and use this insight to build an ambitious but achievable reduction target.

The information provided in this section, in conjunction with our wider Annual Report and Accounts and separate Sustainability Report, demonstrate how we have embedded climate-related risks and opportunities into our strategy and business model; the progress we're making on our journey; the metrics and targets we have set ourselves over the next several years, and our approach to understanding and mitigating the risks posed.

The tables on the pages 60 and 61 set out where stakeholders can find further information on how we have applied the recommendations of the TCFD and the Paris Agreement goals, including where additional information on our climate-related financial disclosures can be found within this report. We will continue to evolve and enhance our reporting against the TCFD framework, and we welcome feedback on our approach.

Climate-Related Financial Disclosure Statement

TCFD Focus Area	Where can I find out more	Disclosure Objective	Our Progress
Governance Disclose the organisation's governance around climate-related risks and opportunities	See Climate-related governance on page 62 See Governance Report on pages 88 to 94	• Describe the Board's oversight of climate-related risks and opportunities. • Describe management's role in assessing and managing climate-related risks and opportunities.	The Board and individual Directors possess significant climate-related expertise (as outlined on pages 106-107). As such, our Board has a sound basis from which to consider the risks and opportunities presented by a changing climate. To further strengthen our governance around climate-related risk and opportunities, we have constituted a TCFD working group to oversee the implementation of the TCFD recommendations. This approach ensures that key management teams throughout the business, including Strategy, Risk, Finance, Treasury and Compliance, have an aligned approach in respect of climate related matters to support delivery of the Company's overall climate strategy.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	See Climate-related strategy on pages 62 to 63 See business model on page 6	• Describe the climate-related scenarios the organisation has identified over the short, medium and long term. • Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. • Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	As a company providing an essential service drawn from nature, we know that our sector is particularly vulnerable to the effects of climate change. Our in-depth scenario analysis, which looks at a range of climate futures, enables us to identify areas within our value chain which may be more sensitive to the impacts of climate change, and to ensure that we make investments to enhance resilience without over-investing. In addition to our physical risk assessment, we understand that a changing world may have different political, technological or market pressures than we do today. That's why we seek to drive our strategy to meet the needs of the future and ensure that we assess a range of future scenarios to understand our resilience.
Risk Management Disclose how the organisation identifies,	See Climate-related risk management on pages 66 to 69	• Describe the organisation's processes for identifying	Environmental risk management is a well-established part of our risk management processes and is embedded throughout our

assesses and manages climate-related risks	See Our Approach to Risk on pages 38 to 40 See Principal Risks on pages 41 to 47	and assessing climate-related risks. • Describe the organisation's processes for managing climate-related risks. • Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	organisation. We have made progress in the last 12 months on developing our scenario analysis, integrated with our long-term planning such as the Drainage and Waste Water Management Plan ('DWMP') and Water Resources Management Plan ('WRMP'), and in identifying both the risk themes and detailed risk assessment across our value chain. The sector has shown resilience to changing environmental and output quality expectations in the past, as the expectations of customers and regulators have changed. Given the uncertainty around climate risk, a key focus for our risk management approach is achieving a co-ordinated approach to data capture, modelling and regulation for the sector as a whole.
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material.	See Climate-related metrics and targets on page 70 See Sustainability Report on our website	• Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. • Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions, and the related risks. • Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	The provision of clean, safe water, and the treatment of waste water is core to our business. As such, we have a number of key metrics and targets that assess our ability to reduce the risk when providing these core services, and ensuring that we can continue to deliver for generations to come. In addition to ensuring we can adapt to climate change, we are committed to mitigating our impact on climate change. We have committed to Science Based Targets, set a Net-Zero Ambition by 2030 and released our Net-Zero Roadmap.

Climate-related Governance

Our Sustainability Governance Framework

Our governance processes are aligned with the Company's Sustainability Framework – ensuring that the Board is effective in its: oversight of the Company's Sustainability Framework; consideration of climate-related risks and opportunities; and scrutiny of management's assessment and management of climate-related risks and opportunities.

The Board delegates certain sustainability oversight and climate related risk oversight activity to its Board Committees to support the continued delivery of the Company's Sustainability Framework. Detail is provided opposite, including cross-reference to where you can find additional information throughout this Annual Report and in our separately published Sustainability Report.

Severn Trent is committed to making decisions for the long term – decisions that add value for our customers, the communities we serve and the environment, and treating all of our employees and other stakeholders fairly. This means we work to achieve our outcomes in a sustainable way – be it through taking care of the environment, helping people thrive or being a company you can trust. This is integral to the way we operate.

Addressing the challenge of climate change is core to our strategy and is therefore at the centre of many Board considerations and decision making throughout the year. This requires robust governance to empower business areas in the management of climate-related risks and opportunities. Our Sustainability Governance Framework ensures that the Board is effective in both making decisions and maintaining oversight, whilst also adhering to our well-established culture of Doing the Right Thing. Strong governance of sustainability issues, including climate change specifically, extends below the Board to a number of management committees and our TCFD working group, as shown in the infographic.

Climate-related Strategy

Mitigating climate change

Climate change is one of the greatest challenges our society will face this century and we are better placed than many to understand the scale of the problem. Sustainability is central to the long-term success of our business, and central to this approach is our Sustainability Framework as set out on page 54. This focuses on our environmental, social and governance ambitions – the areas that our stakeholders have told us are most important to them. This includes playing our part in the UK's Green Recovery and more information can be found on pages 13-14. As part of our Triple Carbon Pledge, we will contribute to reducing the impact of our activities on climate change and ensure that we make a positive contribution to the environment.

Adapting to climate change

As a company providing an essential service drawn from nature, we know that our sector is particularly vulnerable to the effects of climate change. In fact, we've already felt the impacts of extremes in weather over the past few years. Providing water and treating waste water are key to our operations, and requires a sector-wide approach and long-term strategic thinking to ensure that the risks affecting our ability to provide these services are mitigated.

Hotter, drier summers may lead to water shortages, and wetter winters with more intense rainfall could exceed sewer capacity, resulting in flooding. Realising opportunities through our demand reduction programmes may also increase the headroom available to meet additional demand requirements. There may also be significant changes to the political, legal and regulatory environment, increased levels of opportunity arising from technological developments and renewable energy programmes and changing consumer focus toward environmental activities. These risks and opportunities are currently assessed as part of our overall ERM system.

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Assessing the transitional risks of climate change

During 2020/21 we carried out a strategic review looking at key trends to assess the resilience of our strategy in consideration of a changing environment. This activity identified eight trends related to the environment and climate change, adoption of maturing and low carbon technologies, and evolving sociodemographic, which we felt would be the most influential in shaping the next three decades and inform our strategic thinking. By stressing different levers of change, we assessed five possible scenarios which we associated with potential futures within a range of warming between 1.5°C and 4°C. This qualitative exercise enabled us to assess the future direction of our core strategy to ensure that we are resilient to a changing environment.

The outputs of the strategic planning process, which summarises our strategic response to the trends and their implications will be published in 2021.

Sustainability Governance Framework

Strong governance of sustainability issues, including over climate-related risks and opportunities specifically, extends below the Board to a number of Board and management committees, as outlined below.

THE BOARD

The Board's role is to ensure the long-term sustainable success of Severn Trent by setting our strategy through which value can be created and preserved for the mutual benefit of our shareholders, customers, employees and the communities we serve. The Board, led by our Chair Christine Hodgson, has ultimate responsibility for sustainability. Oversight of the Group's sustainability strategy is a matter reserved for the Board. The Board provides rigorous challenge to management on progress against goals and targets, and ensures the Group maintains an effective risk management and internal control system, including over climate-related risks and opportunities.

Sustainability-related discussions take place at all Board meetings and the Chair of the Corporate Sustainability Committee provides a detailed update on sustainability matters at every Board meeting, through a standing agenda item. The Board possesses a high-level of sustainability expertise, with individual Directors possessing a variety of skills and experience relating to areas such as environmental science, climate change and social responsibility.

↓ Informing — Reporting ↑

THE BOARD DELEGATES CERTAIN SUSTAINABILITY OVERSIGHT MATTERS TO ITS PRINCIPAL COMMITTEES

Corporate Sustainability Committee

Meeting frequency: At least four times per year

Supports the Group's sustainability strategy by scrutinising progress and providing guidance and direction to the Sustainability Framework.

Responsible for reviewing the Group's non-financial risks and opportunities, including climate-related risks.

Four members of the Board sit on the Committee, including the Chair, and the CEO has a standing invitation to attend meetings.

Nominations Committee

Meeting frequency: At least four times per year

Supports the Group's sustainability strategy through monitoring the Board's overall structure, size, composition and balance of skills. Sustainability expertise is given sufficient prominence in Board succession planning and recruitment activity.

Sustainability expertise is listed as a key skill for Board appointment long-lists in our selection processes.

Remuneration Committee

Meeting frequency: At least four times per year

Supports the Group's sustainability strategy through alignment of the Group's remuneration policies and procedures to reinforce achievement of our sustainability aims.

In addition to ESG measures which already form part of the annual bonus scheme metrics, this year the Committee has agreed the development of a carbon reduction performance measure in the LTIP (in addition to the existing RoRE measure).

Treasury Committee

Meeting frequency: At least four times per year

Supports the Group's sustainability strategy through incorporation of sustainability into the Group's financing strategy.

A key area of focus for the Treasury Committee has been the recent introduction and subsequent monitoring of our Sustainable Finance Framework, under which the Group can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across their activities.

Audit Committee

Meeting frequency: At least four times per year

Supports the Group's sustainability strategy through ensuring that risk is effectively managed across the Group, including climate-related risks and opportunities.

The Committee is also responsible for overseeing the Group's financial statements and non-financial disclosures, including climate-related financial disclosures.

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

The Chief Executive has overall responsibility for climate change and environmental matters. Responsibility for the development and implementation of the Group's strategy, including in relation to sustainability, rests with the Chief Executive, who is supported by STEC.

STEC DELEGATES CERTAIN CLIMATE-RELATED RISK AND OPPORTUNITY OVERSIGHT MATTERS TO ITS MANAGEMENT COMMITTEES

Sustainability Steering Committee

Facilitated by Severn Trent's dedicated Sustainability Team, Executive and senior management oversee performance and progress against our Sustainability Framework.

The Committee is responsible for identifying and reviewing climate-related risks and opportunities.

Energy Steering Committee

Sets the Group's overall energy strategy and targets, ensuring that robust plans are in place to deliver them. Monitors progress and performance against plans.

Strategic Risk Forum

A cross-business group which takes a holistic view of ERM risks and focuses on horizon scanning to identify new and emerging risks, including climate-related risks.

Disclosure Committee

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

The Committee is also responsible for overseeing the Group's financial statements and non-financial disclosures, including climate-related financial disclosures.

TCFD Working Group

The TCFD working group was established in 2020 to provide oversight and drive implementation of the TCFD recommendations and the Group's wider climate change strategy. The Group reports to the Severn Trent Executive Disclosure Committee and the Severn Trent Corporate Sustainability Committee. It includes representatives from business areas including strategy, risk, finance, treasury and compliance.

Our risks and opportunities

In order to align with the recommendations of the TCFD, we have outlined examples of the risks and opportunities relevant for our business, and how our business could be impacted by a changing climate. Whilst these risks are assessed as part of our long-term horizon scanning, we also assess these risks more frequently as part of our five-yearly AMP reporting cycles. More information on some of these risks and the potential financial implications on our business can be found within our CDP climate disclosure on our website at https://www.severntrent.com/ sustainability-strategy/reports-and publications.

The time horizons over which our risks are assessed are outlined below. More detail on our risk management approach will be detailed in our disclosure in September 2021.

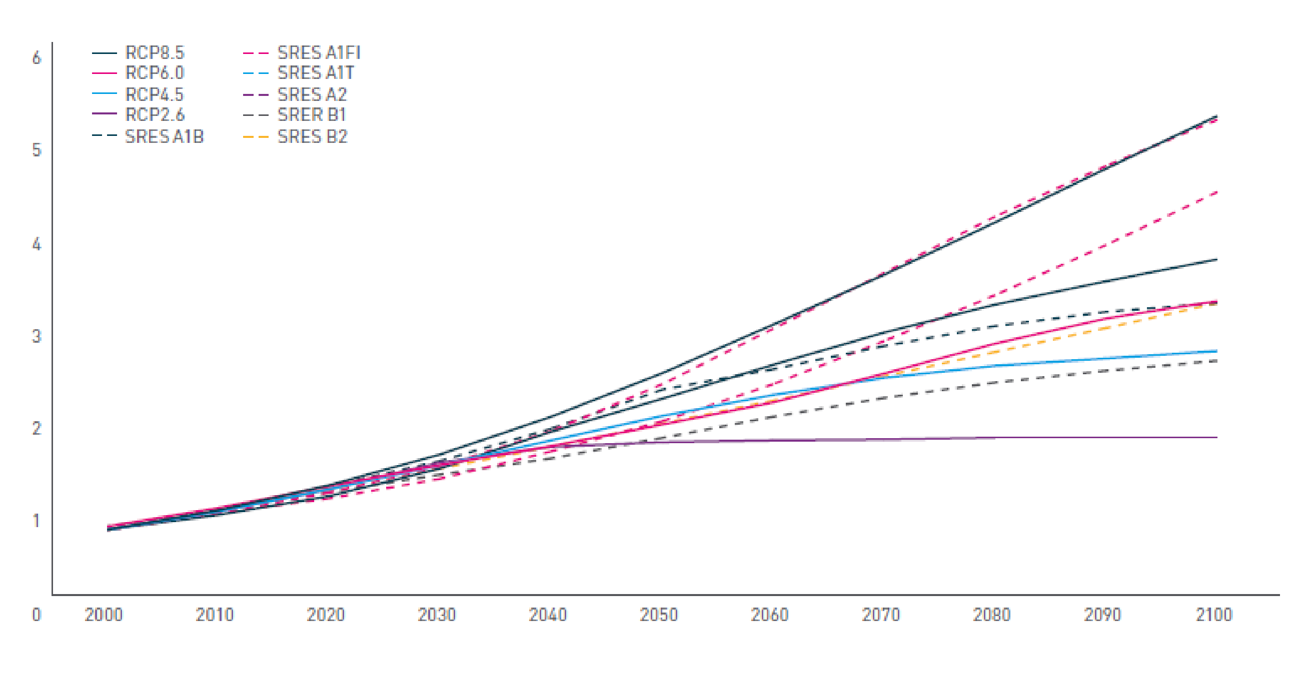
Risk assessment period	Time horizon	Commentary
Short term	**0 – 1 years**	Short-term risks include dynamic risk assessments and assessments during schemes, which are generally limited to one year ahead.
Medium term	**1 – 10 years**	This is the range of our business planning period – we set a plan in 2018/19 which will deliver through to 2030.
Longer term	**10 – 80 years**	Generally, our risk assessment approach limits to a 25-year look-ahead – but as many of our assets have asset lives longer than that, risk can be assessed much further in some instances (e.g. scheme design). For our WRMP and DWMP we have tested scenarios forecasting 80 years ahead to identify any gaps or shortfalls in our schemes, which contributes to our decision making when considering future capital schemes.

Assessing the physical risks of climate change

We assess and monitor the physical risks arising from climate change on water resources as part of our WRMP which addresses uncertainty around those long-term impacts. Our DWMP uses a similar approach to evaluate the impacts of climate change on our waste water systems.

Our WRMP uses the best practice UKCP09 and UKCP18 datasets which are based on the Special Report on Emissions Scenarios ('SRES') and Relative Concentration Pathway ('RCP') scenarios and cover a range of climate impacts. We have tested the full range of UKCP09 scenarios on our investment decision making and have produced a plan that takes a proportionate approach to mitigating for climate uncertainties. Whilst the UKCP09 climate change scenarios present us with a wide range of potential impacts, almost all of the scenarios point to a long-term loss of deployable output due to changing weather conditions. As a result, we have proposed ambitious leakage and demand management measures for AMP7 that complement our longer-term plans to improve water supply reliability. Our full climate change modelling approach will be described in detail within our WRMP and DWMP. Ongoing work using the Met Office's revised UKCP18 climate models will explore a wider range of climate models based on the IPCC's RCP scenarios. The scenarios which provide the foundation of the UKCP09 and UKCP18 models used in our analysis are outlined below.

Graph indicating the climate scenarios used as part of our ongoing physical risk assessment process. RCP and SRES climate models provide the foundation for the UKCP09 and UKCP18 climate modelling used for our WRMP and DWMP.



Climate-related Risk Management

The Board has overall accountability for ensuring that risk is effectively managed across the Company. The Board's mandate includes defining risk appetite and monitoring risk exposure to ensure significant risks are aligned with the overall strategy of the Company. Details of our Sustainability Governance Framework are set out on page 64. This sets out the governance arrangements that support the Board in discharging its duties in respect of identifying, assessing and managing climate-related risks.

On behalf of the Board, the Severn Trent Plc Audit Committee assesses the effectiveness of the Company's ERM process and internal controls to identify, assess, mitigate and manage risk. An overview of the Company's risk management governance process is provided below.

The management of risk is embedded in our everyday business activities and climate-related risks are treated in the same way as all our other Company risks, captured at a local level by responsible teams and managed centrally through our established ERM process outlined above. During the year we established a new Strategic Risk Forum independent from the ERM Team, to help provide a strategic lens to, and review of, our existing and emerging risks. We've disclosed our key climate change risks and adaptation actions in our last Climate Change Adaptation Report and we'll be updating this assessment and action plan later this year. This includes a review of weather impacts and latest climate projections. You can view this on our website. A schematic setting out how this process interacts with our overall Governance Framework is set out below.

SEVERN TRENT PLC/SEVERN TRENT WATER LIMITED BOARDS

The Board provides rigorous challenge to management and ensures the Group maintains an effective risk management and internal control system, including climate-related risks and opportunities. The Board delegates oversight of certain climate-related risks oversight activity to its Board Committees to support the continued delivery of the Group's sustainability strategy.

Reporting ↑ Informing ↓

CORPORATE SUSTAINABILITY COMMITTEE

Responsible for reviewing the Group's non-financial risks and opportunities, including climate-related risks.

AUDIT COMMITTEE

Supports the Group's sustainability strategy through ensuring that risk is effectively managed across the Group including climate-related risks and opportunities.

Reporting ↑ Informing ↓

SEVERN TRENT PLC EXECUTIVE COMMITTEE

Onward oversight, management and reporting through the Group's established Governance Framework.

Reporting ↑ Informing ↓

STRATEGIC RISK FORUM

Consolidated Business Unit information reported to this Committee, with onward reporting to the Severn Trent Plc Executive Committee on a six-monthly basis for review and challenge.

QUARTERLY RISK IDENTIFICATION PROCESS AND HORIZON SCANNING WITH INDIVIDUAL BUSINESS UNITS

The business is required to review all current and developing risks which could impact on the achievement of strategic objectives. This process includes assessing risk drivers, including climate-related risks, and their potential impact and likelihood of crystallisation.

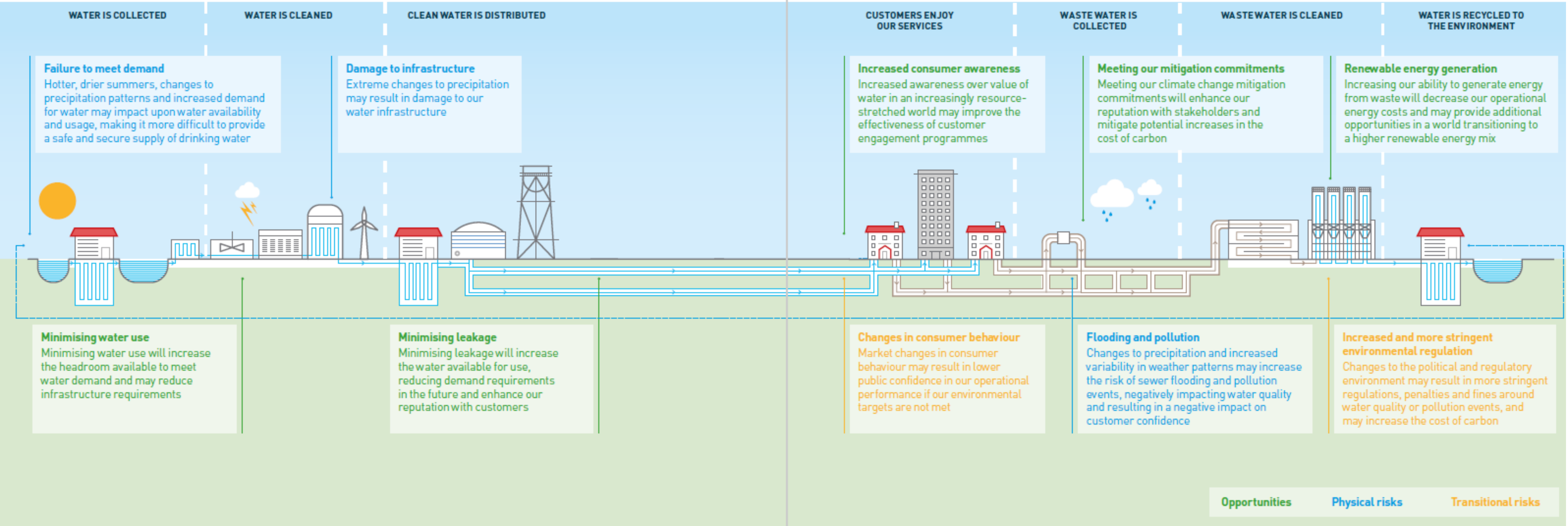
AMP BUSINESS PLANNING PROCESS WITH INDIVIDUAL BUSINESS UNITS

This process includes identification and assessment of potential risk drivers, including climate-related risks, over short, medium and long-term horizons. Potential impacts are factored into the Group's long-term business planning process and individual management plans set out below. Planning occurs both on an annual basis and long-term as part of our established Price Review process.

MANAGEMENT PLANS

• WRMP • DRMP • Carbon Reduction Plans • Climate Change Adaptation Report • Strategic Direction Statement • Environment Strategy

Examples of our climate-related risks and opportunities
within our value chain



Our Principal Risks that relate to climate change or will be exacerbated by climate change

- Failure to provide a safe and secure supply of drinking water to our customers and the potential for reduced public confidence in water supply (Principal Risk 2).
- Failure to effectively transport and treat waste water and the potential for reduced public confidence in our waste water system (Principal Risk 3).
- Severn Trent's climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain our essential services (Principal Risk 6).
- We fail to positively influence natural capital in our region (Principal Risk 7).
- Accelerating changes in the political, legal environment and environmental obligations increase the risk of non-compliance (Principal Risk 10).

Impact on our business
The risks and opportunities identified have helped to form our business strategy, ensuring we minimise environmental harm whilst meeting our regulatory requirements as a highly regulated water utility. Our strategy also ensures we are working to realise opportunities that will arise in a changing future. Deferring from the targets we have agreed with Ofwat may ultimately impact upon our customer ODIs which are reported as part of our annual reporting process (see pages 20-21). In addition, our WRMP and DWMP identify capital investment requirements which are regularly reviewed as part of our five-yearly AMP cycles. You can read more about the impacts of some of these risks on our organisation's business, strategy and financial planning within our CDP disclosures, within the WRMP and DWMP, and within the strategic review which will be published in 2021.

Due to the long-term horizons over which our modelling takes place, and the inherent uncertainty in climate projections, there is significant uncertainty over the rate at which climate change will take place, the impact of change and therefore the forecasting potential of our modelling. Our adaptive approach enables us to highlight risk response requirements to Ofwat as part of our WRMP and DWMP, and ensures we make investments to enhance resilience within a range of climate futures, without over-investing.

We work with Ofwat and other water utilities to ensure a sector-wide approach to infrastructure resilience, enhancing our ability to meet demand across the UK in line with Governmental objectives.

The negative impacts of climate change and the associated risks mean that we want to do our part to mitigate climate change. Our Triple Carbon Pledge ensures that carbon reduction is embedded within our corporate strategy.

Resilience of our strategy
Our 2020/21 strategic review looks at the resilience of our strategy against various political, economic, social, technological, legal and environmental trends, and the results of this study will be published in 2021.
Our continual review of the physical risks associated with climate change as part of our WRMP and DWMP ensures that we continually reassess our strategy to ensure that uncertainty over future climate scenarios is managed effectively.

Our Sustainability Report, WRMP and DWMP outline the key actions we are taking to:

- Reduce the harmful effects of carbon, and consequently our operational energy costs through our Triple Carbon Pledge;
- Increase water availability through enhanced and better-connected infrastructure in a sustainable way;
- Engage with our customers to reduce water usage and reduce blockages which can lead to flooding and pollution events;
- Enhance the resilience and efficiency of our infrastructure to reduce leakage and ensure protection against a changing climate;
- Enhance our nature-based solutions to create or restore habitats whilst decreasing the risk of flooding and pollution;
- Improve our monitoring to increase our understanding of pollution events;
- Work across the landscape to slow the flow of water during heavy rainfall;
- Increase sewer and storage capacity to reduce the risk of flooding and pollution;
- Generate energy from waste through our anaerobic digestion plants;
- Upgrade our digestion plants to a more efficient and higher energy yielding thermal hydrolysis process;
- Recycle our biosolids for use as agricultural fertiliser, contributing to a more circular economy;
- Actively work with Government and other stakeholders to change the way we all value water; and
- Contribute to positive regulatory change by advocating for mandatory water labelling, minimum standards for building regulations and water-fitting regulations.

Climate-related Metrics and Targets

Mitigating climate change – reducing our greenhouse gas ('GHG') emissions

We have been committed to reducing our carbon emissions since 2002 and continually improve on emissions reductions processes. In 2020 we met our carbon performance commitments as detailed in our 2020 regulatory return and are the first water utility to have submitted SBTs based on the Paris Agreement's highest level of ambition, to limit global temperature to 1.5°C above pre-industrial levels. This includes setting ambitious Scope 3 targets and working with our supply chain to reduce emissions. In addition to setting globally recognised SBTs, during 2021 we have also pledged our commitment to net zero with a more ambitious 2030 target (compared to the 2050 target for SBTs). In order to realise our ambitions, we have set the following targets:

- Reducing our Scope 3 emissions by working with over 70% of our supply chain to set their own emissions targets;
- Ensuring that all new company cars will now be electric;
- Installing over 350 electric car charging points over 65 sites, to be completed by the end of 2021;
- Having the potential to cover 100% of our electricity needs from our own renewable sources or through Power Purchase Agreements by 2030; and
- Developing procedures for our suppliers to demonstrate they are measuring and reducing their emissions and to ensure we are meeting our targets to reduce Scope 3 emissions.

More information about the activities we are undertaking to minimise our impact can be found within the Journey to Net Zero (see pages 56 to 58) and Carbon and Energy Performance (see pages 71 to 72) sections of this report, and our separate Sustainability Report. Details of how sustainability-focused performance measures are included in our LTIP can be found on pages 118 and 119 of the Directors' Remuneration Report.

Assessing our progress

This year, we are going beyond mandatory requirements and reporting on our supply chain emissions. Our full emissions reporting, including Scope 3 emissions reporting, can be found within the Carbon and Energy Performance section of this report. The methodology behind how we report on, account for, and gain assurance on our GHG emissions is also outlined further in the Carbon and Energy Performance section.

Adapting to climate change – measuring our progress

We measure and manage a wide range of metrics which help us to assess how well we are doing to minimise our risks in a changing future. Our regulatory performance commitments relating to water leakage, pollution events, customer satisfaction and water quality help us to manage our risks by reducing our impact in these areas.
Our targets around per capita consumption and smart meter installations help to assess and understand water usage to identify areas where our educational programmes will have the most impact to increase water headroom.

Our leakage reduction targets ensure that we measure our progress toward increased operational efficiency and protect our reputation in a more environmentally conscious future.

Supply interruption targets ensure that we measure and assess our ability to supply to our customers, even when extremes in weather impact upon our infrastructure.

Monitoring the occurrence and frequency of flooding and pollution events ensures that we reduce our environmental impacts and enhance our systems to accommodate changes to weather patterns, reducing the impact that changing regulation may have on our business.

Measuring our energy generation from biogas and the waste recycled to agriculture ensures that we contribute to a circular economy and reduce our carbon footprint, protecting us against changes to energy prices.

Our target of net-zero operational carbon emissions by 2030 exceeds the Government's target of 2050 and ensures that we are leading the path to a more resilient and sustainable economy.

Report on greenhouse gas ('GHG') emissions

This is the eighth year Severn Trent Water has been required to report GHG emissions. Severn Trent Water accounts for 93% of our total Group emissions and we have been publicly reporting on our emissions since 2002.

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO2e), for the period 1 April 2020 to 31 March 2021. We report our location-based and market-based emissions separately. The GHG data we report is reported internally during the year to the Corporate Sustainability Committee and to the Board. We have subjected our GHG data and processes to external assurance by Jacobs.

Our approach to reporting is subjected to the GHG Protocol Corporate Accounting and Reporting Standard. In Scope 1 and 2, we have included the emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary. Emissions from our supply chain and from assets which we do not own but operate on others behalf are included in our Scope 3 category.

For our net operational carbon footprint, we include the benefit of renewable electricity which we export and also a carbon benefit from the biomethane we export to the grid, but only where we have not sold an associated green gas certificate. Where we have sold a green gas certificate, we do not include the carbon benefit in our net number overleaf.

Our emissions are calculated using the updated 'Carbon accounting in the UK Water Industry: methodology for estimating operational emissions, Version 15' (released April 2021). This is a peer reviewed calculation tool developed and used by all the major water companies in the UK. It is updated each year to include the latest available emissions factors. All emissions arise in the UK.

Operational Greenhouse Gas Emissions (Tonnes CO_2e)	Location based	Market based
Scope 1 Emissions (Combustion of fossil fuel on site)	26,997	26,997
Scope 1 Emissions (Process Emissions)	109,959	109,959
Scope 1 Emissions (Transport Fleet)	15,846	15,846
Scope 2 Emissions (Electricity purchased for own use)	177,309	1
Scope 3 Emissions (Business Travel)	343	343
Scope 3 Emissions (Outsourced Sludge Tankers)	3,426	3,426
Scope 3 Emissions (Electricity Transmission and Distribution)	15,249	-
Total Annual Gross Operational Emissions	**349,128**	**156,572**
Emissions benefit of the renewable electricity we export	- 5,403	- 5,403

Emissions benefit of the renewable biomethane we export (for which we retire green gas certificates)	21,354	- 21,354
Total Annual Net Operational Emissions	**322,371**	**129,815**

NOTE: Emissions from waste processing of food waste and composting have been calculated in the Severn Trent Plc CAW under 'waste from admin' using the emissions factors for waste fates. In the CAW these are all assigned to Scope 3 by default. These emissions have therefore been moved into Scope 1 for Severn Trent Plc under Process Emissions where these volumes relate to the waste we compost and digest as part of our core Green Power business, in assets that we own.

Stakeholder Engagement is Central to our Strategy

We are focused on driving long-term sustainable performance for the benefit of our customers, and wider stakeholders.

This section provides some insight into how the Board engages with our stakeholders to understand what matters to them and further inform the Board's decision making and the actions taken as a consequence. You can read more in our formal Section 172 Statement on pages 80 to 83, which sets out our approach to s.172 and provides examples of decisions taken by the Board, including how stakeholder views and inputs have been considered in its decision making.

The principles underpinning s.172 are not only considered at Board level, they are part of our culture. They are embedded in all that we do and impacts on stakeholders are considered in the business decisions we make across the Company, at all levels, and strengthened by our Board setting the right tone from the top. Pursuant to the Companies Act, this information is incorporated by cross reference in the Governance Report from page 88. This section also includes high-level detail of stakeholder engagement below Board level and how we have delivered on feedback received, and signposts where further information is provided throughout this Annual Report. You can also read more in our separately published Sustainability Report which can be found on our website. We welcome any feedback from our stakeholders.

Stakeholder	How we engage at Board level	How we engage across the Company	What matters to them	How we delivered on feedback this year
Our customers In serving our customers, we want to provide both value and a great experience. Our consultation with customers helped our Severn Trent Water Limited 2020-25 Business Plan to be fast-tracked by Ofwat.	• Customer delivery performance is discussed at every Board meeting. • Customer perceptions of value for money reported to our Severn Trent Plc Corporate Sustainability Committee. • Extensive customer engagement shapes our strategy and business plan.	• Quarterly meetings with CCW at management level. • Frequent discussion and consultation with our online customer community. • Quarterly tracking of customer perceptions against key indicators including trust and satisfaction. • Created new 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. • Ensured customers could contact us 24/7. • Launched our new Water Alert System. • Introduced new two-way messaging functionality through SMS, WhatsApp and Apple chat channels.	• Customer service and performance • Leakage and supply reliability • Affordability and value for money • Assistance in times of need • Responsible investment	• Improved ODI performance scores during the year with c.80% of ODIs (across water, waste, environment and customer) having met or exceeded target. • Improved UK Customer Service Index scores achieving UQ for utilities. • Supported 35% of customers who needed support. • Provided over £15.5 million of support through our Big Difference scheme and over £3 million of support through our WaterSure scheme
Our Colleagues Our greatest asset is our experienced, diverse and dedicated workforce. Our relationship with them is open and honest, and they are appropriately supported, developed and rewarded to encourage them to do their best in all that they do.	• A dedicated virtual employee engagement event, 'Ask Our Board', was held in May 2021. • The Chair, Non-Executive and Executive Directors attend Company Forum meetings and provide feedback at Board meetings. • Company Purpose and culture, talent development and our People Strategy are discussed at Board meetings. • The Severn Trent Plc Remuneration Committee reviews workforce policies and practices and makes recommendations to the Board. • The Board considers our employee engagement – QUEST – survey results and steps taken to address feedback.	• Employees are invited to attend the 'Ask Our Board' events. • In addition to Board attendance, our Company Forum brings together employee representatives at quarterly meetings, including Trade Union representatives. • Continual internal communication to employees on COVID-19 impacts and mental and physical health awareness. • At our 'Bouncing Back Stronger' event at Carsington Water in September 2020, we took c.500 of our senior managers through our approach to bouncing back stronger from the impacts of COVID-19. • Our Executive Committee and senior leaders led our 'Share a Smile' campaign, providing four virtual events for everyone in the Company, with the aim of lifting spirits throughout the COVID-19 pandemic.	• Health, safety and wellbeing • Diverse and inclusive workplace • Opportunities to reach full potential • Open and honest environment • Fair pay and reward	• Our employee engagement survey ranked us in the top 5% of utility companies globally • Achieved 8.3 out of 10 for employee satisfaction in our QUEST results • Opening of the Severn Trent Academy and syllabus launch • Developed a specific diversity and inclusion focus in our 2021 QUEST survey • Achieved a 20% reduction in Lost Time Incidents ('LTI') compared to 2019/20, our best ever LTI rate • Launched our 2021 employee electric vehicle benefit • Continued to narrow our gender pay gap
Our Communities Our aim is to be a force for good in the communities we serve and, in doing so, create value for all our stakeholders.	• Employees who live and work in our communities 'meet' the Board at the Employee Forum and site visits. • Employees who live and work in our communities could also engage with the Board through the employee engagement virtual event, 'Ask Our Board', held in May 2021. • Corporate responsibility, community activities and volunteering programmes are discussed at Board meetings. • Environmental matters are regularly considered by the Board.	• Our employability scheme inspires our people and makes a real difference to people's lives. • Regular engagement with Government officials and elected representatives on water and environment-related issues. • Our people volunteer, when safe to do so, through our Community Champions programme, working to improve our communities and environment. • Our Education Team launched free live online lessons for kids, four times a day, five days a week. • Launched our Great Big Nature Boost campaign.	• Operational impact and disruption • Local employment • Economic contribution • Protection of the environment	• Created our £1 million COVID-19 Emergency Fund • Financial support was given to care leavers through our Big Difference Scheme • Donated almost an additional £1 million to charity following our customer water saving challenge • Donated c.£5.3 million to charitable organisations this year • Welcomed the first of our first 500 'Kickstarters' as part of our Kickstart Programme • Welcomed 69 new apprentices and graduates
Suppliers and Contractors	• Commercial performance is discussed at every Board meeting, including an update on relationships with suppliers.	• Regular meetings with our suppliers, including training on Modern Slavery, and our Code of Conduct, Doing the Right Thing.	• Fair engagement and payment terms • Collaboration • Responsible supply chain	• Accelerated payments to our supply chain as a result of COVID-19

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.	• Supplier representatives attend the Capital Markets Day and the Employee Forum alongside Executive Directors and Non-Executive Directors. • The Severn Trent Plc Corporate Sustainability Committee regularly monitors progress on sustainability in our supply chain.	• Presented at a Morgan Stanley Sustainability conference about the importance of the 'S' in ESG. • Engaged with over 50 suppliers at our Supplier Summit to outline our sustainability ambitions, helping inspire and bring them along with us on our sustainability journey.		• Registered by the Chartered Institute of Procurement and Supply ('CIPS') with the Ethics Mark
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 with the Government 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 continually report our performance against these. We work closely with our regulators to shape our industry to help ensure the right outcomes for customers and the environment.	• To deepen Board level understanding of our Regulators, our Chair and Non-Executive Directors formally met with Ofwat during the year. • Regulatory matters are regularly considered by the Board, including Price Review Plans, Water Resources Management Plan and Scheme of Wholesale Charges. • Regulatory stakeholders attend Board meetings, including from Ofwat, the Drinking Water Inspectorate ('DWI'), the Environment Agency ('EA'), the Consumer Council for Water ('CCW') and Defra. • Regulatory consultation updates are considered by the Board.	• Regular virtual meetings with our regulators at management level including the EA, Natural Resources Wales, Natural England, Ofwat, the DWI and Defra. • Regular engagement with Government officials and elected representatives on water and environment-related issues.	• Outcomes for customers, the environment and long-term resilience • Performance against regulatory targets • Trust and transparency Governance and compliance • Environmental impact	• Fast-track status secured for our AMP7 business plan for Severn Trent Water Limited • Ambitious Green Recovery package of investments proposed – read more on pages 13-14 • Maintained top-ranking position in the Tortoise Responsibility100 index – ranking 6th effective April 2021

Supporting the elephants at West Midlands Safari Park
Our Network Response Team provided some much needed help and support to West Midlands Safari Park in April 2021. Normally they're busy injecting water into our water mains and reservoirs but this time it was helping to fill a drinking water pond for the Safari Park's elephants and putting our newest tanker to the test.

Improving the health and wellbeing of children with disabilities in the West Midlands
The KIDS Orchard Centre in Dudley provides a safe, fun and educational environment for disabled young people across Dudley and the Black Country. It offers a range of services, including short breaks, after school clubs and young carers' groups. With a grant of £10,000 from the Severn Trent Community Fund, it has been able to transform an uninspiring outdoor space into an inclusive environment which includes a growing and planting area, a herb garden to encourage the children to care for the plants, and bug hotels and bird boxes to encourage insects and wildlife.

Our Ecology Team get its teeth into another rescue mission
First it was badgers. Then it was newts. Now it's lampreys. Our Ecology Team has been helping these fascinating fish to thrive in the River Noe in Derbyshire. Lampreys are incredibly important to maintaining healthy rivers and that's why we went all out to protect them when we were working in the area recently. We were working on a project to remove silt along a stretch of river, to stop it building up and spilling over a dam that's protecting an aquifer downstream when we found out our silt is what lampreys call home. We found a way to use floating diggers in short, sharp bursts, to remove enough silt without polluting the river and bulldozing their homes at the same time. Over 3,000 lampreys were safely caught and relocated to new, safe homes in the silt.

Our People

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

This section is dedicated to showcasing our people: who we are, our culture, and how we, at Severn Trent, work together as one community – a community which supports each other to succeed, recognises and rewards each other's contributions, and listens and talks to each other.

Keeping our people safe and well

We believe passionately that no one should be hurt or made unwell by what we do, and our people have done a great job of keeping themselves and those around them safe with a year-to-date total of 21 Lost Time Incidents ('LTIs'), our best ever performance, which equates to 20% fewer LTIs than last year. This is a testament to all the focus and attention we have given this critical area. Our Severn Trent colleagues have been remarkable throughout the pandemic and we have continued to support them through a comprehensive approach to health, safety, mental wellbeing and financial security.

Our IT infrastructure has proved to be stable and resilient which has allowed over half our workforce to work safely from home so we can be there for our customers 24 hours a day, seven days a week.

Following the success of our Wellbeing Campaign, 'Caring for our Colleagues', in February 2021 we launched our eight week 'Share a Smile' initiative, providing four virtual events for everyone in the Company, as well as their families, to help keep spirits high throughout the third lockdown. Read more on pages 18-19.

Impact of COVID-19 on our employees

Our priority remains the safety and wellbeing of our people and customers and we ensured that all our key worker employees had access to the correct personal protective equipment ('PPE') and that our IT infrastructure enabled our non-key worker employees to work safely from home. This approach was supported by robust health and safety protocols, that operated effectively throughout the COVID-19 pandemic. We have worked with the Health and Safety Executive, sharing data to compare positive cases, and as a result of our robust protocols, we have not had any instances of COVID-19 being transmitted within the workplace.

Providing a diverse and inclusive place to work

Our ambition is to have a workforce that reflects the communities we serve, and build an inclusive organisation where everyone feels able to bring their whole self to work, fulfil their potential and perform at their best. An inclusive environment is the foundation of a truly diverse organisation, with all of the rewards that brings. We also know that diverse teams make better decisions and help us to better deliver for our customers and communities.

Recognising that leadership is fundamental to creating an inclusive workplace, this year we focused on maintaining our diverse and inclusive culture and improving how we embed this into our policies and procedures. All of our senior management participated in a diversity and inclusion training session with personal insight from employees in ethnic minority and LGBTQ+ groups. We have also introduced our 'Include me in Inclusion', a campaign to educate our colleagues, re-affirm our zero-tolerance stance on discrimination, and outline our new diversity and inclusion ambition.

This year we were pleased to launch our new diversity and inclusion programme via our Severn Trent Academy with a range of content including specific modules for leadership and sessions where our colleagues are able to share their own diversity and inclusion stories.

We now have well-established working groups that are helping to guide our work, and our QUEST diversity and inclusion results remain well above benchmark. We're pleased to have been recognised externally in several indices for the progress that we've made. Changing the diversity of our organisation will take time, but our recruitment teams are working hard to attract and recruit employees from all backgrounds. As at 31 March 2021, 9% of our employees identified as belonging to a minority ethnic group.

Achievements in 2020/21

Top 10	**The Social Mobility Index –** maintained a Top 10 position for the second year running
Top 200	**The Stonewall Index which measures LGBTQ+ inclusion** (414th in 2019/20 – 175th in 2020/21)
2nd	**The Hampton-Alexander Review** where we moved up to second place for Women on Boards
4th	**The Tortoise Responsibility100 Index which ranks us fourth in the FTSE100 on Equality.**

Supporting the NO MORE campaign
The safety and wellbeing of our colleagues is of the upmost importance to us and we're on hand to support our colleagues regardless of whether their need for support stems from personal or working lives. We understand that 75% of women who experience abuse are targeted at work and no matter how small the likelihood of this happening within our business is, we know it's important we're aware and able to spot the signs. The NO MORE campaign began in March 2021 to help create a culture of safety, equality and respect in our communities and provide practical advice as to how our colleagues can support each other, friends and families.

Inspiring the next generation of employees is equally as important, and our school and university outreach programmes are now targeting communities where we are under-represented, which will seek to improve female and ethnic representation across our Graduate and Apprentice programmes. For more experienced hires, we're ensuring that we provide hiring managers with diverse candidate shortlists at every opportunity and we'll start measuring the impact of this next year.
The Government Kickstart programme will also be a great opportunity to demonstrate some of these new interventions, and we are committing to take on 100 black interns in the summer of 2022 as part of the #10000BlackInterns' initiative. Read more on our Kickstart programme on page 5.

We're proud of our track record on gender diversity. Female representation in our senior leadership population is 43.8% and female representation on our Board is now five, representing 56% of Directors. Page 111 sets out a gender breakdown of Directors, senior managers (as defined in the 2018 Code and Companies Act 2006) and employees of the Company.

Fairly rewarding our people

At the start of the COVID-19 pandemic, we committed to no furloughing, no redundancies, honouring our all-employee bonus and agreeing a 2.3% annual pay increase for three years for our front-line teams, with 2021 being the second year of the three-year pay deal.

We understand that financial wellbeing is as important as mental and physical wellbeing for many of our colleagues, and as part our benefits offering, in 2021 we launched our financial workshop tool, Money Hub, offering each of our colleagues the opportunity to learn more about managing their finances. Within our LearnAnytime area of the Severn Trent Academy, colleagues are also able to access specific financial and wellbeing resources at a time to suit them. In February we also made it easier for our people to access their pension information with the Aegon Pension mobile app.

In November 2020, we published our Gender Pay Gap Report highlighting a continued reduction in the median gender pay gap between women and men for the fourth consecutive year. The Report shows a median pay gap of 9.3%, down from 9.8% in 2019, as it continues to be positively impacted by a high proportion of women within our management and senior management roles.

The Company’s mean pay gap has also improved, now at 2.3%, compared to 3.6% in the previous year – a reflection of a greater weighting towards higher-earning women and a shift in our overall quartile distribution. The report also revealed there is no median gender bonus gap between male and female employees.

Women make up 29.21% of our entire workforce, but the report shows they remain underrepresented in operational roles. We’ve been working hard to create a consistent framework which includes transparent pay ranges to support us in measuring our fair pay processes. We’ve focused on raising awareness for diversity and inclusion and we’ve celebrated our success in attracting women to senior roles, with a female Chief Executive and a female Chair. The full Gender Pay Gap Report can be found on our website.

Electric vehicles

In January 2021, we announced our new and exciting employee benefit, our electric vehicle ('EV') salary sacrifice scheme giving our people the chance to drive a brand-new electric car as part of a monthly 'all inclusive' cost to suit their budget.

This is a key contributor towards our Triple Carbon Pledge, where we've committed to switching all of our fleet vehicles to electric by 2030, where available. We're confident that by 2026 we will be operating an all-electric fleet, availability permitting. For our colleagues who cycle, we also increased our Cycle 2 Work scheme, where all employees can make savings on purchasing a bike up to £1,500.

Electric cars: what are the benefits?

Environmental benefits
- No tailpipe means no exhaust gases = reduction in local air pollution
- Reduce your carbon footprint

Discounts on congestion charges
- Exempt from Clean Air Zone charges, designed to discourage polluting vehicles entering certain areas

Government funding towards a charge point
- Currently, drivers of an EV can benefit from a Government grant towards the cost of installing a charge point at home

Improved driving experience
- Experience responsive acceleration
- Benefit from regenerative braking, feeding energy back into the battery
- Feel at ease with automatic driving

Financial savings
- Make National Insurance and tax savings (of over 30% based on current HMRC rules)
- Find cheaper maintenance and insurance costs

Lower running costs
- When compared to petrol or diesel, EVs are extremely cheap to run! On average, an electric car costs about £2 to drive 100 miles compared to the average cost of petrol at £15.80

Convenient charging
- EVs can be charged wherever there's an appropriate electrical socket or plug
- Charging points are available across multiple sites

Reduce noise pollution
- EVs are quieter than petrol and diesel vehicles, so noise pollution can be reduced

Developing our people

In February 2021 we were delighted to celebrate the official opening of the Severn Trent Academy (the 'Academy') at Hawksley Park, part of a wider £10 million investment in our learning and development offering. Opening the Academy supports 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, retrain and develop with us in our industry. The Academy is a thriving hub offering a range of physical and experimental learning opportunities, as well as more traditional classroom training in a collaborative environment (from technical rigs through to virtual reality). When we're not using the facility for our core learning offer, we'll be welcoming local schools and trade bodies to give them the opportunity to learn about our industry, as well as giving the local community the chance to take advantage of our learning offer.

"It is such an exciting moment to be opening the Academy at Hawksley Park after years of planning and true collaboration across the business to make this happen. This is a fantastic investment into learning for all of us. We want everyone visiting to be immersed in an environment that makes learning enjoyable, encourages collaboration and the sharing of knowledge. We also have a vision that this is a facility which will help to support our local community and bring benefits to the environment too. Hawksley Park will set the benchmark for a new way of learning." Sarah Harris, Head of the Academy

Through our QUEST and Academy learner surveys, our people have told us they want more support on mentoring, and so this year we re-designed our mentoring programme, to ensure our people can grow and develop whilst with us. Our mentoring opportunities are split into two categories – how we're supporting our colleagues and how we're supporting our communities, through our new talent and community offering, including our Kickstart programme, schools careers guidance and employability schemes. We've created a selection of workshops for mentees and mentors to help them get the most from mentoring as well as dedicated networking sessions offering a chance for our mentors and mentees to meet up, up-skill and learn from each other.

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 the Board's selected workforce engagement mechanism, our Company Forum, was facilitated via a virtual platform for most of the year. The Company Forum provides an opportunity for employee and Trade Union representatives to meet with Board and Executive Committee members on a regular basis. 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 discussion and decision making, and each meeting generates wide-ranging exchanges of opinion and insights. Topics for discussion this year have included Outcome Delivery Incentive (‘ODI’) performance, financial updates, the impact of the hot weather and high-demand incident response in May, and Executive remuneration.

As part of our response to COVID-19, we enhanced the already significant dialogue we have with our employees through the introduction of a virtual employee engagement event, ‘Ask Our Board’. Employees were invited to pose questions to the Board in a live Q&A environment, without management present or scripted briefings, in order that the Board could listen to the views of the workforce first-hand. With movement restrictions impacting the ability of the Board to visit our sites and office locations for much of the year, this virtual session enabled the continuation of our direct dialogue with the workforce across the Company. The response from our employees has been extremely positive.

We are always looking for new and different ways for the Board to engage with employees from across the business and are currently reviewing a number of digital solutions for a wider population of our workforce to ask questions and interact with our Non-Executive Directors.

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

We were delighted that our employee engagement score improved again this year to an average score of 8.3 out of 10 and were thrilled to receive a score of 8.5 out of 10 when colleagues were asked if they would recommend Severn Trent to a friend.

Remuneration: Find out more

The Company Remuneration section, in the Directors’ Remuneration Report, sets out the steps we take to make sure that our pay and reward framework, below Executives and senior management, is transparent in a way that is meaningful and useful. Further information can be found in our Directors’ Remuneration Report on pages 115 to 119.

Section 172 Statement

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

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

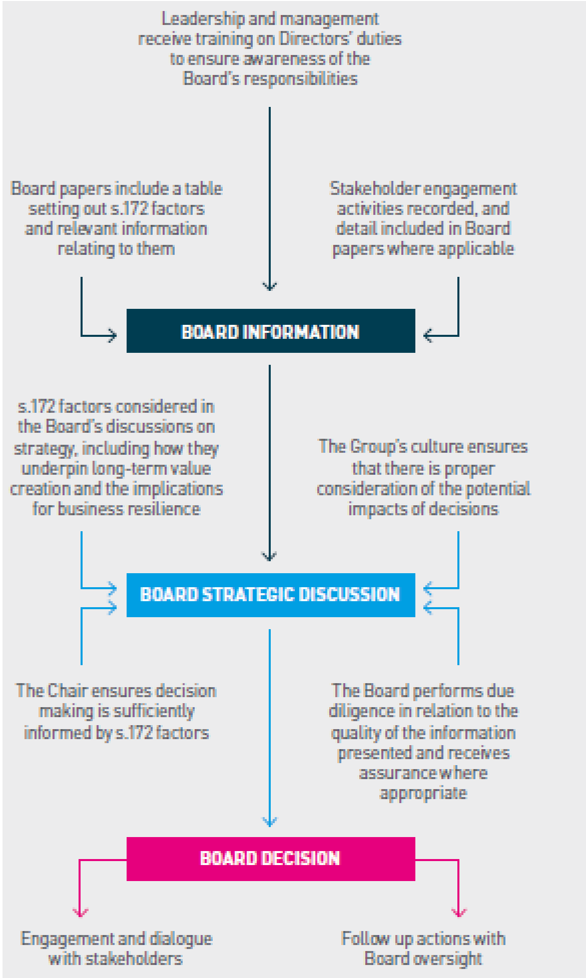
The differing interests of stakeholders are considered in the business decisions we make across the Company, at all levels, and are reinforced by our Board setting the right tone from the top. All of the Board's significant decisions are subject to a s.172 evaluation to identify the likely consequences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

In performing their duties during 2020/21, the Directors have had regard to the matters set out in Section 172(1) of the Companies Act 2006. You can read more on how the Board had regard to each matter during the year as follows:

S172 factor	Relevant disclosure
The likely consequences of any decision in the long term	Company purpose, p3 Business model, p6 Performance review, p22-30
The interests of the Company's employees	Performance review, p22-30 Our people, p75-79 Diversity and inclusion, p75 Employee engagement, p75-79
The need to foster business relationships with suppliers, customers and others	Responsible payment practices, p124 Anti-bribery and corruption, p114 Performance review, p22-30 Modern slavery, p114 Sustainability, p50 Business model, p6
The impact of the Company's operations on the community and the environment	COVID-19, P17-19 Our purpose and vision, p3 Sustainability, p50 TCFD, p58-72
The desirability of the Company maintaining a reputation for high standards of business conduct	Our purpose and vision, p3 Whistleblowing, p114 Internal controls, p121 Modern slavery, p114
The need to act fairly as between members of the Company	Stakeholder engagement, p73-74

Principal decisions in 2020/21

The principal decisions taken by the Board in the year are detailed on pages 97-101 of 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:



Key stakeholder groups considered

- Customers
- Communities
- Shareholders and Investors
- Workforce
- Suppliers and Contractors
- Regulators and Government
- Sustainability and ESG

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

GREEN RECOVERY SUBMISSION AND FINANCING

Context
In July 2020, the Government, the EA, the DWI, Ofwat and CCW invited the water sector to submit proposals to support the Government's Green Recovery Initiative with the ambition of 'building back greener' from the COVID-19 pandemic, whilst also delivering real and lasting improvements to the environment for current and future generations. The Board considered the Company's proposals aimed at delivering long-term sustainable benefits for current and future generations in our region, improving the environment and creating jobs.

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

Customers: Ensuring customer bills are affordable is a key factor in all Board decisions. In assessing which proposals to take forward, the Board considered the impact on customer bills. The proposed investment will have an annual average household bill impact of £6 in the period until 2025. We engaged with customers on these impacts and they indicated they were supportive.

Investors: The proposals will deliver strong RCV growth for Severn Trent Water, with associated shareholder benefits. The Board also considered potential financing structures and conducted an assessment of the impact on credit metrics, investors and other stakeholders. On 17 May 2021, Ofwat proposed to award the Company £565 million (2017/18 prices) to invest in its ambitious Green Recovery programme.

Environment and the community: The Board was committed to proposing schemes that address long-term issues that are important to customers and deliver environmental benefits, such as developing net-zero carbon water resources, delivering a step-change improvement in river water quality, making towns more resilient to flooding and removing lead from customers' supply pipes. In addition to the long-term benefits for customers and the environment, the proposals will create much needed employment and training opportunities, utilising our new Academy facility.

Regulators: Regulators have been supportive of our Green Recovery proposals and the Board engaged with Defra, Ofwat, the EA, the DWI and CCW this year as part of its well-established regulatory engagement activity.

Outcomes and impact on the long-term sustainable success of the Company
The Board supports the Government's approach to investing in a Green Recovery and, as a responsible business in our region, proposed a package in excess of £700 million of investment. The impact of the Company's operations in the community and the positive role it could play in delivering long-term, sustainable benefits for current and future generations in our region, improving the environment and creating jobs were pivotal to the Board's decisions.

NEW APPROACH TO CUSTOMER EXPERIENCE IN WASTE

Context
As part of the Board's AMP7 Waste Networks Strategy, a new Waste Infra Network Services contract was tendered in 2020 to shape the future operating model and support delivery of our AMP7 outcomes and customer performance commitments.

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

Customers: The Board recognises that obtaining best value contracted services supports our objective to keep customer bills low whilst also delivering improvements to customer service. The programme implemented a dedicated Waste Customer Management Centre in Derby, focused on complex activity that contributes to customer dissatisfaction.

Employees: The new contract will provide partnership working opportunities for employees. The additional resource and capabilities will also support delivery of our AMP7 outcomes and customer performance commitments.

Environment and the community: A key part of the tender selection process was to select suppliers that were aligned to the Group's sustainability and corporate social responsibility agenda. Additionally, the contract plays an integral role in reducing pollutions and protecting the environment.

Investors: The Board considered carefully the need to deliver value for customers and shareholders. The new contract will deliver savings and improve customer experience, supporting improvements in ODI and C-MeX performance.

Relationship with suppliers: A key part of the tender selection process was to ensure that Tier 2 suppliers had the opportunity to participate. The Board considered this approach to be in the best interests of both the Company and suppliers whilst also bolstering overall resilience.

Outcomes and impact on the long-term sustainable success of the Company
The new contract will deliver an improved customer experience and support improvements in ODI and C-MeX performance, with associated benefits for communities, colleagues, investors and our supply chain, whilst maximising efficiencies and supporting our Purpose – 'Taking care of one of life's essentials'.

PLANNING AND SCHEDULING TRANSFORMATION

Context
The Board considered the centralisation and transformation of the Group Planning and Scheduling function aimed at improving customer experience, enhancing the effectiveness of the respective teams and sustaining employee engagement throughout the transformation period.

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

Customers: Delivering improvements to customer experience was a key factor in all Board discussions. The primary purpose of the transformation programme was to enhance customer experience through optimising the Planning and Scheduling function and better resource teams delivering for customers.

Employees: The Board considered the impact of the programme on employees and commissioned an extensive employee engagement programme to keep employees informed and understand any concerns regarding the transformation plans and changes to existing working arrangements. A dedicated Trade Union employee working group was constituted at the outset of the project to ensure that plans could be developed in line with employee feedback.

Tailored support and training programmes were also developed and continually refined in line with employee feedback. Regular updates were provided also to the Board. As a result of the dedicated approach taken, employee feedback was positive – supported by employee engagement scores increasing compared to the prior year.

Investors: The Board carefully considered the need to deliver value for customers and shareholders. The transformation project delivered cost savings and improved customer experience, supporting improvements in ODI and C-MeX performance.

Outcomes and impact on the long-term sustainable success of the Company
The transformation programme will deliver an improved customer experience and support improvements in ODIs, whilst reducing overall travel time and delivering carbon benefits, with associated benefits for communities, colleagues, investors and our supply chain partners, whilst maximising efficiencies.

Other benefits include more efficient scheduling resulting in higher productivity, improved employee engagement and better customer engagement and experience.

ADAPTING OUR WORK FOR COVID-19

Context
As the COVID-19 pandemic unfolded, the Board increased its interactions to maintain continual dialogue on the potential impact on our customers, communities, colleagues and shareholders and ensure effective Board oversight of the Company's response to the pandemic. Read more about our COVID-19 response on pages 15 to 17.

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

Customers: The Board considered carefully the impact of the pandemic on customers and regularly reviewed additional measures put in place to support them, including the WaterSure and Big Difference schemes, and Back-on-Track. The Board was particularly focused on support for the Company's vulnerable customers – with targeted communications and support provided through the Priority Services Register. The Board acknowledged the importance of maintaining contact with all customers throughout the pandemic and oversaw enhancements to the Group's digital channel capability during the year.

Employees: The Board oversaw the development of a comprehensive approach to health, safety, mental wellbeing and financial security – committing to no furloughing, no redundancies, honouring the all-employee bonus and agreeing a 2.3% annual pay increase for the next three years. The Company ensured that all key worker employees had access to the correct PPE and our IT infrastructure enabled our non-key worker employees to work safely from home so we could be there for our customers 24 hours a day, seven days a week.

Environment and the community: The wellbeing and safety of our visitors, communities and colleagues is of significant importance and, as such, the difficult decision to close all visitor sites was made early in the pandemic to limit the risk of the spread of COVID-19. The continuation of education programmes was recognised by the Board as key and a virtual education zone was established to help parents with home-schooling and to inspire the next generation of water users.

Government: The Government designated all Severn Trent employees as key workers. However, the Board felt it important to identify which employees were absolutely essential to providing our services in order to keep as many people at home as possible in line with Government advice and to ensure we did not take up any more school spaces than were absolutely necessary. As such 50% of our employees were identified as key workers. Additionally, the Board did not take Government support in terms of the furlough scheme, a decision which was influential with the rest of the sector.

Trade Unions: The Board was kept updated on communications with Trade Unions, including the measures in place to ensure the health, safety and wellbeing of all colleagues.

Relationship with suppliers: The Board recognised the opportunity to help SME suppliers by moving to immediate processing of payments for three months, meaning that payment to the supply chain continued to flow into households. The scheme was originally targeted for three months; however, the decision was taken to extend the scheme through 2021 so that the Company could continue to provide this essential support.

Investors: The Board reached the decision that it was in the Company's best, long-term interest to approve and announce the year end dividend in line with the AMP7 dividend policy, with a growth rate of at least CPIH.

Outcomes and impact on the long-term sustainable success of the Company
The Board's continued oversight of the Company's COVID-19 response is a key factor in the high-quality management of potential impacts on our customers, communities, colleagues and shareholders.

NON-FINANCIAL INFORMATION STATEMENT

This section of the strategic report constitutes the non-financial information statement of Severn Trent Water Limited, produced to comply with sections 414CA 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 (pages)
STAKEHOLDERS	• Customer policy • Data Protection policy • Commercial policy	Stakeholder Engagement, pages 73-74 s.172 Statement, pages 80-83 Board Activities, pages 97-101
ENVIRONMENTAL MATTERS	• Environment policy	Sustainability Disclosure, pages 54-72 Sustainability Report, www.severntrent.com Stakeholder Engagement, pages 73-74
EMPLOYEES	• Health, Safety and Wellbeing policy • Speak Up policy	Our People, pages 75-79 Gender Pay Gap, page 77 Governance Report, pages 88-94 Stakeholder Engagement, pages 73-74 Remuneration Report, pages 115-119
RESPECT FOR HUMAN RIGHTS	• Modern Slavery Statement • Diversity within our workforce	Modern Slavery Act 2015, page 114 Governance Report, pages 88-94
ANTI-CORRUPTION AND BRIBERY	• Financial Crime and Anti-Bribery and Anti-Corruption policy • Conflicts of Interest policy • Security policy • Competition and Competitive Information policy	Governance Report, pages 88-94
SOCIAL MATTERS	• Doing The Right Thing • Environment policy • Customer policy	Sustainability Disclosure, pages 54-72 Directors' Report, pages 120-124 Sustainability Report, www.severntrent.com Stakeholder Engagement, pages 73-74
DESCRIPTION OF PRINCIPAL RISKS AND IMPACT OF BUSINESS ACTIVITY		Our Approach to Risk, pages 38-40 Principal Risks, pages 41-47 Emerging Risks, page 48 Business Model, pages 6
DESCRIPTION OF THE BUSINESS MODEL		Business Model, pages 6
NON-FINANCIAL KEY PERFORMANCE INDICATORS		Strategic Report, pages 3-84 Key Performance Indicators, pages 20-21

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.

Bronagh Kennedy
General Counsel and Company Secretary
7 July 2021

Severn Trent Water Limited
Governance report
For the year ended 31 March 2021

CHAIR'S INTRODUCTION TO GOVERNANCE

"The Board's overarching objective is to ensure that Severn Trent is a successful, socially purposeful company, making long term decisions for the enduring benefit of all our stakeholders."

Board focus areas in 2020/21
- Developed Board objectives to align with Purpose and Values
- Oversaw the Company's continued response to the COVID-19 pandemic
- Approved the Company's Green Recovery submission
- Reviewed the Company's strategy, five-year plan and budget
- Satisfied itself that workforce policies and practices are consistent with the Company's Values and culture
- Ensured an effective induction for Sharmila Nebhrajani following her appointment as an Independent Non-Executive Director in May 2020

Read more about the key activities of the Board on pages 97-101.

What an extraordinary backdrop for my first year as Chair of Severn Trent. As the COVID-19 pandemic unfolded, the Board increased its interactions to maintain continual dialogue on the potential impact on our customers, communities, colleagues and to ensure effective Board oversight of the Company's response to the pandemic. In line with the approach implemented for non-key workers across the business, Board meetings were held virtually whilst restrictions were in place. The Board also met physically as soon as movement restrictions allowed and undertook a number of site visits – in order to thank key-worker front-line employees for their continued dedication. Significant effort was applied to ensuring that all matters on the Board's forward plan were considered during the year and external stakeholders continued to attend virtual Board events throughout the pandemic. The Board values the insight gained from stakeholder engagement and places significant importance on maintaining close relationships with stakeholders, taking account of and responding to their views. A range of engaging and accessible virtual events were also held this year – including the 'Ask our Board' employee engagement event, informal Board discussion meetings (outside of the formal meeting programme) and company-wide virtual events such as the 'Awesome Awards' and our 'Share a Smile' campaign. I would like to recognise the excellent work of our Communications, Company Secretariat and Technology teams, who seamlessly migrated company events and Board and Committee meetings to engaging and accessible virtual formats, which enabled the Board to remain tuned into the views and experiences of our employees throughout the pandemic.

The Board spent time considering a number of important strategic topics during the year, including approval of the Company's Green Recovery submission, progress against our Net-Zero by 2030 Plan and development of our Board objectives, with a particular focus on the role the Company should play in the post-pandemic economic recovery. You can read more about the activities of the Board on pages 97-101.

Documents available at www.severntrent.com

- Severn Trent Water Limited Articles of Association
- Matters Reserved to the Board
- Charter of Expectations
- Director Letters of Appointment
- Terms of Reference for Board Committees
- Board Diversity Policy Statement
- Modern Slavery Statement
- Tax Strategy and Tax Report
- Conflicts of Interest Policy
- Non-Audit Services Policy
- Doing the Right Thing

Board events were held virtually whilst COVID-19 movement restrictions were in place

Severn Trent Water Limited
Governance report
For the year ended 31 March 2021

Corporate governance
The Company's long-term success depends on our commitment to exceptional corporate governance standards, which underpin the confident delivery of everything outlined within this Annual Report. We do not see governance as something we do because we have to. We see it as something that should be ingrained in the way we behave, how we make decisions, how we run our business and, ultimately, how we build trust. This year, two themes in particular have been central to our governance approach – living our Purpose and culture and balancing the interests of our stakeholders. Further detail is provided below.

Living our Purpose and culture
Having the right culture throughout the entire organisation, from the boardroom to the front line, is a key enabling factor to achieving good governance. Our Purpose of 'taking care of one of life's essentials' comes to life through our Values of Having Courage, Embracing Curiosity, Showing Care and Taking Pride. Our Values are integral to the way we behave and the way we do business. They ensure that every employee at Severn Trent understands what is important, how we work together as a team and why the customers and communities we serve, and the environment that we depend on, are at the centre of everything we do. The Board and Executive Committee play a key role in ensuring that our Values place customer, and wider society's needs at the heart of our plans to reinforce our overarching objective of being a successful, socially purposeful company, making decisions for the benefit of all our stakeholders to promote the long-term success of the Company. The Board gathers feedback from our stakeholders to assess our ongoing progress.

The Board was very pleased by the results of the annual QUEST survey held in November 2020, with this year's employee engagement score of 8.3 out of 10, up from 8.1 last year, placing the Company in the top 5% of utilities globally. For the first time, an interim survey was held in June 2020 to capture employee feedback at the height of the pandemic and inform our COVID-19 response. The positive employee feedback from the June 2020 survey was confirmed in our annual survey and you can read more about how we engaged with employees on pages 73-74.

The Board recognises the need to foster an inclusive culture and encourage all colleagues to bring their whole self to work, fulfil their potential and perform at their best. We are recognised as a global leader on gender equality, with 56% of the Board, 33% of the Executive Committee and 43.8% of our senior leaders being female. The Board has applied focus to broader diversity during the year and you can read more about the Company's new inclusion programme on page 75. This important work is in its early stages, and is focused on careers and career progression for colleagues from ethnic minority, LGBTQ+ and disabled groups. We have also embraced the Government Kickstart Scheme with ambitious plans to support 500 unemployed 16 to 24 year olds into employment with paid work experience and skills development. The Board enjoyed an engaging and informative visit to the new Severn Trent Academy in April 2021 to observe the range of learning programmes available to develop engineers and leaders of the future, with a particular focus on careers and career progression and creating a working environment where everyone can thrive.

Balancing the interests of stakeholders
The Board is supportive of the 2018 UK Corporate Governance Code (the '2018 Code') and, in particular, its focus on boards demonstrating how the views of stakeholders are captured and taken into account when making decisions. This is an area where we have strong foundations on which to build, through listening to the views of our stakeholders – our customers, communities, regulators, suppliers and, this year in particular, our employees. We continue to listen to these stakeholders and their insights help shape our strategy and the decisions we take as a Board. It is not always possible to provide positive outcomes for all stakeholders and the Board sometimes has to make decisions based on competing priorities. Our stakeholder engagement processes enable Board members to understand what matters to stakeholders and carefully consider all the relevant factors and select the course of action that best leads to the high standards of business conduct and success of Severn Trent in the long term. Our approach to s.172 is set out on pages 80-83 and provides

examples of decisions taken by the Board and how stakeholder views and inputs as well as other s.172 considerations have been considered in its decision making.

Sustainability
The Board is responsible for overseeing the delivery of the Company’s Sustainability Framework and, as such, sustainability is a key theme of Board and Committee discussions. The role and responsibilities of the Board and each of its Committees in relation to sustainability is set out within our dedicated Sustainability Governance Framework on page 64. The Board is also focused on the leading role the Company must play in addressing the impact of climate change and the contribution we can make as a business to mitigate our own impact and that of our supply chain, and adapt to the challenges that climate change may bring in the future. Further detail on our climate change action plan can be found within our dedicated Sustainability Report.

The Severn Trent Plc Remuneration Committee considered the alignment of the Company’s remuneration framework to support delivery of the Company’s sustainability strategy through the introduction of a sustainability-focused performance measure in the Company’s Long Term Incentive Plan (‘LTIP’). Further detail can be found within the Directors’ Remuneration Report on pages 115-119.

The Board
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, we 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 2018 and provided an opportunity to take a step back and reflect on 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 her honest assessment of the Board. You can read more about the process and outcomes of the Board Effectiveness evaluation on pages 107-108 of this report.

During 2021, the Severn Trent Plc Nominations Committee and Board considered plans for succession and a search firm has been appointed to help with the evolution of the Board over the next two to three years. The Severn Trent Plc Nominations Committee also considered succession planning for the remainder of the Executive Committee and other key roles within the senior leadership team, as well as initiatives underway to develop talent internally. The Company’s succession readiness has improved during the year and all key roles have credible succession plans in place.

As announced on 19 March 2021, Dominique Reiniche intends to retire from the Board on 8 July 2021, having served on the Board for almost five years. On behalf of the Board, I would like to thank Dominique for her service to Severn Trent and her valuable contribution to the Board’s work. We welcomed Sharmila Nebhrajani to the Board on 1 May 2020 and her extensive induction programme took place during the year. Many of the one-to-one meetings were held virtually due to the ongoing pandemic. However, Sharmila was able to visit a number of our operational sites once restrictions were lifted and COVID-secure measures were in place. Further detail can be found on page 110.

Looking forward
Throughout its discussions this year, the Board has spent a significant amount of time considering the important role the Company must play in the post-pandemic economic recovery. As a Board, our overarching objective is to ensure that Severn Trent remains a successful, socially purposeful

company, making decisions for the benefit of all our stakeholders to promote the long-term success of the Company – which is more important than ever before.

Finally, I would like to thank everyone involved in this most challenging of years – our customers, communities, my fellow Board members and our inspiring colleagues, who have shown unfaltering commitment to fulfil our purpose to 'take care of one of life's essentials'.

Christine Hodgson
Chair
7 July 2021

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 2021.

As Severn Trent Water Limited is not a listed company it is not required to comply with the 2018 Code. Severn Trent Water Limited complies with the 2018 Code. In respect of the Audit, 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 Nomination Committees can be found in the 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). The Board is pleased to confirm that Severn Trent Water Limited applied the principles and complied with all of the provisions of the 2018 Code throughout the year.

Our Purpose and Values

Our Purpose

Taking care of one of **life's essentials**

Our Values

Severn Trent Water Limited
Governance report
For the year ended 31 March 2021

Doing the Right Thing
To support the creation of long-term value for the mutual benefit of our employees, customers and communities, the Board recognises the importance of building and promoting a culture of integrity and openness, where inclusion and diversity are valued.

At the heart of Severn Trent's culture is a closely held set of Values. 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.

The Board also has oversight of a number of accompanying Company policies. These policies, together with Doing the Right Thing, codify how to identify and deal with suspected wrongdoing, fraud or malpractice; how to ensure that the highest standards of safety are maintained; and how to apply good ethics and sound judgment.

The Board monitors and assesses the culture of the Company by regularly meeting with the Executive Committee and management, reviewing the outcomes of employee surveys and engaging directly with individual employees throughout the Company. We believe that our strong culture is a unique strength and we see the benefits in employee engagement, retention and productivity.
During the year, the Board has focused on deepening its understanding of the Company's culture even further, through a dedicated Employee Voice session in November 2020. The session was centred on the results of our employee survey, 'QUEST', and other relevant data. The Board considered the positive and more challenging aspects revealed by the survey and discussed the Company's approach to addressing areas of employee focus. Members of the Board also regularly attend the Severn Trent Company Forum, to listen directly to what employees have to say and for our employees to hear about matters that the Board is reviewing and considering.

At Severn Trent, we do not see corporate governance as something we do because we have to. We see it as something that should be ingrained in the way we behave, how we make decisions, how we run our business and ultimately, how we build trust.

Enhancing workforce engagement in response to COVID-19
The Board also spent time reviewing its approach to engaging with the workforce, taking into account the 2018 Code provisions. The Board's selected workforce engagement mechanism, our Company Forum, was facilitated via a virtual platform for the majority of the year. The Company Forum provides an opportunity for employee and Trade Union representatives to meet with Board members on a regular basis. 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 discussion and decision making, and each meeting generates wide-ranging exchanges of opinion and insights.

As part of its response to COVID-19, the Board enhanced the already significant dialogue it has with the workforce through the introduction of a virtual employee engagement event, 'Ask Our Board'. Employees were invited to pose questions to the Board in a live Q&A environment, without management present or scripted briefings, in order that the Board could listen to the views of the workforce first-hand. With movement restrictions impacting the ability for the Board to visit our sites and office locations for much of the year, this virtual session enabled the continuation of our direct dialogue with the workforce across the Company. The response from our employees has been positive.

When national lockdown restrictions permitted, a number of socially distanced COVID-secure site visits were undertaken by Board members. This presented an ideal opportunity for the Board to thank key-worker front-line employees for their continued dedication throughout the pandemic. Such visits also enable the Board to understand the culture of the Company and assist with measuring progress against the Company's People Strategy, which focuses on employee health and wellbeing, diversity and inclusion, and talent development. Additionally, the annual QUEST survey was held in November 2020, and for the first time an interim survey was held in June 2020 to capture employee feedback at the height of the pandemic (ahead of the November survey taking place). The Board takes seriously the results and comments that arise from these surveys and it is a main focus of the Board to make sure that management implements any required interventions in a timely manner. The Board was delighted that, during a difficult year for many, our employee engagement score improved again this year. Further detail on this year's QUEST survey can be found on page 79.

GOVERNANCE AT A GLANCE

Major Board decisions

- Dedicated Board and Severn Trent Plc and Severn Trent Water Limited Audit Committee sessions in respect of enhancements made to the Company's Enterprise Risk Management processes and procedures.
- Green Recovery submission.
- AMP7 and Green Recovery financing.

Read more: Key Activities of the Board pages 97-101

COVID-19 response

- Oversight of the Company's response to the pandemic focused on ensuring the wellbeing of colleagues and ways the Company can continue to provide support to our workforce.
- Maintained effective governance throughout the COVID-19 pandemic.
- £1 million COVID-19 Emergency Fund to support local charities and non-profit organisations affected by the pandemic, taking our total donation to charitable organisations to c.£5.3 million.
- Delivery of the Company's strategic priorities and development of Board objectives.

Read more: Our COVID-19 Response page 17-19

Governance improvements

- Reviewed and approved of the Company's Risk Appetite Statement.
- Dedicated session on the Company's AMP7 Assurance Map.
- New 'Ask Our Board' virtual employee engagement event to facilitate direct interaction between the Board and the wider workforce throughout the COVID-19 pandemic.
- s.172 Board processes reviewed and refreshed, to ensure a greater emphasis on sustainability and environmental impacts.
- Updated and approved the Board Committees' Terms of Reference.

Board changes

- The Board spent a significant amount of time considering succession planning during the year.
- Sharmila Nebhrajani joined the Board as an Independent Non-Executive Director on 1 May 2020.

Severn Trent Water Limited
Governance report
For the year ended 31 March 2021

Severn Trent Water Limited
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For the year ended 31 March 2021

BOARD OF DIRECTORS

The collective experience of the Directors and the diverse skills and experience they possess enables the Board to reach decisions in a focused and balanced way, supported by independent thought and constructive debate, crucial to ensuring the continued long-term success of the Company. Integrity and mutual respect are the cornerstones of relationships between our Directors, with a Board dynamic that supports open and honest conversations to ensure decisions are taken for the long-term success of Severn Trent in full consideration of the impact on all stakeholders.

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Board of Directors

The collective experience of the Directors and the diverse skills and experience they possess enables the Board to reach decisions in a focused and balanced way, supported by independent thought and constructive debate, crucial to ensuring the continued long-term success of the Company. Integrity and mutual respect are the cornerstones of relationships between our Directors, with a Board dynamic that supports open and honest conversations to ensure decisions are taken for the long-term success of Severn Trent in full consideration of the impact on all stakeholders.

Director	Position	Board	Audit Committee	Corporate Sustainability Committee	Nominations Committee	Remuneration Committee[1]	Treasury Committee
Christine Hodgson	Chair	7/7	–	4/4	3/3	9/9	–
Liv Garfield	Chief Executive	7/7	–	4/4	–	–	–
James Bowling	Chief Financial Officer	7/7	–	–	–	–	6/6
Kevin Beeston	Senior Independent Non-Executive Director	7/7	6/6	–	3/3	9/9	–
John Coghlan	Independent Non-Executive Director	7/7	6/6	–	3/3	–	6/6
Sharmila Nebhrajani	Independent Non-Executive Director (appointed 1 May 2020)	6/6	5/5	4/4	3/3	–	–
Dominique Reiniche	Independent Non-Executive Director	7/7	–	4/4	3/3	–	–
Philip Remnant	Independent Non-Executive Director	7/7	6/6	–	3/3	9/9	6/6
Angela Strank	Independent Non-Executive Director	7/7	–	4/4	3/3	8/9[2]	–

1. Additional Remuneration Committee meetings were held during the year to discuss the framework for the Remuneration Policy review.
2. Angela Strank was unable to attend a Remuneration Committee meeting due to a long-standing commitment. Angela was provided with all relevant papers and provided comments on the matters to be considered to the Committee Chair.

A Audit Committee
C Corporate Sustainability Committee
N Nominations Committee
R Remuneration Committee
T Treasury Committee
D Disclosure Committee
E Executive Committee
● Denotes Committee Chair

Christine Hodgson, CBE
BSc (Hons), FCA

Chair

N (Chair) C R

Appointed:

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

Skills, competences and experience:

Christine brings extensive Board and governance experience to the Company as well as a deep understanding of business, finance and technology leadership. She is a committed advocate of the need for companies to serve all of their stakeholders effectively and deliver their social purpose. Until her appointment as Chair of the Severn Trent Board, she was the Executive Chair of Capgemini UK Plc, one of the world's largest technology and professional services groups.

Christine joined Capgemini in 1997 and built her career in a variety of roles including CFO for Capgemini UK Plc and for the Global Outsourcing business, CEO of Technology Services North West Europe and the Global Head of Corporate Social Responsibility.

Christine was previously an Independent Non-Executive Director of Ladbrokes Coral Group PLC until 2017. She is a fellow of the Institute of Chartered Accountants in England and Wales.

External appointments:

- Senior Independent Director of Standard Chartered Plc
- Chair of The Careers and Enterprise Company Limited
- Senior Pro-Chancellor and Chair of Loughborough University Council
- External Board Advisor to Spencer Stuart Management Consultants NV

Olivia Garfield, CBE
BA (Hons)

Chief Executive

D E

Appointed:

Chief Executive on 11 April 2014.

Skills, competences and experience:

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

In October 2020, Liv was appointed Commander of the Order of the British Empire ('CBE') in the Queen's Birthday Honours for services to the water industry.

External appointments:

- Non-Executive Director of Water UK
- CEO of the Council for Sustainable Business
- Member of the Takeover Panel, and its Hearings Committee and Nomination Committee
- Director of Water Plus Limited – joint venture with United Utilities
- Member of The 30% Club
- Member of the UK Investment Council
- Member of the Build Back Better Council

James Bowling
BA (Hons) Econ, ACA

Chief Financial Officer

D (Chair) E

Appointed:

Chief Financial Officer on 1 April 2015.

Skills, competences and experience:

James is a chartered accountant, who started his career with Touche Ross and brings significant financial management, M&A and business transformation expertise to the Board. Prior to joining Severn Trent, James was interim Chief Financial Officer of Shire Plc, where he had been since 2005, first as Head of Group Reporting and from 2008 as Group Financial Controller. Prior to joining Shire, James spent nine years at Ford Motor Company in various finance roles of increasing responsibility.

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

External appointments:

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

Kevin Beeston
FCMA

Senior Independent Non-Executive Director

A N R T

Appointed:

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

Skills, competences and experience:

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

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

External appointments:

- Non-Executive Director of the Football Association Premier League Limited
- Non-Executive Chairman of Elysium Healthcare Limited

John Coghlan
BCom, ACA

Independent Non-Executive Director

A (Chair) T (Chair) N

Appointed:

Independent Non-Executive Director on 23 May 2014.

Skills, competences and experience:

John has a wealth of experience in financial and general management. He spent 11 years at Exel PLC as Chief Financial Officer and ultimately as Deputy Chief Executive Officer until retiring in 2006. Since then, he has been a Director of publicly quoted and private companies across several sectors.

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

External appointments:

- Non-Executive Director of O.C.S. Group Limited
- Non-Executive Director, Vice Chair and Senior Independent Director of Clarion Housing Group

Sharmila Nebhrajani, OBE
MA (Hons), ACA

Independent Non-Executive Director

A C N

Appointed:

Independent Non-Executive Director on 1 May 2020.

Skills, competences and experience:

Sharmila brings extensive Board and governance experience, gained in a variety of roles spanning the private sector, public sector and NGOs. She brings sectoral experience from a range of regulated sectors including medicine, bioethics, financial services and the media. She is Chairman of the National Institute of Health and Care Excellence ('NICE'), the organisation that assesses clinical and cost effectiveness of drugs, medical devices and interventions in health and social care.

Her previous executive roles include Chief Executive of the Association of Medical Research Charities and Chief Operating Officer at BBC Future Media & Technology, where she managed the business functions of bbc.co.uk, including the launch of iPlayer. Previous non-executive roles include Chairman of the Human Tissue Authority, Deputy Chairman of the Human Fertilisation and Embryology Authority and Non-Executive of the Pension Protection Fund.

Sharmila read Physiological Sciences (Medicine) at the University of Oxford and was awarded an OBE in 2014 for services to medical research.

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

External appointments:

- Non-Executive Director of ITV Plc
- Chairman of National Institute of Health and Care Excellence
- Non-Executive Director of National Savings & Investments
- Trustee Director of Lifesight Limited
- Governor of the Health Foundation

Dominique Reiniche
ESSEC MBA

Independent Non-Executive Director

C N

Appointed:

Independent Non-Executive Director on 20 July 2016.

Skills, competences and experience:

Dominique has a wealth of operational experience in Europe and has international consumer marketing and innovation experience. Dominique started her career with Procter & Gamble AG before moving to Kraft Jacobs Suchard AG as Director of Marketing and Strategy where she was also a member of the Executive Committee. Dominique previously held a number of senior roles at Coca-Cola Enterprises and at Coca-Cola Company, including President – Western Europe, President – Europe and Chairman – Europe. Dominique was a Non-Executive Director of Peugeot-Citroen SA until December 2015 and was a Non-Executive Director of AXA SA until April 2017.

External appointments:

- Chair of Eurostar International Limited
- Chair of CHR Hansen Holdings A/S
- Non-Executive Director of Mondi Plc
- Non-Executive Director of PayPal (Europe)
- Non-Executive Director of Deliveroo Plc (with effect from 1 May 2021)

The Hon. Philip Remnant, CBE
FCA, MA

Independent Non-Executive Director

R (Chair) A N T

Appointed:

Independent Non-Executive Director on 31 March 2014.

Skills, competences and experience:

Philip is a senior investment banker and brings substantial advisory and regulatory experience to the Board. A chartered accountant, he now holds a number of non-executive roles. Previously, Philip was Vice Chairman of Credit Suisse First Boston Europe and Head of the UK Investment Banking Department. Philip was Director General of the Takeover Panel for two years between 2001 and 2003, and again in 2010. He served on the Board of Northern Rock Plc from 2008 to 2010 and from 2007 to 2012 was Chairman of the Shareholder Executive. Until 2020, Philip was Chairman of City of London Investment Trust Plc.

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

External appointments:

- Senior Independent Director of Prudential Plc
- Deputy Chairman of the Takeover Panel
- Trustee of City of London Endowment Trust

Dame Angela Strank, DBE
FRS, FREng, CEng, FIChemE, DSc, PhD

Independent Non-Executive Director

C (Chair) N R

Appointed:

Independent Non-Executive Director on 24 January 2014.

Skills, competences and experience:

Angela brings a wealth of strategic, technical and commercial experience to the Board. Until July 2020, Angela was BP's Chief Scientist and Head of Downstream Technology at BP Plc with responsibility for delivering the strategic business agenda through the development of differentiated technology advantage across the refining, fuels, lubricants and petrochemicals businesses, as well as shaping their transition to a lower carbon future. From joining BP in 1982, she held many senior and executive leadership roles around the world in business development, commercial, finance and technology, including in 2012, being Vice President and Head of the Chief Executive's Office.

In 2010, Angela was the winner of the UK First Woman's Award in Science and Technology, recognising pioneering UK women in business and industry. In 2017 she won the prestigious Energy Institute's Cadman Award for outstanding contribution to the oil and gas industry. Her track record and experience in strategy, operations, technology and transformational change are a complementary addition to the Board's skill set. In June 2017, Angela was recognised in the Queen's Birthday Honours List with the title Dame Commander of the Most Excellent Order of the British Empire ('DBE') for services to the Oil and Gas Industry and encouraging women into STEM careers. She is an honorary professor at the University of Manchester and she has been awarded honorary degrees from Bradford and Royal Holloway London universities.

External appointments:

- Non-Executive Director of Rolls Royce Holdings Plc
- Non-Executive Director of SSE Plc
- Member of Royal Academy of Engineering Research Committee
- Non-Executive Director of Mondi Plc (with effect from 22 April 2021)

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Executive Committee

The Severn Trent Executive Committee is established by the Chief Executive to assist with the development and execution of the Group's strategy. Individual Executive Committee members are responsible for leading their directorates and ensuring their areas of the business are being run effectively and efficiently. Full biographies for each member of the Executive Committee are available on the Severn Trent website.

Documents available at: www.severntrent.com
- Severn Trent Executive Committee Biographies

(D) Disclosure Committee
(E) Executive Committee
● Denotes Committee Chair

Olivia Garfield, CBE
BA (Hons)

Chief Executive

D E

James Bowling
BA (Hons) Econ, ACA

Chief Financial Officer

● D E

Shane Anderson
BA (Hons) Econ

Director of Strategy and Regulation

D E

Appointed Director of Strategy and Regulation in 2020.

Dr. James Jesic
BEng (Hons), PhD, MIChemE, CEng

Managing Director of Customer Operations

E

Appointed Managing Director of Customer Operations in 2020 after having held the position of Director of Production since 2017.

Bronagh Kennedy
BA (Hons)

Group General Counsel and Company Secretary

D E

Joined Severn Trent in 2011 as Group General Counsel and Company Secretary.

Helen Miles
CIMA

Capital and Commercial Services Director

E

Joined Severn Trent in November 2014 as the Chief Commercial Officer, and in 2020 became the Capital and Commercial Services Director.

Neil Morrison
BSc (Hons), FCIPD

Director of Human Resources

E

Joined Severn Trent in 2017 as Director of Human Resources.

Andy Smith
BTech (Hons)

Director of Customer, Retail and Technology

E

Appointed Director of Customer, Retail and Technology in 2020, having held the role of Managing Director – Business Services since 2014.

Dr. Bob Stear
MEng (Hons), PhD, MCIWEM, CWEM, FIWater

Chief Engineer

E

Appointed Chief Engineer in 2018.

Executives serving for part of the year

Martin Kane
BSc, CEng, CEnv, MICE, MIWEM, FIW

Special Advisor

Martin retired in June 2020 after 45 years of service with Severn Trent.

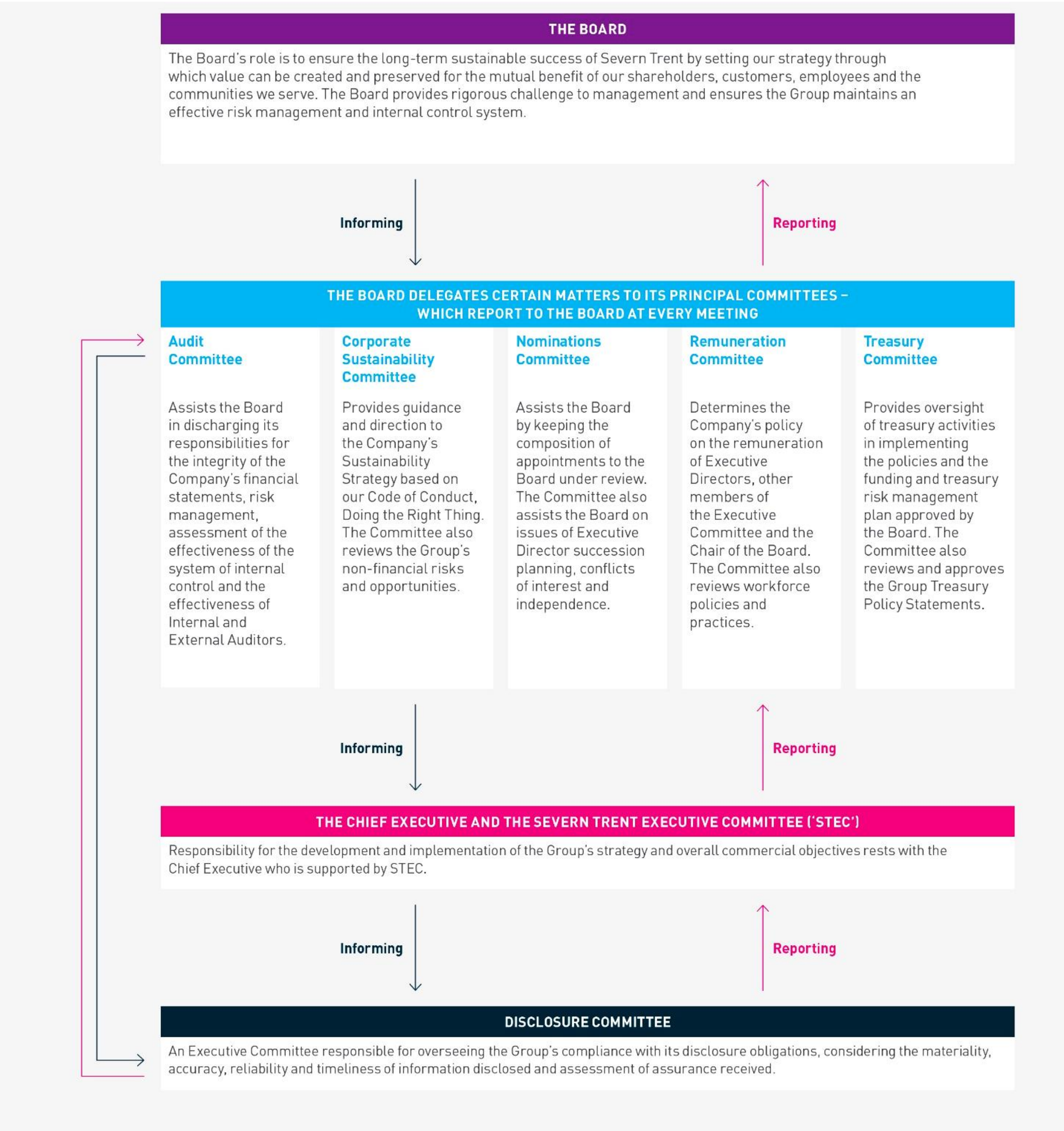
Sarah Bentley
BSc (Hons)

Chief Customer Officer

Sarah stepped down from the Executive Committee in June 2020 and left the Company in September 2020.

Severn Trent Water Limited
Governance report
For the year ended 31 March 2021

Governance Framework
We pride ourselves on having a high-functioning, well-composed, independent and diverse Board and being transparent in all that we do. Maintaining the highest standards of governance is integral to the successful delivery of our strategy. Our Governance Framework ensures that the Board is effective in both making decisions and maintaining oversight, whilst also adhering to our well-established culture of Doing the Right Thing.



Severn Trent Water Limited
Governance report
For the year ended 31 March 2021

CORPORATE GOVERNANCE STATEMENT

Board Leadership and Company Purpose

An effective Board
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.

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.

The requirements of the Board are clearly documented in the Severn Trent Water Articles of Association, Charter of Expectations and Schedule of Matters Reserved to the Board. The Board reviewed and approved the Schedule of Matters Reserved to the Board in March 2021. All of these documents are available on the Severn Trent Water website.

As outlined on page 102, there is a clear division of responsibilities between the roles of Chair and CEO. To allow these responsibilities to be discharged effectively, the Chair and CEO maintain regular dialogue outside the Boardroom, to ensure an effective flow of information.

The Non-Executive Directors have direct access to senior management at all times. Informal as well as formal contact with the wider business is encouraged to develop a deeper understanding of Severn Trent's operations and requests for further information are welcomed. This broadens the Non-Executive Directors' sources of information and enables them to consider the wider impact of any Board decisions on stakeholders more broadly.

The effectiveness of the Board is reviewed at least annually and conducted according to the guidance set out in the 2018 Code and Financial Reporting Council ('FRC') Guidance on Board Effectiveness. You can read more about this year's externally facilitated process on page 107.

Strategy
Responsibility to all of our stakeholders for the approval and delivery of the Company's strategy and for creating and overseeing the framework to support its delivery sits with the Board. The Board also holds a dedicated strategy meeting with the Executive Committee to help consider the strategic direction of the Company for the short, medium and long term.

Responsibility for the development and implementation of the Company's strategy and overall commercial objectives rests with the Chief Executive who is supported by the Executive Committee.

The Directors present their report and the audited Company's financial statements, for the year ended 31 March 2021. The performance review of the Company can be found within the

Strategic Report. This provides detailed information relating to the Company, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2021.

Stakeholder engagement
Stakeholder engagement is central to our strategy. Our dedicated stakeholder engagement and s.172 statements on pages 73 and 80 respectively set out how the Board balances the interests of stakeholders.

Remuneration Policy consultation
In early 2021, we conducted an extensive consultation exercise with our largest shareholders to understand their views on our proposed new Remuneration Policy. More details on how we engaged with shareholders, along with the outcome of this engagement, are available within the Directors' Remuneration Report, from 115.

Corporate website
We continually monitor our website, severntrent.com, to ensure it is user-friendly for our stakeholders.

KEY BOARD ACTIVITIES IN 2020/21

The key activities considered by the Board during the year are set out below.

The Board recognises the value of maintaining close relationships with its stakeholders, understanding their views and the importance of these relationships in delivering our strategy and the Company's purpose. The Company's key stakeholders and their differing perspectives are taken into account as part of the Board's discussions. You can read more in our s.172 Statement on pages 80-83. Board meeting discussions are structured using a carefully tailored agenda that is agreed in advance by the Chair, in conjunction with the CEO and Company Secretary. Each meeting starts with a report, circulated in advance of the meeting, 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. A typical Board meeting will comprise reports on operational and financial performance, legal and governance updates and one or two detailed deep dives into areas of strategic importance and areas of risk. Details of the Directors' attendance at the scheduled meetings that took place during the year can be found on page 93.

PERFORMANCE	
CEO Review	The CEO led discussions focusing on general business performance, key strategic initiatives underway, environmental matters such as biodiversity, environmental leadership and climate change, health, safety and wellbeing and other employee-related matters.
Operational Performance Reviews	Received reports detailing performance against key targets and ODIs, environmental matters and health and safety.
Commercial and Capital Delivery Reports	Reviewed performance of Business Services and progress on delivering against our ODI targets for major capital programmes and health and safety.

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FINANCIAL	
CFO Review	The CFO led discussions focusing on financial performance across the Company. Discussions included: • Financing updates – including issuance under the Company's Sustainable Finance Framework, overseen by the Severn Trent Plc Treasury Committee. • Tax updates – including the approval of the Company's Tax Strategy.
Budget	Considered performance vs the 2020/21 Budget and agreed the 2021/22 Budget. The Company's financial response to the COVID-19 pandemic was also regularly reviewed, in order to minimise the impact of the pandemic on overall financial returns.
Green Financing	On the recommendation of the Severn Trent Plc Treasury Committee, considered the funding strategy and financing structures to deliver the Company's Green Recovery schemes.
Regulatory Reporting	On the recommendation of the Severn Trent Plc and Severn Trent Water Limited Audit Committee, reviewed and approved the Annual Report and Accounts and Annual Performance Report
Viability Statement Updates	Agreed the Viability Statement period to be reported in the Annual Report and Accounts.
Pension Scheme Updates	On the recommendation of the Severn Trent Plc Treasury Committee, considered updates in relation to the Company's pension schemes.

RISK MANAGEMENT	
Enterprise Risk Management	Conducted half-yearly reviews of the Company's ERM Risk Register, covering core internal and external risks, risks driven by business change and emerging risks. During the year, the Board also took the opportunity to appraise its approach to ERM, including development of a Risk Appetite Statement and refreshed approach to risk scoring.
Review of Effectiveness of Risk Management and Internal Controls	Reviewed the risk management and internal controls in place across the Company and determined their effectiveness. **Minworth and Curdworth site visit**: Members of the Board attended a site visit to Minworth and Curdworth lagoons to observe the Company's risk management processes and procedures first-hand.
Deep Dives on Risks	**Cyber risk –** Assessed the progress made to maintain and improve cyber security systems. **Reservoir risk –** Scrutinised the processes, internal controls and resources in place to effectively manage reservoir risk, extend asset life and guarantee serviceability. **Supplier risk –** Considered the Company's approach to managing supply chain risk, including active management of suppliers through COVID-19 and transitionary periods to mitigate risk.

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SUSTAINABILITY AND ENVIRONMENTAL	
Flood Mitigation Opportunities	Considered how a broader, multi-agency approach to flooding could facilitate significant improvements in reducing flood risk at both a local and national level. Shared learning, experiences and resources would present opportunities to reduce both pluvial and fluvial flooding.
Green Gas Strategy	Discussed the Company's green gas strategy. Considered the contribution of the green gas strategy to the Company's 2030 net-zero carbon ambitions and broader environmental commitments.
Green Recovery Proposals	Reviewed the business cases to be included in the Company's Green Recovery ahead of submission to the regulators, in consideration of stakeholder benefits. On 17 May 2021, Ofwat proposed to award the Company £565 million (2017/18 prices) across all of its Green Recovery project proposals..
Our Sustainability Agenda	See Strategic Deep Dive section below.
New Strategic Direction Statement	See Strategic Deep Dive section below.

STRATEGIC DEEP DIVES	**At each meeting, the Board receives one or two detailed deep dives into areas of particular strategic importance to evaluate progress, provide insight and, where necessary, decide on appropriate action. Some examples are provided below.**
Our Sustainability Agenda and Progressing Our Social Purpose	Alongside the regular sustainability updates discussed at Board meetings, including progress made in delivering the Company's sustainability agenda, the Board also considered its Social Purpose during the year. The Board discussed Ofwat's Public Value consultation and the Financial Reporting Council's corporate reporting reforms.
New Strategic Direction Statement	Discussed and agreed the Company's long-term strategic priorities to ensure we meet the highest resilience and environmental standards, and at the same time plan investments more effectively in order to optimise value creation.
Customer Experience	Received an update on the current approach and future plans to improve the customer experience, including enhancing digital channels available to customers.
Community Activity	Received a detailed update on community activity undertaken, including charitable causes that had been supported through the Community Fund and the COVID-19 Emergency Fund, over the last 12 months.
Addressing Water Poverty	Discussed the wide range of mechanisms in place to support customers in vulnerable circumstances in the long and short term, including the Severn Trent Trust Fund.
Information Technology Strategy	Received regular updates on progress made in

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	implementing the Company's technology strategy and plans for further improvement throughout AMP7.
Value Creation Strategy	Considered how the Company can continue to create value in a regulatory context whilst maintaining a leading approach to ESG matters.
Demand Management	Received an update on the Company's comprehensive peak demand management programme, including trials undertaken during the year. Considered tools being used to reduce demand during peak periods.
COVID-19	Received regular updates on the Company's response to the global pandemic, including scenario planning, impact assessments and actions being taken across the Company.

GOVERNANCE, LEGAL AND REGULATORY	
Governance, Regulatory and Legal Updates	Monitored regulatory and legislative developments and considered any potential impact on the Company's operations. Regulatory stakeholders attended Board meetings virtually, including Ofwat, the DWI, the EA, CCW and Defra. Members of the Board also attended Ofwat NED events. Received regular litigation reports from the Company's legal team. Approved arrangements for delegated financial authority across the Severn Trent Water Group. On the recommendation of the Severn Trent Plc Corporate Sustainability Committee, approved the Modern Slavery Statement.
Board Succession Planning and Diversity	On the recommendation of the Severn Trent Plc Nominations Committee, considered the arrangements for Board Succession Planning and approved the appointment of Sharmila Nebhrajani as a Non-Executive Director.
Board Effectiveness Evaluation	Reviewed progress against the Action Plan for 2020/21 and set the Action Plan for 2021/22. Appointed Independent Board Evaluation to undertake the external 2020/21 evaluation, covering the Board's effectiveness, processes and ways of working.

WORKFORCE, CULTURE AND VALUES	
Our Culture	Reviewed the results of the annual QUEST survey and identified areas for improvement and appropriate courses of action. On the recommendation of the Remuneration Committee, satisfied itself that workforce policies and practices are consistent with the Company's Values and culture. Received updates from Non-Executive Directors following attendance at the Company Forum. Discussed gender pay, the development of women into senior roles and driving greater diversity and inclusion in terms of gender, ethnicity and social background.

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Employee voice and engagement	Discussed the Company's approach to engaging our workforce, including feedback from the annual QUEST survey, and received an update on progress made on embedding our Purpose and Values.
Review of Workforce Policies and Practices	Reviewed the assessment of the Company's workforce policies and practices, ensuring these are consistent with the Company's Values and are supportive of its long-term sustainable success.
Academy	Received regular updates on delivery of the Severn Trent Academy facility, including a COVID-secure site visit in April 2021 to observe the training and development facility first-hand.

SITE VISITS	**In response to Government guidance, physical site visits were put on hold for a large proportion of the year. However, during periods where restrictions were lifted and COVID-secure measures were in place, Board members resumed individual and reduced number group visits to deepen their understanding of the Company's operations and the vital role played by our key workers during the pandemic.**
Draycote Water and Carsington Reservoir	Board members visited Draycote Water to see first-hand the processes and management in place at one of our largest reservoirs. Board members attended our COVID-secure Leadership events held at Carsington Reservoir. The half day sessions focused on the role that the Company could play in the UK's post-COVID recovery.
Operational Site Visits	Operational sites visited by members of the Board this year include the following: • Trimpley Water Treatment Works • Finham Sewage Treatment Works and Sludge Treatment Facility • Offices at Raynesway, Longbridge and Shelton
Minworth and Curdworth Lagoons	Members of the Board visited Minworth and Curdworth lagoons to observe the Company's risk management processes and procedures first-hand.

CONTINUOUS PROFESSIONAL DEVELOPMENT AND TRAINING	**During the year, the Board received dedicated sessions on a wide range of topics and engaged in Company-wide training, including:**
Responding to Modern Slavery within Business	External facilitators provided an update on modern slavery developments, including lessons learned from recent modern slavery investigations in the UK.
Board CPD Sessions – Climate Change, Cyber and Diversity	Board members receive a suite of CPD materials via the Board's Resources Room to complement their attendance at a range of externally facilitated virtual events. This year, Board members attended sessions on the following topics: • Climate Change and Sustainability

	• Cyber • Diversity
Company-Wide e-Learning	The Board completed mandatory e-learning modules applicable to all employees during the year, demonstrating a strong 'tone from the top' in reinforcing the importance that training plays in mitigating risks faced by the Company. The e-learning programme included the following topics: • Doing the Right Thing • Modern Slavery Awareness • Anti-Bribery and Corruption • Data Protection

DIVISION OF RESPONSIBILITIES

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

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

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DIRECTOR	RESPONSIBILITY
Chair **Christine Hodgson**	• Leads our unified Board and is responsible for its effectiveness. • Fosters a culture of inclusivity and transparency by demonstrating the Company's Values, establishing the right 'tone from the top'. • 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 Company Secretary. • Responsible for scrutinising the performance of the Executive Committee and overseeing the annual Board Effectiveness evaluation process. • Facilitates contribution from all Directors and ensures that effective relationships exist between them. • Ensures that the views of all stakeholders are understood and considered appropriately in Board discussion and decision making. • Responsible for the composition and evolution of the Board, together with the Nominations Committee and SID.
Senior Independent Non-Executive Director ('SID') **Kevin Beeston**	In addition to his responsibilities as a Non-Executive Director, the SID also: • Supports the Chair in the delivery of their objectives. • Acts as an alternative contact for shareholders should they have a concern that is unresolved by the Chair, CEO or CFO. • Leads the appraisal of the Chair's performance with the Non-Executive Directors. • Undertakes a key role in succession planning for the Board, together with the Board Committees, Chair and Non-Executive Directors.
Independent Non-Executive Directors **John Coghlan** **Sharmila Nebhrajani** **Dominique Reiniche** **Philip Remnant** **Angela Strank**	• Promote high standards of integrity and corporate governance, and uphold the cultural tone of the Company. • Constructively challenge and assist in the development of strategy. • Monitor the delivery of strategy by the Executive Committee within the risk and control framework set by the Board. • Satisfy themselves that internal controls are robust and that the External Audit is undertaken properly. • Engage with internal and external stakeholders and feedback insights to the Board, including in relation to employees and the culture of the Company. • Have a key role in succession planning for the Board, together with the Board Committees, Chair and SID. • Serve on various Committees of the Board.
Chief Executive ('CEO') **Liv Garfield**	• Represents Severn Trent externally to all stakeholders, including our employees, the Government, regulators, customers, suppliers and the communities we serve. • Develops and implements the Group's strategy, as approved by the Board. • Sets the cultural tone of the organisation. • Facilitates a strong link between the business and the Board to support effective communication. • Responsible for overall delivery of commercial objectives of the Group. • 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 10 to 13.
Chief Financial Officer ('CFO') **James Bowling**	• Manages the Group's financial affairs. The CFO's Review can be found on pages 31 to 37. • 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 our employees, the Government and regulators, customers, Pension Trustees for the Company's defined benefit pension schemes, lenders, suppliers and the communities we serve.
Company Secretary **Bronagh Kennedy**	• Ensures sound information flows to the Board in order for the Board to function effectively and efficiently. • 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. • Ensures compliance with Board procedures and provides support to the Chair. • Co-ordinates the effectiveness evaluation of the Board in conjunction with the Chair. • Provides advice and services to the Board.

Board independence

The independence of our Non-Executive Directors is formally reviewed annually by the Severn Trent Plc Nominations Committee, and as part of the Board Effectiveness evaluation. Particular focus is applied to the Directors who have served six years on the Board. 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.

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Conflicts of interest

Severn Trent Water has a Conflicts of Interest Policy in place for all Severn Trent Water Group companies. Our Board and its Committees consider potential conflicts at the outset of every meeting and the Board formally reviews the authorisation of any potential conflicts of interest every six months with any conflicts being recorded in the Conflicts of Interest Register. The Conflicts of Interest Register sets out any actual or potential conflict of interest situations which a Director has disclosed to the Board in line with their statutory duties and the practical steps that are to be taken to avoid conflict situations. When reviewing conflict authorisations, the Board considers any other appointments held by the Director as well as the findings of the Board Effectiveness evaluation.

Board members hold external directorships and other outside business interests, and we recognise the significant benefits that greater boardroom exposure provides for our Directors. However, we closely monitor the nature and number of external directorships our Directors hold in order to satisfy ourselves that any additional appointments will not adversely impact their time commitment to their role at Severn Trent, and to ensure that all of our Board members remain compliant with advisory groups' individual guidance on 'overboarding'. These requirements impose a limit on the number of directorships both Executive and Independent Non-Executive Directors are permitted to hold. Our Independent Non-Executive Directors commit sufficient time to discharging their responsibilities as Directors of Severn Trent in line with the requirements set out in our Charter of Expectations. Details of the Directors' external directorships can be found in their biographies on pages 93.

Before committing to an additional appointment, Directors confirm the existence of any potential or actual conflicts; that the role will not breach their 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. During the year, we strengthened our internal processes to ensure that Directors do not undertake any new external appointments without first receiving formal approval from the Board.

The Conflicts of Interest Policy continues to be applied practically throughout the year, such as considering the potential conflict presented by Directors having roles on other Severn Trent Group companies.

COMPOSITION, SUCCESSION AND EVALUATION

Board composition

As at the date of this report, our Board comprised the Chair (who was independent on appointment), six 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 on pages 93. Further detail on the role of the Chair and members of the Board can be found on page 102.

The Chair, Senior Independent Director and Non-Executive Directors are appointed for a three-year term, following consideration of the annual Board Effectiveness evaluation outputs. This term can be renewed by mutual agreement, up to a maximum total tenure of nine years. 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 website. The composition and effectiveness of the Board is subject to regular review by the Severn Trent Plc Nominations

Committee which, in particular, considers the balance of skills, tenure, experience and independence of the Board, in accordance with the Board Diversity Policy, which is available on the Severn Trent website. Any new appointments to the Board result from a formal, rigorous and transparent procedure, responsibility for which is delegated to the Severn Trent Plc Nominations Committee (although decisions on appointments are a matter reserved for the Board). The Board and the Severn Trent Plc Nominations Committee have spent a significant amount of time considering Board succession 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.

Board training and development

The environment in which we operate is continually changing. It is therefore important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date. Our Board Effectiveness process includes training discussions with the Company Secretary and, as required, we invite professional advisers and subject matter experts to provide in-depth updates. These updates are not solely reserved for legislative developments but aim to cover a range of strategic issues including, but not limited to, the economic and political environment and environmental, technological and social considerations. Our Company Secretary also provides regular updates to the Board and its Committees on regulatory and corporate governance matters. The Board activities schedule on pages 97-101 sets out further detail on the topics covered during the year.

The aim of the training sessions is to continually refresh and expand the Board's knowledge and skills. In doing so, the Directors can contribute to discussions on technical and regulatory matters more effectively. The sessions also serve as an opportunity for the Board to discuss strategy and risks with management below Executive Committee level and gain further direct insight into our businesses and management capability. During the year, the Board training programme focused on three key areas as set out on the next page.

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Board CPD sessions 2020/21

CLIMATE CHANGE AND SUSTAINABILITY

Value Creation from Zero Waste – June 2020
Green Gas – June 2020 and January 2021
Green Recovery – October 2020 and January 2021
Our Sustainability Agenda – April 2021

CYBER

Cyber Security – October 2020
Cyber Update – April 2021

DIVERSITY AND INCLUSION

Employee Voice – November 2020
Gender Pay – November 2020
Modern Slavery – November 2020
Inclusion – April 2021

In addition to the dedicated sessions at Board meetings, additional reading materials were also provided via the Directors' Resource Room and Directors attended a variety of virtual training events hosted by external providers.

Informal Board interactions
The Board's well-established informal interaction programme was adapted in response to COVID-19 movement restrictions to ensure that informal Board events could still be held outside of the formal meeting schedule, to continue building and maintaining successful relationships and promoting a culture of openness in Board discussions. Senior management and external stakeholders were also invited to join the Board members for a number of these sessions.

In response to Government guidance, physical site visits were put on hold for a large proportion of the year. However, during periods where restrictions were lifted and COVID-secure measures were in place, Board members resumed individual and reduced group visits, in order to thank our key workers for their dedication and commitment to serving our customers during the pandemic.

Directors' resources
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 CPD content, and briefings on Board training session topics. It also contains a further reading section which covers updates and guidance on changes to legislation and corporate governance best practice.

Directors' skills and experiences
An effective Board requires the right mix of skills and experience. Our Board is a diverse and effective team focused on promoting the long-term success of the Company. The Board skills matrix below details some of the key skills and experience that our Board has identified as particularly valuable to the effective oversight of the Company and execution of our strategy. The Board skills matrix is reviewed at least annually.

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Board Skills Matrix

Topics	Kevin Beeston	James Bowling	John Coghlan	Olivia Garfield	Christine Hodgson	Sharmila Nebhrajani	Dominique Reiniche	Philip Remnant	Angela Strank
Strategy	●	●	●	●	●	●	●	●	●
M&A	●	●	●	●	●		●	●	●
Corporate finance/Treasury	●	●	●		●	●		●	
Accounting	●	●	●		●	●		●	
Regulation	●	●	●	●	●	●	●	●	●
Technology/ Innovation/Cyber			●	●	●	●	●		●
Customer	●			●	●		●		●
Brands	●				●		●		●
Engineering									●
Utility sector	●	●	●	●	●	●	●	●	●
Science						●			●
Sustainability, including climate change		●		●	●	●	●		●
People management	●	●	●	●	●	●	●	●	●
Commercial procurement	●	●		●	●		●	●	●
Construction/ Infrastructure delivery	●		●	●					●
Large capital programmes		●	●	●	●		●		●
Political affairs	●		●	●	●	●	●	●	

Board evaluation

Our annual Board evaluation provides the Board and its Committees with an opportunity to consider and reflect on the quality and effectiveness of its decision making, the range and level of discussion and for each member to consider their own contribution and performance. In accordance with the 2018 Code provision that the Company should undertake an externally facilitated Board Effectiveness evaluation at least every three years, this year's review was facilitated by Ffion Hague of Independent Board Evaluation ('IBE'). Ffion Hague nor IBE has any other connection with the Company or individual Directors.

October/November 2020 Appointment and Briefing	Providers were invited to submit detailed proposals to a sub-committee of the Board comprising the Chair and SID, supported by the Company Secretary. Following subsequent presentations, the Board appointed IBE to facilitate the external Board Effectiveness review for 2020/21. A comprehensive brief was provided to IBE by the Chair.
January – March 2021 Board and Committee Meeting observation	The assessment team observed the Board and its Committees in January and March 2021. Access to Board and Committee papers was provided through a secure portal under strict controls.
January-March 2021 One-to-One interviews	Detailed interviews were conducted with each Board member throughout January and February, as well as with a number of the Executive Committee members, the Head of Internal Audit, external

	advisers and the External Auditor. All participants were interviewed for 1.5 hours in accordance with a tailored agenda.
March 2021 Evaluation and report	A comprehensive report was compiled by the evaluation team based on the information and views supplied by those interviewed and observations from the Board and Committee meetings.
March 2021 Discussion with the Board and Committee Chairs	The draft conclusions were discussed with the Chair and subsequently with the Board in March 2021. Following the Board discussion, feedback was provided to each of the Committee Chairs on the performance of each Committee and the report on the Chair's performance was discussed with the Senior Independent Director. In addition, the Chair received a report with feedback on each Director.
March 2021 Agreed action plans for 2021/22	The key observations were discussed by the Board and its Committees ahead of finalising 2021/22 action plans.

Findings

IBE's independent review concluded that the Board and Committees perform very well, with positive feedback received from both within and outside the Board. The review highlighted that it was evident that the Board feels accountable to all stakeholders and that the Board places a strong emphasis on ensuring that it considered views from and issues affecting stakeholders, employees, customers, regulators and other key stakeholders in its discussions and decision making.

The Board was considered to be appropriately diverse, with a culture of trust between Board members, which encourages open and honest discussions and leads to constructive challenge of the Executive Committee and senior management.

The review concluded that, whilst the Board was operating very effectively, there was scope for small areas of further improvement and the following recommended next steps were agreed with the Board:

	BOARD COMPOSITION AND SUCCESSION PLANNING	BOARD AGENDA AND FOCUS	GOVERNANCE ENHANCEMENTS
Recommendation	The composition of the Board was considered to be effective. However, focus should be applied to future changes to Board membership, including the loss of experience and knowledge of the business, in the context of NED tenure.	Consideration should be given to agreeing a set of Board objectives and actions for prioritisation each year to inform the Board agenda and create time for discussion of long-term issues and strategy.	Align membership of the Treasury Committee and Corporate Sustainability Committee to that of other Board Committees, comprising Non-Executive Directors only.
Progress	One of the key activities for the Board and Nominations Committee during the year was the Committee's plans for the evolution of the Board. An independent search firm has been appointed to help with this over the next two to three years.	A set of Board objectives and actions were developed by the Board and agreed in April 2021 and the Board agreed that it should discuss its progress on a six-monthly basis. An update will be provided in the 2021/22 Annual Report and Accounts.	In line with the recommendations of the Board Effectiveness evaluation, the Board refreshed the membership of the Treasury and Corporate Sustainability Committees towards the end of the year, so that the membership of both Committees comprises Non-Executive Directors only.
Recommendation	Induction programmes were considered to be excellent and should continue to be tailored to individual Board members, with consideration given to establishing a Board 'buddy' scheme.	Alongside the excellent written reports provided to the Board by each of its Committees, consideration should be given to tabling a report from the Company Forum, the Company's selected workforce engagement mechanism.	Notwithstanding the excellent informal interaction between the Board and its Committees throughout the COVID-19 pandemic, consider holding additional private sessions (without management present) for the Board and its Committees during the year.
Progress	A Board 'buddy' scheme will be used for all future Board appointments to complement the Group's extensive induction approach.	Reports from Company Forum meetings are now tabled at all subsequent Board meetings.	Private sessions are now held at all Board and Committee meetings at the discretion of the relevant Chair.

Effectiveness of Board Committees

The Board places significant reliance on its Committees by delegating a broad range of responsibilities and issues to them. It therefore remains crucial that effective linkages are in place between the Committees and the Board as a whole, not least as it is impracticable for all Independent Non-Executive Directors to be members of all of the Committees. Mechanisms are in place to facilitate these linkages, including ensuring that there are no gaps or unnecessary duplications between the remit of each Committee and overlapping membership between Board Committees where necessary. The Board also receives a written summary of each of the Committee's meetings and oral updates at the Board, where appropriate. Overall, Board members are fully satisfied that the governance and controls in place are working well and give the Board the visibility it needs to carry out its oversight duties.

Chair's performance

IBE, in conjunction with the Senior Independent Director, Kevin Beeston, carried out a review of the performance of the Chair which included meeting with the Non-Executive Directors without the Chair being present. The consolidated feedback, which was wholly positive in nature, was discussed with Christine Hodgson.

External appointments

As part of the evaluation, full consideration was given to the number of external positions held by the Non-Executive Directors. Directors' other appointments were reviewed, including the time commitment required for each. The Severn Trent Plc Nominations Committee did not identify any instances of overboarding and confirms that all individual Directors have sufficient time to commit to their appointment as a Director of Severn Trent Water. Approvals were sought during the year for Directors' additional roles and due consideration was given to any potential conflicts of interest and ability to devote sufficient time to Severn Trent Water before consent was granted. A robust assessment of the independence of the individual Directors was also conducted and all of our Non-Executive Directors are considered to be independent.

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 Company Secretary, along with other members of the Executive Committee. New Directors also meet members of the operational teams and visit our key sites and capital projects to ensure they gain a detailed understanding of the water and waste water businesses and have a chance to experience our unique culture in person. We provide briefings on the key duties of being a Director of a regulated water company and proposed appointees meet with Ofwat as part of the appointment process. We enhance the Board's induction programme in light of feedback from new Directors and the Board Effectiveness evaluation.

Sharmila Nebhrajani's induction

The Board welcomed Sharmila Nebhrajani during the year and her extensive induction programme covered a range of areas across the business, including governance, stakeholder engagement and the environment. Many of the one-to-one meetings were held virtually due to the ongoing pandemic. However, Sharmila was able to visit a number of our operational sites once restrictions were lifted and COVID-secure measures were in place.

"My induction into Severn Trent was both very comprehensive and professionally organised. Really impressive was the innovative way the programme was adapted to the challenges presented by the pandemic including not only virtual meetings but also incredibly insightful video site tours showing operational aspects. Once restrictions were lifted, I was able to immerse myself into the Group's activities, going out with crews on their rounds, and a true highlight was meeting our people, who show such determined commitment to serving our customers."
Sharmila Nebhrajani, Non-Executive Director

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June 2020

- Individual meetings with Non-Executive Directors and Executive Committee members

June – July 2020

Deep dives into:

24 June
- Internal Audit and Risk Management processes

1 July
- Regulatory finance

3 July
- Social purpose

8 July
- Capital programmes

16 July
- Company background, strategy and regulation

17 July
- Bioresources

21 July
- Business Services

July – September 2020

Operational site visits to understand our key business areas first-hand:

28 July
- Network control – observing a team at Severn Trent Centre
- Water distribution – including a site visit to our Finham depot
- Water treatment – including a site visit to Campion Hills Water Treatment Works

8 September
- Waste water and sewerage network – including a site visit to Spernal Sewage Treatment Works

11 September
- Dams and reservoirs – including a site visit to Draycote Reservoir

Diversity

As highlighted earlier in the report, the Board and Committee continue to drive the agenda of diversity across the Severn Trent Water Group and are proud of the progress made. We have a range of programmes in place to increase diversity in our talent pipelines and this year we launched a new inclusion programme to better enable careers and career progression for colleagues from ethnic minority, LGBTQ+ and disabled groups. A breakdown by gender of the number of persons who were Directors of the Company, senior managers, as defined in the 2018 Code and Companies Act 2006, and other employees as at 31 March 2021 is set out below, alongside details of the ethnic minority population of these same groups.

Employee Population	Male	Female	% Ethnic Minority
Board	4	5	11%
Strategic Leader and Director	27	21	6.25%
All Employees	4,648	1,918	9.28%
Graduates	23	16	25.64%
Apprentices	87	13	12%

Parker Review – BAME diversity

The Board remains focused on promoting broader diversity and creating an inclusive culture in line with the recommendations of the Parker and McGregor-Smith reviews. A diverse organisation benefits from differences in skills, regional and industry experience, background, race, gender, sexual orientation, religion, belief and age, as well as culture and personality. The Committee is focused on ensuring that the diversity of our employee base reflects the diversity of our region – including the gender, social and ethnic background, skills and experience amongst our customers and the communities that we serve.

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The Board Diversity Policy (the 'Policy') was reviewed in May 2021, with recommended updates approved by the Board. As part of Board discussions, recognition was given to the importance and benefits of greater diversity, including gender diversity, social and ethnic background, and cognitive and personal strengths throughout the organisation, including on the Board itself. The objectives and targets of the Policy, and an update against each of them, are set out below. A copy of the Policy is available on the Severn Trent website.

Board Diversity Policy – objectives and progress against targets
When recruiting for new Board members, the Committee ensures that the recruitment processes are in line with our Policy to include diverse candidates from a wide variety of backgrounds for the Committee to consider.

Policy objectives	Implementation	Progress against objectives
Ensure the Board comprises an appropriate balance of skills, experience and knowledge required to effectively oversee and support the management of the Company.	Annual review of the Board's composition with particular consideration being given to the balance of skills, experience and independence of the Board. The Board Effectiveness evaluation specifically considers the composition of the Board and the contribution, commitment and independence of individual Directors.	At its May 2021 meeting, the composition of the Board and the performance, contribution and commitment of individual Directors in the context of the externally facilitated Board Effectiveness evaluation were reviewed. No concerns were raised. All Board succession discussions took place in considerations of the Policy and its aims to increase the ethnic diversity of the Board in line with the recommendations of the Parker and McGregor-Smith reviews.
Ensure consideration is given to diverse candidates for Non-Executive Director Board appointments from a wide pool. **Ensure Board appointment 'longlists' include candidates with a diversity of social and ethnic backgrounds and cognitive and personal strengths.**	The Board recognises the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself.	Board appointments were made during the year as follows: • 1 April 2020: Non-Executive Chair – Christine Hodgson; and • 1 May 2020: Non-Executive Director – Sharmila Nebhrajani. The recommendations in respect of these Board appointments were conducted in full consideration of the Policy, the 2018 Code and additional relevant guidance. The Board ensured that Korn Ferry, the executive search firm engaged for these appointments and presented a diverse potential candidate list.
Ensure the Board only engage executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.	The Company only engages with executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.	We continue only to engage with executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.

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Ensure focus is given to the development of a pipeline of diverse high calibre candidates for Board level roles and report annually on the diversity of the Executive pipeline as well as the diversity of the Board.	Regular Board consideration of the importance and benefits of greater diversity including gender diversity, social and ethnic background and cognitive and personal strengths. This includes representation of these cohorts in the Company's talent pipeline and on the Board itself.	At its April 2021 meeting, the Board considered diversity and inclusion within the Company. The Board committed to building on existing graduate, apprentice and leadership programmes to embed inclusivity in our succession planning and talent development work. This included discussion on strengthening our talent pipeline, with an enhanced focus on ensuring appropriate representation from ethnic minority candidates, as well as other relevant diverse cohorts. This was also an area of specific focus within the Board and Executive Committee Succession Planning discussions that took place during the year.

Policy Targets	Progress against Target
33% female share of Board Directors by 2020.	56% female representation on our Board as at 1 May 2021.
Minimum of one Board Director from an ethnic minority background by 2021.	In line with the principles of the Parker Review, the Board actively seeks diverse candidates. The calibre of the candidates identified during the most recent recruitment exercise was outstanding and it was after careful deliberation that the Board approved the appointment of Sharmila Nebhrajani to the Board from 1 May 2020.

Board Diversity Policy targets – 2021/22 onwards
In May 2021, the Board conducted its annual review of the Policy and associated targets. The review recommended changes to the Policy and proposed new diversity targets which the Board approved at its meeting on 14 May 2021. The targets listed below replace the ones that were met or exceeded during 2020/21 and we will disclose our performance against these targets in our 2021/22 Annual Report.

Policy Targets 2021/22 onwards	Progress against Target
Maintain at least 40% female Directors on the Board over the short to medium.	56% female representation on our Board as at 1 May 2021.
Maintain at least 10% Directors from an ethnic minority background on the Board over the short to medium term.	11% ethnic minority representation on our Board as at 1 May 2021.

Whistleblowing

The Company has established procedures by which all employees may, in confidence, report any concerns. Our Whistleblowing Policy, ‘Speak Up’, sets out the ethical standards expected of everyone that works for, and with, us and includes the procedure for raising concerns in strict confidence. Our workforce can raise concerns through their line manager, senior management and through our confidential and independent whistleblowing helpline, ‘Safecall’. All investigations are carried out independently with findings being reported directly to both the Severn Trent Plc Audit and Severn Trent Plc Corporate Sustainability Committees.

The Board as a whole monitors and reviews the effectiveness of the Company’s whistleblowing arrangements annually, to ensure that it has sufficient oversight of whistleblowing to support its work on culture, risk and stakeholder engagement. The Severn Trent Plc Audit Committee receives reports on investigations and all significant whistleblowing matters are reported directly to the Board. The Board also receives regular updates from the Committee and the Board completes an assessment of the effectiveness of the Company’s whistleblowing procedures. The Board has reviewed these arrangements again this year and is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

Human rights and modern slavery

We are committed to protecting the human rights of our employees and contractors as we have clearly set out in our Code of Conduct, Doing the Right Thing. We have a responsibility to understand our potential impact on human rights and to mitigate potentially negative impacts. Whilst not having a specific human rights policy, we have company policies on Human Resources, Anti-Bribery and Anti-Fraud, Whistleblowing (‘Speak Up’) and Procurement, and a separate Anti-Slavery and Human Trafficking Statement.

We will always treat people in our business and supply chain fairly and have a clear zero-tolerance approach to modern slavery. To date we have had no instances of modern slavery raised, but we are not at all complacent and are fully committed to protect against modern slavery in our business and supply chain. We know modern slavery is a growing global issue and know our customers and stakeholders share our concern. Our highest risk is through our supply chain.

Therefore, we work with our suppliers to ensure they operate to the same standards we set ourselves, and we have also been working closely with our suppliers to ensure they understand the risks involved in their own supply chains. All suppliers are required to sign up and operate in line with our Code of Conduct, which clearly states zero tolerance, and this is built into our procurement tender process. This year we have focused on improving our approach to risk assessment in our supply chain and developing an in-depth assurance process. Our full Anti-Slavery and Human Trafficking Statement can be found on the Severn Trent Plc website. We welcome the Government’s proposal to introduce strengthened reporting requirements under section 54 of the Modern Slavery Act 2015, in response to the recent Transparency in Supply Chains consultation. We will continue to report in line with the requirements.

Freedom of association and collective bargaining

We recognise the right of all employees to Freedom of Association and Collective Bargaining. We seek to promote co-operation between employees, our management team and recognised Trade Unions. We meet with our Trade Unions on a quarterly basis at the Company Forum and see mutual benefit in sharing information with our colleagues and seek their feedback and suggestions. We believe this fosters a common understanding of business needs and helps to deliver joint solutions aimed at making our business successful. Our Company Forum also provides an invaluable opportunity for engagement with the whole workforce to ensure workforce views are taken into account.

Responsible business practices are an integral part of our business strategy. Performance against our Corporate Sustainability commitments is reported throughout our Annual Report and Accounts, reflecting their embedded nature. You can read more in our Sustainability Report and on our dedicated Sustainability webpages, on our website.

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 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 the long term and the external market. Our current Policy was approved at the 2018 Severn Trent Plc AGM and will be put forward for shareholder approval at the Severn Trent Plc AGM on 8 July 2021. The Committee's review concluded that the current remuneration framework, which has had overwhelming support from stakeholders, remains appropriate having successfully supported the delivery of the Company's strategy and driven high levels of Company performance over the last three years. Therefore, the proposed new Policy will continue to operate in a similar manner, with two key changes relating to:

- The introduction of a second LTIP performance measure related to sustainability, specifically our net-zero carbon ambitions; and
- The introduction of a post-employment shareholding requirement ('PESR') for the Executive Directors.

As Severn Trent Water Limited voluntarily applies the principles of the UK Corporate Governance Code 2018 ("2018 Code"), and whilst most features of the 2018 Code already embedded in our Policy the proposed 2021 Policy will also see:

- Formalisation of the alignment of pension contributions with the wider workforce, which commenced last year and will be complete by April 2022; and
- Alignment of malus and clawback provisions with corporate governance best practice.

The Committee addresses the need to balance risk and reward. The Committee monitors the variable pay arrangements to take account of risk levels, ensuring an emphasis on long term and sustainable performance. The Committee believes that the incentive schemes are appropriately managed, and that the choice of performance measures and targets does not encourage undue risk taking by the Executives, so that the long term performance of the business is not compromised by the pursuit of short-term value. The schemes incorporate a range of internal and external performance metrics, measuring both operational and financial performance over differing and overlapping performance periods, providing a rounded assessment of overall Company performance. More detail on how the Committee has satisfied itself, over the course of the year, that a fair and consistent approach is applied to both the remuneration of the Executive Directors and the wider workforce can be found on pages 120 to 144 of the Severn Trent Plc Annual Report and Accounts.

Directors' remuneration and annual bonus scheme
Remuneration for Executive Directors comprises the following elements:

- base salary and benefits;
- annual bonus;
- long term incentive plan; and
- pension arrangements.

As outlined in the Severn Trent Plc Annual Report and Accounts, the non-executive Chair, Christine Hodgson, and non-executive directors, do not participate in the Company's incentive arrangements, i.e. annual bonus or share plans.

Base salaries and benefits
Base salaries for individual Directors are reviewed annually by the Committee and normally take effect from 1 July. Salaries are set with reference to individual performance, experience and contribution, together with developments in the relevant employment market (having regard to similar roles in publicly quoted companies of a comparable size (currently FTSE51-150) and practice in other water companies), company performance, affordability, wider economic environment and internal relativities.

In addition to base salary, Executive Directors receive a benefits package which contractually includes a green travel allowance (formerly car allowance, changed to recognize the use of public transport and introduction of our electric vehicle car scheme), membership of a defined contribution pension scheme or cash allowance in lieu, family level private medical insurance, life assurance, personal accident insurance, health screening and incapacity benefits scheme. Executive Directors may also take advantage of the Severn Trent flexible benefit scheme open to all employees.

Annual Bonus 2020/21
The annual bonus is designed to encourage improved financial and operational performance, and to align the interests of Directors with shareholders through the partial deferral of payment in shares. When implementing the 2020/21 all-employee annual bonus scheme it was determined that it would continue to use the elements and weightings agreed with shareholders. However, given the wider societal impact of COVID-19, the Committee decided that in relation to the Group PBIT element of the 2020/21 bonus (49% of the maximum award) any bonus capable of being paid under this element would be capped at the target level, even if performance exceeded target. Therefore, the maximum achievable bonus potential for Executive Directors was 91%, rather than 120%, of salary. The target bonus of 60% of salary remain unchanged.

Bonuses are based on customer, financial and operational performance. Half of the bonus is paid in cash and half in shares which vest after three years (with the value of any dividends to be rolled up and paid on vesting).

Malus and clawback mechanisms also apply to allow the recoupment within three years of the payment of the cash bonus or the grant of deferred shares in the event of financial misstatement, error in the calculation or gross misconduct.

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Annual bonus performance is measured over a single financial year. An annual bonus was awarded of 76.5% of salary for both the Chief Executive Officer and the Chief Financial Officer. Annual bonus payments to Executive Directors are not pensionable.

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 (i)	*49%*	£452m	£472m	N/A	£472.8m	24.5%
Customer ODIs (i)	*35%*	£8m	£15.8m	£24.1m	£79.0m	31.3%
Customer Experience (iii)	*8%*	10	9	8	9	4.0%
Health and Safety (iv)	*8%*	0.20	0.16	0.12	0.16	4.0%

(i) The Group PBIT element of the 2020/21 annual bonus was capped at target level.
(ii) Our ODIs are grouped into categories as detailed on page 130 of the Severn Trent Plc ARA. This outturn represents significant outperformance in two categories and above target performance in the third category.
(ii) Measured as ranking in C-MeX, the industry-wide performance measure.
(iii) Measured as number of lost time incidents divided by number of hours worked by multiplied by 100,000.

Further comment on our overall performance during the financial year can be found in the Chief Executive's review on page 10 to 14.

Summary of the implementation of the Remuneration Policy in 2021/22
Shareholders approved the Severn Trent Plc Remuneration Policy at the Severn Trent Plc AGM in 2018 (99.18% voted in favour). Full details of the Policy can be found on pages 120 to 128 of the Severn Trent Plc 2018 Directors' Remuneration Policy, as well as on the Severn Trent Plc website. A summary of the proposed 2021 Policy and how we plan to implement it in 2021/22 is set out in the At a Glance section on pages 129 to 131. The Committee believes that the fundamental architecture of the Executive Directors' remuneration package is appropriate and the Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering business priorities within a framework designed to promote the long term success of Severn Trent. The incorporation of the delivery of our longer-term sustainability commitments within the LTIP further embeds our Sustainability Framework within reward at Severn Trent.

Base Salary

The Executive Directors' salaries will increase by 2.3% from 1 July 2021, further detail can be found on page 129 of this year's Severn Trent Plc Annual Report and Accounts.

Annual Bonus 2021/22

The annual bonus performance measures, weightings and total bonus opportunity remain unchanged. The annual bonus performance measures and weightings for the 2021/22 financial year will be as follows:

- Group Profit Before Interest & Tax – 49%
- Customer and Environment ODIs – 35%
  - Minimise disruption to customers (12%)
  - Prevent failure in our network and our sites (11%); and
  - Improve the environment we live in (12%)
- Customer Experience – 8%
- Health and Safety (Lost Time Incidents) – 8%

The maximum bonus opportunity will return to its normal level of 120% of salary in 2021/22.

The Committee considers the forward-looking performance targets to be commercially sensitive and has, therefore, determined not to disclose them in advance. Details of the targets used will be disclosed in next year's Remuneration Report.

Long Term Incentive Plan

Executive Directors may also participate in the Severn Trent Plc Long Term Incentive Plan ('LTIP') which is designed to encourage strong and sustained improvements in financial performance, in line with the Company's strategy, and long-term shareholder returns. Under this plan conditional awards of performance shares are made to Directors up to an annual maximum limit and vest after three years. The value of dividends paid on the shares comprising the award will be rolled up and paid on vesting.

Malus and clawback mechanisms apply to allow the recoupment of incentive awards within three years of vesting in the event of financial misstatement, an error in calculating the level of vesting or gross negligence, fraud or gross misconduct.

2018 LTIP Awards

The 2018 LTIP award was the first LTIP awards which included a stretch measure relative to the Upper Quartile ('UQ') performance of the other Water and Sewerage Companies ('WaSCs').

The value set out on Page 143 of the Severn Trent Annual Report and Accounts is based on performance of the standard proportion of the total potential LTIP vesting, as this measures the Company's performance against the RoRE set by its FD. The UQ element cannot be measured, and so the associated vesting will not be known, until the end of July when comparable statistics for the other WaSCs are published and provided to Ofwat; such vesting, if any, will be disclosed in the 2021/22 Directors' Remuneration Report. The 2018 LTIP awards were granted on 24 July 2018. The share price used to calculate the number of shares granted was £18.95 (being the average price over the preceding three days).

The three-year performance period for the 2018 LTIP award ended on 31 March 2021. Performance under the standard proportion was 1.37x and this was measured against the target that we set of 1.39x the base RoRE return. This results in a vesting equivalent to 144.2% of salary for the CEO and 96.2% of salary for the CFO. Further details can be found in the Severn Trent Plc Annual Report and Accounts.

2019, 2020 and 2021 LTIP Awards

Awards granted from 2018 continue to be subject to a Return on Regulated Equity (RoRE) performance condition measured over three financial years. Average RoRE performance is compared with the baseline RoRE figure set by Ofwat in our Final Determination (FD). Threshold performance is equal to the FD, increasing on a straight-line basis to maximum vesting for achieving additional stretch target of UQ RoRE performance. A two-year post vesting holding period will also apply.

Awards granted from 2021 will see the introduction of a second performance measure related to sustainability, specifically our net zero carbon ambition, incorporating our Sustainability Framework within the LTIP. RoRE will remain the primary measure with a weighting of 80% whilst the sustainability measure will have a weighting of 20% and focus on our public commitment to net-zero carbon emissions by 2030 as part of our Triple Carbon Pledge.

Further details can be found on pages 123 and 131 in the Severn Trent Plc Annual Report and Accounts.

The grant levels for the 2021 LTIP awards remain unchanged at 200% of base salary for the Chief Executive Officer and 150% of base salary for the Chief Financial Officer.

Shareholding guidelines

The Company operates shareholding guidelines under which Executive Directors are expected to build and maintain a shareholding in Severn Trent Plc. The Chief Executive Officer is expected to build and maintain a holding of shares to the value of 300% of salary, and the Chief Financial Officer 200% of salary. Executive Directors are expected to retain all of the net of tax number of shares they receive through the LTIP and deferred share bonus until the shareholding guidelines have been met.

The Chief Executive Officer and Chief Financial Officer have exceeded the shareholding requirement of 300% and of 200% respectively of base salary.

The 2021 Policy will see the introduction of a post-employment shareholding requirement for Executive Directors. It will apply from the date of approval of the Policy to all future equity awards granted under the Policy and require Executive Directors to maintain their in-employment minimum shareholding requirement (or actual shareholding, if lower) for two years following cessation of employment.

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Directors’ report

The Directors’ Report for the year ended 31 March 2021 comprises pages 120-124 of this report, together with the sections of the Annual Report incorporated by reference. The Governance Report set out on pages 88-94 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 84, as the Board considers them to be of strategic importance.

Specifically, these are:

- The Performance Review on pages 22-30 provides detailed information relating to the Company, its business model and strategy, operation of its businesses, future developments and the results and financial position for the year ended 31 March 2021;
- Future business developments (throughout the Strategic Report);
- Details of the Company’s policy on addressing the Principal Risks and uncertainties facing the Company, which are set out in the Strategic Report on pages 3-84;
- Information on the Company’s Greenhouse Gas (‘GHG’) emissions for the year ended 31 March 2021, contained within Our Taskforce on Climate-related Financial Disclosures (‘TCFD’) on pages 58-72;
- How we have engaged with our people and stakeholders on pages 73-74;
- Business relationships (throughout the Strategic Report);
- Section 172 Statement on pages 80-83.

Principal Activity

The principal activity of the Company is to treat and provide water and remove waste water in the UK. Details of the principal joint ventures, associated and subsidiary undertakings of the Company as at 31 March 2021 are shown in notes 19 and 40 to the financial statements.

Areas of operation

During the course of 2020/21, 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 93. Details of Directors’ service contracts are set out in the Directors’ Remuneration Report on page 115-119. 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 of the Company against certain liabilities that may be incurred as a result of their positions with the Company. The indemnities were in force throughout the tenure of each Director during the last financial year and are currently in force. Severn Trent Water does not have in place any indemnities for the benefit of the External Auditor.

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Employees

The average number of employees within the Company is shown in note 8 to the financial statements. Severn Trent Water 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 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 page 75.

Employee engagement

Due to our commitment to transparent and best practice reporting, we have included the section on Our People on page 75 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 73-74 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 by the Company during the financial year.

Business relationships

Pages 73-74 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 Company and our products must continue to deliver value for customers. Expenditure on research and development for the year totalled £3.3 million.

Internal controls

Further details of our internal control framework can be found in the Severn Trent Plc Audit Committee Report on page 111.

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Treasury management

Details on our Treasury Policy and management are set out in the Chief Financial Officer's Review on pages 31-37.

Post balance sheet events

Details of post balance sheet events are set out in note 39 to the financial statements.

Capital structure

Details of the Company's issued share capital and of the movements during the year are shown in note 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 UK Corporate Governance Code (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, the Articles, 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 Company 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 £5,325,230 (2020: £3,518,420). Donations are principally given to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer-term partnerships. In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes. We are also committed to supporting WaterAid, the UK's only major charity dedicated to improving access to safe water, hygiene and sanitation in the world's poorest countries.

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. Throughout the year, as part of our response to the COVID-19 pandemic, we have been supporting small and medium enterprises in our region by accelerating payments to our supply chain. For the payment practices reporting period ended 31 March 2021, the average time to pay for Severn Trent Water Limited was 26 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 he/she ought to have taken as a Director to make himself/herself 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 Committee Report on page 109, the Severn Trent Plc Audit Committee has recommended to the Board the reappointment of Deloitte LLP. The reappointment and a resolution to that effect will be on the agenda at the 2021 Severn Trent Plc AGM. Deloitte LLP indicated its willingness to continue as Auditor. The Severn Trent Plc Audit Committee will also be responsible for determining the audit fee on behalf of the Board.

Carbon footprint

We play a leading role in reducing our Greenhouse Gas emissions. 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 TCFD Disclosures on pages 58-72 of the Strategic Report is incorporated into the Directors’ Report by cross-reference. The TCFD Disclosure includes our annual report on Greenhouse Gas emissions along with details of our energy consumption across the Severn Trent Water Group and how we manage energy use.

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Annual Performance Report of Severn Trent Water Limited
The Annual Performance Report for Severn Trent Water Limited is prepared and sent to Ofwat. A copy of this will be available on the website of Severn Trent Water Limited in due course. There is no charge for this publication.

By order of the Board
Bronagh Kennedy
Company Secretary
7 July 2021

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Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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 accounts 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

Severn Trent Water Limited
Governance report
For the year ended 31 March 2021

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 7 July 2021 and is signed on its behalf by:

By order of the Board

Christine Hodgson
Chair
7 July 2021

James Bowling
Chief Financial Officer
7 July 2021

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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 to the group and company financial statements 1 to 42.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. 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 for household trade receivables in Severn Trent Water Limited; • valuation of accrued income for measured customers in Severn Trent Water Limited; and • classification of capital programme expenditure in Severn Trent Water Limited. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £13.45 million which was determined on the basis of profit before tax and gains/losses on financial instruments, capped at 99% of Severn Trent Plc group materiality.
Scoping	Our scoping has resulted in over 95% of the group's net operating assets and 95% of profit before tax and gains/losses on financial instruments being subject to audit testing.
Significant changes in our approach	COVID-19 has significantly impacted the water consumption by customers. The increased consumption by households and lower consumption by non-household customers has increased the level of unpredictability of water consumption. This unpredictability of water consumption has increased the potential level of volatility for accrued income for measured customers in Severn Trent Water Limited, which has been identified as a new key audit matter for the year ended 31 March 2021. As at 31 March 2020 we identified a key audit matter that was focused on the valuations of pension assets with an increased risk of estimation uncertainty, specifically property funds where the investment managers reported a 'material valuation uncertainty' in their valuation reports. As no property fund valuations have been issued with a material valuation uncertainty at March 2021, and the range of estimation uncertainty has reduced, this has been removed as a key audit matter. For the year ended 31 March 2020, we also identified a key audit matter that focused on the valuation of the liabilities of the retirement benefit obligations due to the volatility of certain assumptions at the start of the COVID-19 pandemic. As this volatility has reduced, so has the associated audit effort, and therefore this has been removed as a key audit matter.

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 £1.0 billion revolving credit facility, including 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 AMP 7, and performing sensitivity analysis relating to these assumptions;
- Assessing the impact of risks and uncertainties on the business model and medium-term risks including where relevant the impact of COVID-19; and
- reviewing the appropriateness of the disclosures provided in the financial statements.

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.

As noted in section 3, one additional key audit matter was identified this year.

5.1. Valuation of the provision for household trade receivables in Severn Trent Water Limited

Key audit matter description	A portion of household customers do not, or cannot, pay their bills which results in the need for provisions to be made for non-payment of the related receivables. Management makes estimates regarding the expected future loss rate for current receivables when calculating the appropriate level of bad debt provision. The bad debt provision recorded as at 31 March 2021 was £130.8 million (31 March 2020: £134.3 million), which incorporates management's estimate of the future impact of COVID-19 on customers' ability to pay their outstanding bills to Severn Trent Water Limited.

	Provisions are made against Severn Trent Water Limited's trade receivables based on historical cash collection rates of debt invoiced seven to nine years ago, which is considered by management to be representative of collection risk on the whole population of household debtors. An overlay adjustment has been recorded to reflect anticipated changes to cash collection as a result of COVID-19. The adjustment is based on the historical correlation between unemployment and cash collection and is impacted by the level of decline and length of the impact on the UK economy. The key audit matter, which is also a potential fraud risk, has been focused on the valuation of the household bad debt provision, and specifically whether the experience of debt invoiced seven to nine years ago provides an appropriate expectation of lifetime expected credit losses under IFRS 9 Financial Instruments, and whether the assumptions used in determining the COVID-19 adjustment are appropriate. The bad debt provision is discussed in note 2o) and note 21 to the financial statements. Management has included this as a key source of estimation uncertainty in note 4(b)(iii) to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures included the following: • Understanding and testing the relevant controls over the base bad debt and COVID-19 overlay models, including for the supporting data and assumptions; • testing the completeness and accuracy of the data included within the base bad debt and COVID-19 overlay models; • testing the allocation of cash received in the current year to debt aged between seven and nine years; • reconciling the debtor ageing for each debt category used in the bad debt provision model using source data from the billing system; • challenging management's assumptions applied to the COVID-19 overlay, including the estimated correlation between the unemployment rate and cash collection trends; our procedures included evaluating the reasonableness of economic data (both forecast and historical) used within the calculation, and performing sensitivity analysis; and • evaluating management's assumptions applied to the bad debt provision and challenging whether this represents lifetime expected credit loss, including review of cash collection data and historical trends.
Key observations	We are satisfied that the assumptions applied in assessing the impairment of trade receivables, including the impact of COVID-19, are reasonable and that Severn Trent Water Limited's bad debt provision has been properly calculated using appropriate relevant data and in accordance with IFRS 9.

5.2. Valuation of accrued income for measured customers in Severn Trent Water Limited

Key audit matter description	For customers with water meters, the revenue recognised depends on the volume of water consumed between the date of the last meter reading and the year end (accrued income). The accrued income for measured household customers was £140.1 million (2020: £127.3 million) and non-household customers was £19.9 million (2020: £50.2 million). The method of estimating accrued income requires assumptions for both estimated water consumption and the related value. The estimated water consumption for measured customers is based on historical consumption data. The impact of COVID-19 and related lockdown restrictions has introduced a level of volatility into consumption trends for household and non-household customers compared to historical periods which has increased the level of judgement required to estimate consumption between a customer's last meter read and the year-end. Incorrect estimates of water consumption could lead to a misstatement of revenue recognised for the year. The key audit mattter, which is also a potential fraud risk, has been focused on the judgments made by management in estimating actual consumption when compared to historical consumption patterns, and the resulting manual adjustments applied to the accrued income estimate. Accrued income is referred to in note 2c) and note 21 to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures included the following: • obtaining an understanding of, and testing, relevant controls within the household and non-household revenue processes, including review controls addressing the valuation of accrued income; • for household customers, performing a retrospective review of bills raised during 2020/21 related to the 2019/20 accrued income balance to assess management's forecast accuracy; • performing a recalculation of the household accrued income by using data analytics; • challenging management's assumptions applied for non-household and household consumption by comparing to available market data; • challenging management's assumptions regarding the impact of COVID-19 to accrued income by considering contradictory evidence including operational data regarding water production, household consumption, and the operational status of business premises; and • testing the accuracy of the data utilised by management in assessing the valuation adjustments to accrued income.
Key observations	We are satisfied that management's estimates in relation to the recognition of Severn Trent Water Limited's accrued income for measured household and non-household customers is appropriate.

5.3. Classification of capital programme expenditure in Severn Trent Water Limited

Key audit matter description	Severn Trent Water Limited has a substantial capital programme which has been agreed with the regulator ("Ofwat") and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. During the year, Severn Trent Water Limited has invested £540.7 million (2020: £830.0 million) in its capital programme agreed with Ofwat, which is the majority of the total additions to property, plant and equipmentof £656.9 million (2020: £946.3 million) disclosed in Note 17. Severn Trent Water Limited spent a further £147.3 million (2020: £144.5 million) on Infrastructure maintenance expenditure (total group £151.0 million (2020: £149.6 million) as disclosed in Note 6). 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 capital expenditure policy implementation guidance or by incorrect application of this guidance. Due to the level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance. Management has included this as a critical accounting judgement in note 4(a)(i) to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures included the following: • reviewing Severn Trent Water Limited's capitalisation policy and implementation guidance to understand any changes in the current year and to determine compliance with the relevant accounting standards; • obtaining an understanding of, and testing, relevant controls over the application of the policy to expenditure incurred on projects within the group's capital programme during the year; and • for a sample of capital projects, assessing the application of the capitalisation policy to the costs incurred by evaluating the business cases and invoices.
Key observations	Management's capitalisation policy and implementation guidance is consistent with the prior year. We are satisfied that management has appropriately applied their capitalisation policy and implementation guidance in determining the expenditures capitalised.

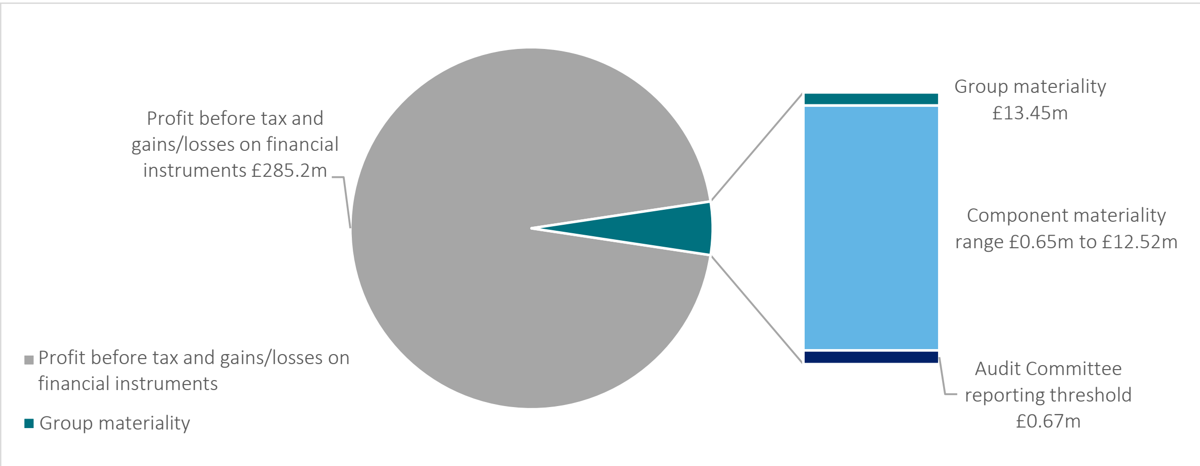
6. Our application of materiality

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	£13.45 million (2020: £15.09 million)	£12.52 million (2020: £14.30 million)
Basis for determining materiality	Approximately 5% of profit before tax and gains/losses on financial instruments, capped at 99% of Severn Trent Plc group materiality.	Approximately 5% of profit before tax and gains/losses on financial instruments.
Rationale for the benchmark applied	Profit before tax and gains/losses on financial instruments has been used in order to focus on the group's underlying trading performance consistent with the group's internal and external reporting. This is consistent with the benchmark for the year ended 31 March 2020.	



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% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	Group performance materiality was set at 70% of group materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered our assessment of the control environment, considering the potential reduction in the effectiveness of the internal control environment as a result of changes in working patterns since March 2020, as well as the continuity of the business year on year. We also considered the value of uncorrected misstatements identified in previous years.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £672,000 (2020: £750,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit 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 group 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 a group level.

The parent company, Severn Trent Utilities Finance Plc and Hafren Dyfrdwy Cyfyngedig were subject to full statutory audits using component materiality of £12.52 million (2020: £14.30 million), £9.78 million (2020: £9 million) and £652,000 (2020: £648,000) respectively and together account for over 95% of the group's turnover (2020: 95%), and over 95% (2020: over 95%) of the group's net assets and profit before tax, gains/losses on financial instruments and exceptional items.

The group audit team performs the audits of the parent company, Severn Trent Utilities Finance Plc and Hafren Dyfrdwy Cyfyngedig.

At the group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit procedures.

7.2. Our consideration of the control environment

The group uses SAP, a financial accounting software platform, in all of its legal entities.

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 relied on the relevant controls in respect of household and non-household revenue, classification of capital programme expenditure and operating expenditure business processes, which are supported by the group's financial accounting software platform. We tested the operating effectiveness on a sample basis by either observing or performing each step of the control and obtaining the relevant evidence to support that it operated as designed.

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;
- results of our enquiries with management, internal audit and the Audit Committee, about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed supporting documentation, concerning the group's 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; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions, IT, and industry 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 for fraud in the following areas:

- valuation of the provision for trade receivables in Severn Trent Water Limited;
- classification of capital programme expenditure in Severn Trent Water Limited; and
- valuation of accrued income for household and non-household measured customers in Severn Trent Water Limited.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We obtained an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of the provision for household trade receivables in Severn Trent Water Limited, the classification of capital programme expenditure as property, plant and equipment in Severn Trent Water Limited, and the valuation of accrued income for measured customers 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.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit 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, the Audit Committee, 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

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

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 53;
- 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 page 49 to 53;
- the directors' statement on fair, balanced and understandable set out on page 126;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 42 to 48;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 97 to 98; and
- the section describing the work of the audit committee set out on page 88.

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

8 July 2021

Severn Trent Water Limited
Group Income Statement
For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Turnover	5	**1,699.5**	1,714.6
Operating costs before charge for bad and doubtful debts	6	**(1,201.7)**	(1,125.5)
Charge for bad and doubtful debts		**(39.9)**	(42.4)
Total operating costs	6	**(1,241.6)**	(1,167.9)
Profit before interest, tax and exceptional items		**457.9**	546.7
Profit before interest and tax		**457.9**	546.7
Finance income	10	**59.6**	63.9
Finance costs	11	**(237.2)**	(241.2)
Net finance costs		**(177.6)**	(177.3)
Gain/(loss) on impairment of loans receivable	7	**4.9**	(4.9)
Net gains on financial instruments	12	**4.8**	10.1
Profit on ordinary activities before taxation		**290.0**	374.6
Current tax	13	**(24.9)**	(33.0)
Deferred tax excluding exceptional deferred tax	13	**(26.2)**	(28.3)
Exceptional deferred tax	13	**–**	(90.1)
Taxation on profit on ordinary activities		**(51.1)**	(151.4)
Profit for the year		**238.9**	223.2

Severn Trent Water Limited
Group and Company Statement of Comprehensive Income

For the year ended 31 March 2021

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Profit for the year	**238.9**	223.2	**221.5**	219.2
Other comprehensive (loss)/income				
Items that will not be reclassified to the income statement:				
Net actuarial (loss)/gain	**(161.3)**	186.9	**(156.7)**	184.5
Deferred tax on net actuarial (losses)/gains	**30.7**	(37.0)	**29.8**	(35.9)
Current tax on pension contributions in prior periods	**–**	9.5	**–**	9.5
Deferred tax on pension contributions in prior periods	**–**	(9.5)	**–**	(9.5)
Deferred tax arising on rate change	**–**	2.5	**–**	2.7
	(130.6)	152.4	**(126.9)**	151.3
Items that may be reclassified to the income statement:				
Gains/(losses) on cash flow hedges	**31.8**	(39.1)	**31.8**	(39.1)
Deferred tax on gains/(losses) on cash flow hedges	**(6.0)**	7.4	**(6.0)**	7.4
Amounts on cash flow hedges transferred to the income statement	**8.5**	8.5	**8.5**	8.5
Deferred tax on transfer to the income statement	**(1.6)**	(1.6)	**(1.6)**	(1.6)
	32.7	(24.8)	**32.7**	(24.8)
Other comprehensive (loss)/income for the year	**(97.9)**	127.6	**(94.2)**	126.5
Total comprehensive income for the year	**141.0**	350.8	**127.3**	345.7

Severn Trent Water Limited
Group Statement of Changes in Equity

For the year ended 31 March 2021

		Equity attributable to owners of the company					
		Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Note	£m	£m	£m	£m	£m	£m
At 1 April 2019		1.0	(79.5)	2,585.4	2,506.9	10.6	2,517.5
Profit for the year		–	–	223.2	223.2	–	223.2
Losses on cash flow hedges		–	(39.1)	–	(39.1)	–	(39.1)
Deferred tax on losses on cash flow hedges	13	–	7.4	–	7.4	–	7.4
Amounts on cash flow hedges transferred to the income statement	12	–	8.5	–	8.5	–	8.5
Deferred tax on transfer to the income statement	13	–	(1.6)	–	(1.6)	–	(1.6)
Net actuarial gains	27	–	–	186.9	186.9	–	186.9
Deferred tax on net actuarial gains	13	–	–	(37.0)	(37.0)	–	(37.0)
Current tax on pension contributions in prior periods	13	–	–	9.5	9.5	–	9.5
Deferred tax on pension contributions in prior periods	13	–	–	(9.5)	(9.5)	–	(9.5)
Deferred tax arising on rate change	13	–	–	2.5	2.5	–	2.5
Total comprehensive income for the year		–	(24.8)	375.6	350.8	–	350.8
Share options and LTIPs							
- value of employees' services	35	–	–	7.8	7.8	–	7.8
Deferred tax on share based payments	13	–	–	0.7	0.7	–	0.7
Dividends paid	14	–	–	(244.0)	(244.0)	–	(244.0)
At 1 April 2020		1.0	(104.3)	2,725.5	2,622.2	10.6	2,632.8
Profit for the year		–	–	238.9	238.9	–	238.9
Gains on cash flow hedges		–	31.8	–	31.8	–	31.8
Deferred tax on gains on cash flow hedges	13	–	(6.0)	–	(6.0)	–	(6.0)
Amounts on cash flow hedges transferred to the income statement	12	–	8.5	–	8.5	–	8.5
Deferred tax on transfer to the income statement	13	–	(1.6)	–	(1.6)	–	(1.6)
Net actuarial losses	27	–	–	(161.3)	(161.3)	–	(161.3)
Deferred tax on net actuarial losses	13	–	–	30.7	30.7	–	30.7
Total comprehensive income for the year		–	32.7	108.3	141.0	–	141.0
Share options and LTIPs							
- value of employees' services	35	–	–	7.5	7.5	–	7.5
Current tax on share based payments	13	–	–	0.4	0.4	–	0.4
Deferred tax on share based payments	13	–	–	0.4	0.4	–	0.4
Dividends paid	14	–	–	(64.0)	(64.0)	–	(64.0)
At 31 March 2021		**1.0**	**(71.6)**	**2,778.1**	**2,707.5**	**10.6**	**2,718.1**

Severn Trent Water Limited
Company Statement of Changes in Equity

For the year ended 31 March 2021

		Equity attributable to owners of the company			
		Share capital	Hedging reserve	Retained earnings	Total
	Note	£m	£m	£m	£m
At 1 April 2019		1.0	(79.5)	2,620.0	2,541.5
Profit for the year		–	–	219.2	219.2
Losses on cash flow hedges		–	(39.1)	–	(39.1)
Deferred tax on losses on cash flow hedges	13	–	7.4	–	7.4
Amounts on cash flow hedges transferred to the income statement	12	–	8.5	–	8.5
Deferred tax on transfer to the income statement	13	–	(1.6)	–	(1.6)
Net actuarial gains	27	–	–	184.5	184.5
Deferred tax on net actuarial gains	13	–	–	(35.9)	(35.9)
Current tax on pension contributions in prior periods	13	–	–	9.5	9.5
Deferred tax on pension contributions in prior periods	13	–	–	(9.5)	(9.5)
Deferred tax arising on change of rate		–	–	2.7	2.7
Total comprehensive income for the year		–	(24.8)	370.5	345.7
Share options and LTIPs					
- value of employees' services	35	–	–	7.8	7.8
Deferred tax on share based payments	13	–	–	0.7	0.7
Dividends paid	14	–	–	(244.0)	(244.0)
At 1 April 2020		1.0	(104.3)	2,755.0	2,651.7
Profit for the year		–	–	221.5	221.5
Gains on cash flow hedges		–	31.8	–	31.8
Deferred tax on gains on cash flow hedges	13	–	(6.0)	–	(6.0)
Amounts on cash flow hedges transferred to the income statement	12	–	8.5	–	8.5
Deferred tax on transfer to the income statement	13	–	(1.6)	–	(1.6)
Net actuarial losses	27	–	–	(156.7)	(156.7)
Deferred tax on net actuarial losses	13	–	–	29.8	29.8
Total comprehensive income for the year		–	32.7	94.6	127.3
Share options and LTIPs					
- value of employees' services	35	–	–	7.5	7.5
Current tax on share based payments	13	–	–	0.4	0.4
Deferred tax on share based payments		–	–	0.4	0.4
Dividends paid	14	–	–	(64.0)	(64.0)
At 31 March 2021		**1.0**	**(71.6)**	**2,793.9**	**2,723.3**

Severn Trent Water Limited
Group and Company Balance Sheet
As at 31 March 2021

		Group		Company	
		2021	2020	**2021**	2020
	Note	**£m**	£m	**£m**	£m
Non-current assets					
Goodwill	15	**63.5**	63.5	**1.3**	1.3
Other intangible assets	16	**133.1**	120.5	**121.9**	108.2
Property, plant and equipment	17	**9,703.9**	9,401.2	**9,312.1**	9,015.3
Right-of-use assets	18	**119.2**	120.7	**535.2**	278.7
Investments	19	**1,550.1**	1,538.9	**2,180.9**	2,149.7
Derivative financial instruments	20	**37.1**	65.5	**37.1**	65.5
Trade and other receivables	21	**53.6**	99.3	**183.0**	257.6
Retirement benefit surplus	27	**17.1**	21.3	**–**	–
		11,677.6	**11,430.9**	**12,371.5**	**11,876.3**
Current assets					
Inventory		**9.8**	11.1	**9.1**	10.4
Trade and other receivables	21	**502.7**	483.5	**540.9**	494.4
Current tax receivable		**–**	–	**1.0**	–
Derivative financial instruments	20	**3.8**	–	**3.8**	–
Cash and cash equivalents		**12.1**	15.2	**6.3**	12.3
		528.4	**509.8**	**561.1**	**517.1**
Current liabilities					
Borrowings	23	**(483.2)**	(473.9)	**(500.7)**	(496.9)
Derivative financial instruments	24	**–**	(4.5)	**–**	(4.4)
Trade and other payables	25	**(534.9)**	(544.1)	**(555.4)**	(547.9)
Current tax payable		**(3.9)**	(6.4)	**–**	(5.2)
Provisions for liabilities	28	**(23.9)**	(10.6)	**(22.5)**	(10.6)
		(1,045.9)	(1,039.5)	**(1,078.6)**	(1,065.0)
Net current liabilities		**(517.5)**	(529.7)	**(517.5)**	(547.9)
Total assets less current liabilities		**11,160.1**	10,901.2	**11,854.0**	11,328.4
Non-current liabilities					
Borrowings	23	**(5,786.8)**	(5,785.9)	**(6,749.7)**	(6,474.3)
Derivative financial instruments	24	**(121.5)**	(152.3)	**(121.5)**	(152.3)
Trade and other payables	25	**(1,250.0)**	(1,177.7)	**(1,236.1)**	(1,166.5)
Deferred tax	26	**(893.5)**	(890.8)	**(870.6)**	(867.1)
Retirement benefit obligation	27	**(376.5)**	(247.4)	**(143.4)**	(2.2)
Provisions for liabilities	28	**(13.7)**	(14.3)	**(9.4)**	(14.3)
		(8,442.0)	(8,268.4)	**(9,130.7)**	(8,676.7)
Net assets		**2,718.1**	2,632.8	**2,723.3**	2,651.7
Equity					
Called up share capital	29	**1.0**	1.0	**1.0**	1.0
Hedging reserve	30	**(71.6)**	(104.3)	**(71.6)**	(104.3)
Retained earnings		**2,778.1**	2,725.5	**2,793.9**	2,755.0
Equity attributable to owners of the company		**2,707.5**	2,622.2	**2,723.3**	2,651.7
Non-controlling interests		**10.6**	10.6	**–**	–
Total equity		**2,718.1**	2,632.8	**2,723.3**	2,651.7

Severn Trent Water Limited
Group and Company Balance Sheet

As at 31 March 2021

The profit for the year for Severn Trent Water Limited Company is £221.5 million (2020: £219.2 million). Signed on behalf of the Board who approved the accounts on 7 July 2021.

Christine Hodgson
Chair

James Bowling
Chief Financial Officer

Company Number 02366686

Severn Trent Water Limited
Group Cash Flow Statement

For the year ended 31 March 2021

		2021 £m	2020 £m
Cash generated from operations	36	**835.6**	916.2
Tax paid	36	**(26.9)**	(28.2)
Net cash generated from operating activities		**808.7**	888.0
Cash flows from investing activities			
Purchases of property, plant and equipment		**(606.7)**	(787.7)
Purchases of intangible assets and goodwill		**(21.7)**	(45.1)
Proceeds on disposal of property, plant and equipment		**2.4**	3.2
Net loans repaid by related parties		**98.0**	2.5
Interest received		**2.1**	4.6
Net cash from investing activities		**(525.9)**	(822.5)
Cash flow from financing activities			
Interest paid		**(177.6)**	(177.2)
Interest element of lease payments		**(3.9)**	(4.2)
Principal elements of lease payments		**(4.6)**	(4.7)
Dividends paid to shareholders of the parent		**(64.0)**	(244.0)
Payments for swap terminations		**(1.1)**	(16.8)
Proceeds from swap terminations		**0.9**	16.5
Repayments of borrowings		**(241.0)**	(1.2)
New loans raised		**416.2**	129.9
Intercompany loans (issued to)/raised with ultimate parent		**(52.0)**	239.4
Repayment of intercompany loans raised with ultimate parent		**(158.8)**	–
Net cash flow from financing activities		**(285.9)**	**(62.3)**
Net movement in cash and cash equivalents		**(3.1)**	3.1
Net cash at the beginning of the year		**15.2**	12.1
Net cash and cash equivalents at end of the year		**12.1**	15.2
Cash and cash equivalents		**12.1**	8.2
Short term deposits		**–**	7.0
Net cash and cash equivalents at end of the year		**12.1**	15.2

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) under the historical cost convention, except for the revaluation of financial instruments including derivatives (refer to accounting policy notes (s) and (t)), and accounting for the transfer of assets from customers (refer to accounting policy note (i)).

i) Group financial statements

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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'.

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 payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements and also where required, equivalent disclosures are given in the Group accounts of Severn Trent Plc. The Group accounts of Severn Trent Plc are available to the public and can be obtained as set out in note 42.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account is presented for the parent company. The profit for the year is disclosed in the statement of comprehensive income, the statement of changes in equity and the balance sheet.

The key accounting policies for the Group and the parent company are set out below and have been applied consistently except where indicated. Where policies are specific to the Group or to the Company this is set out in the relevant policy.

(iii) Changes in accounting presentation

Deferred income and income from diversions

Previously deferred income released to the income statement relating to income from connections to the water and waste water network and income from diversions were credited to operating costs. Under the new presentation, the deferred income and income from diversions are recognised as turnover. In the year ended 31 March 2021 release of deferred income amounted to £15.5 million (2020: £14.5 million) and income from diversions amounted to £17.5 million (2020: £6.8 million). This presentational change has been applied beginning in the year, however as the impact in the prior year is not considered material to the amounts recorded in turnover or operating costs, prior years have not been restated. This reclassification has no impact on profits or cash flows recorded in the year or prior years.

(iv) Change in accounting estimate

In the current financial year the Group has applied a change in the estimate of useful lives applicable to mechanical and engineering assets. The average estimated useful lives across £825.0 million net book value of assets at 31 March 2021 has been increased from 20 to 22 years. The average estimated remaining useful lives across these assets has been increased from 14 years to 16 years. The change is required following identification of updated engineering data, and has resulted in a £9.8 million decrease in the depreciation expense in the current year. The impact over the next four years is expected to be a £7.8 million decrease in depreciation expense per year.

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.

2 Accounting policies (continued)

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 waste water revenue is recognised when the service is provided and includes an estimate of the amount of mains water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

Renewable energy revenue includes sales of electricity and gas and the related green energy incentives. Revenue from energy sales is recognised when the electricity or gas is delivered to the national grid. Green energy incentives are recognised when the Group becomes entitled to them.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

d) Exceptional items

Exceptional items are income or expenditure, which individually or, if of a similar type, in aggregate should, in the opinion of the Directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view.

e) Taxation

Current tax payable is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Current and deferred tax are recognised in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for a business combination.

A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future to utilise it.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

f) Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Goodwill arising on acquisition of subsidiaries is included in intangible assets. If an acquisition gives rise to negative goodwill this is credited directly to the income statement. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill is tested for impairment in accordance with the policy set out in note 2 k) below and carried at cost less accumulated impairment losses. Goodwill is allocated to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes.

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of that operation when determining the gain or loss on disposal of the operation.

2 Accounting policies (continued)

g) Other intangible and non-current assets

Intangible assets acquired separately are capitalised at cost. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

	Years
Software	3 - 10
Other intangible assets	15 - 20

Amortisation charged on intangible assets is taken to the income statement through operating costs.

Finite life intangible assets are reviewed for impairment where indicators of impairment exist (see 2 k) below).

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Such assets are reviewed for impairment at least annually and where indications of impairment exist.

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. Where the transfer is in exchange for connection to the network and there is no further obligation, the corresponding credit is recognised immediately in turnover. Where the transfer is considered to be linked to the provision of ongoing services the corresponding credit is recorded in deferred income and released to turnover over the expected useful lives of the related assets.

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.

The majority of 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) Grants and contributions

Grants and contributions received in respect of non-current assets, including certain charges made as a result of new connections to the water and waste water networks, are treated as deferred income and released to turnover over the useful economic life of those non-current assets.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in turnover in the income statement in the period that they become receivable.

k) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

The discount rate used is based on the Group's cost of capital, adjusted for the risk profiles of individual businesses. For regulated businesses we use the WACC from Ofwat's latest price review adjusted for market changes since this date where appropriate.

Goodwill is tested for impairment annually. Impairment reviews are also carried out if there is an indication that an impairment may have occurred or, where otherwise required, to ensure that non-current assets are not carried above their estimated recoverable amounts.

Impairments are recognised in the income statement.

l) Investments

Investments in subsidiaries in the Company's financial statements are stated at cost less, where appropriate, provisions for impairment. Investments in subsidiaries are reviewed for impairment in line with note 2 k) when indicators of impairment have been identified.

Other investments are initially recognised and subsequently measured at fair value. Changes in fair value are recognised in profit or loss.

2 Accounting policies (continued)

m) Inventory

Inventory and work in progress is stated at the lower of cost and net realisable value.

Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

n) Loans receivable

Loans receivable are measured at fair value on initial recognition, less issue fee income received where the fee is integral to the yield on the loan. All loans receivable are held for collection of contractual cash flows, which represent solely payments of principal and interest. After initial recognition, loans receivable are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue fee income are credited to the income statement and added to the carrying value of loans receivable at a constant rate in proportion to the loan amount outstanding.

The Company recognises a loss allowance 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.

The Company recognises lifetime ECL 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 Company measures the loss allowance 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 Group compares the risk of default over the remaining life of the asset at the reporting date with the risk of default for the same period at initial recognition. In making this assessment, the Group considers 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, the Group presumes 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 the Group has reasonable and supportable information that demonstrates otherwise.

Definition of default

The Group considers that a default has taken place where information developed internally indicates that the borrower is unlikely to pay its creditors, including the Group, in full. Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

o) Trade receivables and accrued income

Trade receivables and accrued income, are measured at fair value on initial recognition. If there is objective evidence that the asset is impaired, it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense in operating costs.

The Group applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade and other receivables. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the Group's historical experience of trade receivable write-offs and reasonable, supportable forward-looking information which is available without undue cost or effort.

Severn Trent Water Limited
Notes to the Group and Company financial statements (continued)

For the year ended 31 March 2021

2 Accounting policies (continued)

p) Retirement benefits

(i) Defined benefit schemes

The difference between the value of defined benefit pension scheme assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset or obligation.

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices. For scheme assets with no quoted price, the fair value is derived by using quotations from independent third parties or by using applicable valuation techniques at the end of each reporting period. Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability.

Service cost, representing the cost of employee service in the period, is included in operating costs. Net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net obligation.

Changes in the retirement benefit obligation that arise from:

- differences between the return on scheme assets and interest income included in the income statement;
- actuarial gains and losses from experience adjustments; and
- changes in demographic or financial assumptions,

are classified as re-measurements, charged or credited to other comprehensive income and recorded in the statement of comprehensive income in the period in which they arise.

There is no contractual agreement, or stated policy, for charging the net defined benefit cost for the Severn Trent or Dee Valley Water 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.

q) Provisions

Provisions are recognised where:

- there is a present obligation as a result of a past event;
- it is probable that there will be an outflow of economic benefits to settle this obligation; and
- a reliable estimate of this amount can be made.

Insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the ultimate parent company's independent insurance advisers.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability where the effect is material.

r) Borrowings

The accounting policy for borrowings that are the hedged item in a fair value hedge is set out in note 2 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.

2 Accounting policies (continued)

s) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 34 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 and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations.

At the inception of each hedge relationship, the Group documents:
- the economic relationship between the hedging instrument and the hedged item;
- the risk management objectives and strategy for undertaking the hedge transaction; and
- whether changes in fair value or the cash flows of the hedging instrument are expected to offset changes in fair values or cash flows (as appropriate) of the hedged item.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised or no longer qualifies for hedge accounting.

Fair value hedges
Where a loan or borrowing is in a fair value hedging relationship it is remeasured for changes in fair value of the hedged risk at the balance sheet date, with gains or losses being recognised in gains/losses on financial instruments in the income statement. The gain or loss on the corresponding hedging instrument is also taken to gains/losses on financial instruments in the income statement so that the effective portion of the hedge will offset the gain or loss on the hedged item.

If hedge accounting is discontinued, the fair value adjustment arising from the hedged risk on the hedged item is amortised to the income statement over the anticipated remaining life of the hedged item.

Cash flow hedges
The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity and the ineffective portion is charged to gains/losses on financial instruments in the income statement. When the gain or loss from the hedged underlying transaction is recognised in the income statement, the gains or losses on the hedging instrument that have previously been recognised in equity are recycled through gains/losses on financial instruments in the income statement.

If hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument previously recognised in equity is held in equity until the forecast transaction occurs, or transferred to gains/losses on financial instruments in the income statement if the forecast transaction is no longer expected to occur. From this point the derivative is accounted for in the same way as derivatives not designated as hedging instruments. If the hedging instrument is terminated, the gains and losses previously recognised in equity are held in equity until either the forecast transaction occurs or the forecast transaction is no longer expected to occur.

Embedded derivatives
Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative.

Embedded derivatives are separated from the contract and measured at fair value with gains and losses taken to the income statement if the host contract is not an asset within the scope of IFRS 9 and:

- the risks and characteristics of the embedded derivative are not closely related to those of the contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

t) Share based payment

The Group operates a number of equity settled share based compensation plans for employees. The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant.

The fair value of employee services is determined by reference to the fair value of the awards granted, calculated using an appropriate pricing model, excluding the impact of any non-market vesting conditions. The number of awards that are expected to vest takes into account non-market vesting conditions including, where appropriate, continuing employment by the Group. The charge is adjusted to reflect shares that do not vest as a result of failing to meet a non-market condition.

The grant of awards of shares of the ultimate parent Company is treated as a capital contribution and credited to reserves. When awards vest, payments made to the ultimate parent Company for the issue of shares are charged against the capital contributions previously received in respect of the same awards. Any payments in excess of capital contributions are treated as distributions.

2 Accounting policies (continued)

u) Cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Net cash and cash equivalents include overdrafts repayable on demand and amounts drawn under the Group's revolving credit facility.

Interest paid in the cash flow statement includes amounts charged to the income statement and amounts included in the cost of property, plant and equipment.

3 New accounting policies and future requirements

At the balance sheet date, no Standards or Interpretations were in issue but not yet effective that are expected to have a material impact on the Group or Company's financial position.

4 Critical accounting judgments and sources of estimation uncertainty

In the process of applying the Group and Company accounting policies, the Group and Company are required to make certain judgments, estimates and assumptions that they believe are reason

able 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

Severn Trent Water'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 £151.0 million (2020: £149.6 million). Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised and amounted to £678.6 million (2020: £1,007.0 million).

ii) Income from connections to the water and waste water networks

The Group receives income from developers and domestic customers from new connections to the water and waste water networks either in the form of infrastructure assets or cash. The more significant examples of these transactions are:

- Developers transfer to the Group infrastructure assets that they have installed in a new development. Usually there is no monetary consideration exchanged when the Group adopts assets in this manner.
- When new properties are connected to the network, the Group is permitted, under the Water Industry Act, to obtain a contribution from the developer towards the cost of reinforcing its network to meet the additional demands arising from the new connections. These are referred to as Infrastructure charges and charges are a standard amount per property and are not linked to specific reinforcement expenditure.
- When developers require properties to be connected to the Group's network, the Group installs a meter and connection to each property but retains ownership of the assets and responsibility for their maintenance.

Assessing whether this income is received in relation to the provision of the connection to the Group's infrastructure networks or is to facilitate the ongoing provision of water and waste water services to the properties in question requires judgment about the nature of the ongoing relationship between the Group and the customer. During the period the Group received infrastructure assets with a fair value of £44.9 million (2020: £71.1 million), infrastructure charges amounting to £20.0 million (2020: £30.0 million) and other charges relating to the provision of infrastructure amounting to £22.0 million (2020: £9.6 million).

The Group considers that the purpose of these transactions is to facilitate the ongoing provision of water and waste water services to the properties in question and they are inextricably linked to that ongoing service. There is a transferable right to receive an ongoing water and waste water service that passes from customer to customer when the property is bought and sold during the life of the property and, without the ongoing water and waste water service, the transactions have no value. Therefore, in line with our accounting policies the amounts received are held on the balance sheet and released to turnover in the income statement over the life of the related assets.

4 Critical accounting judgments and sources of estimation uncertainty (continued)

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). A five year change in the average remaining useful lives of property, plant and equipment would result in a £31.0 million change in the depreciation charge.

The climate change scenarios that we have modelled have not indicated a requirement to amend the estimated useful life of our assets. During the year the Group has reassessed the useful economic lives of its mechanical and engineering assets. The average estimated useful lives across £825.0 million net book value of assets at 31 March 2021 has been increased from 20 to 22 years. The change is required following identification of updated engineering data, and has resulted in a £9.8 million decrease in the depreciation expense in the current year. The impact over the next four years is expected to be a £7.8 million decrease in depreciation expense per year.

ii) Retirement benefit obligations

Determining the amount of the Group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long-term interest rates, inflation and longevity of current and future pensioners, and, where market prices are not available, the values of the assets held. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made and associated sensitivities are set out in note 27 to the financial statements.

iii) Expected 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 the COVID-19 pandemic on unemployment levels and hence on the Group's collection of trade receivables. In the current period, the forecast peak level of unemployment has increased and the period to return to current levels has lengthened in consensus economic forecasts.

We based our assessment of future unemployment trends on the Bank of England's most recent Monetary Policy Report at the balance sheet date, for February 2021, which forecasted a peak rate of unemployment for the UK of 7.8% in the third quarter of calendar year 2021, with a return to the pre-COVID level of unemployment 4% in 2024.

The gross carrying amounts and expected credit loss allowances for trade receivables and accrued income were as follows:

	2021	2020
	£m	£m
Gross carrying amount	**536.8**	570.2
Provision for bad and doubtful debts	**(136.2)**	(138.2)
Net carrying amount	**400.6**	432.0

Movements in the expected credit loss allowance are as follows:

	2021	2020
	£m	£m
At 1 April	**138.2**	119.4
Charge for bad and doubtful debts	**39.9**	42.4
Amounts written off during the period	**(41.9)**	(23.6)
At 31 March	**136.2**	138.2

On 6 May, the Bank of England published its latest Monetary Policy Report. This revised the forecast for unemployment to show a peak level of 5.4% in the third quarter of calendar year 2021 and a more gradual recovery to the pre-COVID level in the first quarter of calendar year 2023.

If our assessment of future unemployment trends had been based on this forecast, the expected credit loss in the period would have been £7.7m million lower.

5 Revenue from contracts with customers

	Group	
	2021	2020
	£m	£m
Water and waste water services	**1,680.6**	1,684.1
Other services	**18.9**	30.5
Turnover	**1,699.5**	1,714.6
Finance income	**2.3**	5.6
	1,701.8	1,720.2

Revenue from water and waste water services provided to customers with meters is recognised when the service is provided and is measured based on actual meter readings and estimated consumption for the period between the last meter reading and the year end. For customers who are not metered, the performance obligation is to stand ready to provide water and waste water services throughout the period. Such customers are charged on an annual basis, coterminous with the financial year, and revenue is recognised on a straight-line basis over the financial year.

Deferred income arising from connections to the Group's water and waste water networks represents a contract liability and is recognised in line with the Group's accounting policy set out in note 2 and the judgment described in note 4. Changes in the Group's contract liabilities from deferred income were as follows:

	2021	2020
	£m	£m
At 1 April	**1,188.3**	1,093.0
Contributions and grants received	**41.4**	39.6
Assets transferred at no cost	**44.9**	71.1
Amounts released to income statement	**(15.5)**	(15.4)
At 31 March	**1,259.1**	1,188.3

Revenue amounting to £15.5 million (2020: £15.4 million) that was included in the opening balance of the contract liability was recognised in the income statement during the year. No revenue was recognised in the year from performance obligations relating to connections to the Group's water and waste water networks that were satisfied or partially satisfied in previous years (2020: 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 waste water service, are provided over the life of the relevant property.

Revenue from the remaining performance obligations is expected to be recognised as follows:

	2021	2020
	£m	£m
In the next year	**15.1**	16.3
Between one and five years	**60.4**	65.2
After more than five years	**1,183.6**	1,106.8
	1,259.1	1,188.3

Severn Trent Water Limited
Notes to the Group and Company financial statements (continued)

For the year ended 31 March 2021

6 Net operating costs - Group

	2021 £m	2020 £m
Wages and salaries	**268.3**	261.2
Social security costs	**26.4**	27.6
Pension costs	**26.0**	24.6
Share based payments	**7.5**	7.8
Total employee costs	**328.2**	321.2
Power	**100.0**	94.2
Raw materials and consumables	**62.0**	55.4
Rates	**81.6**	79.5
Charge for bad and doubtful debts	**39.9**	42.4
Service charges	**38.6**	39.3
Depreciation of property, plant and equipment	**331.7**	317.6
Depreciation of right-of-use assets	**2.0**	5.0
Amortisation of intangible assets	**31.3**	29.7
Hired and contracted services	**198.9**	191.5
Rental charges		
- land and buildings	**0.1**	0.1
- other	**–**	0.3
Hire of plant and machinery	**6.9**	6.7
Profit on disposal of tangible fixed assets	**(3.2)**	(3.3)
Exchange (gains)/losses	**(0.2)**	0.1
Infrastructure maintenance expenditure[1]	**151.0**	149.6
Ofwat licence fees	**4.5**	5.1
Other operating costs	**49.4**	32.5
Other operating income	**(2.1)**	(2.2)
	1,420.6	1,364.7
Release from deferred credits[1]	**–**	(15.4)
Own work capitalised	**(179.0)**	(181.4)
	1,241.6	1,167.9

[1]Refer to note 2a (iii) Changes in accounting presentation for details of the change in presentation for release from deferred credits and income from diversions

During the year the following fees were charged by the auditor:

	Group and Company	
	2021 £m	2020 £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	**0.1**	0.1
- other assurance services	**0.1**	0.1
Total non-audit fees	**0.2**	0.2

Other assurance services also include certain agreed upon procedures performed by Deloitte in connection with regulatory reporting requirements to Ofwat.

7 Gain/(loss) on impairment of loans receivable

	Group	
	2021	2020
	£m	£m
Loss on impairment of loans due from related parties	**4.9**	(4.9)
	4.9	(4.9)

In the previous year, the Group determined that there had been a significant increase in the credit risk since inception relating to its loans receivable from Water Plus in the light of the unforeseen significant increase in losses incurred by Water Plus. The Group therefore assessed the lifetime expected credit loss of its loans to Water Plus and recognised an exceptional impairment provision for expected credit losses of £4.9 million.

Following a refinancing exercise between Water Plus and both its joint venture partners, in the current year the loan receivable from Water Plus has been novated from the Company to Severn Trent Plc. The Group and Company have therefore recognised a gain on impairment provision of £4.9 million, included within adjusted results given the refinancing was required in the ordinary course of business.

8 Employee numbers – Group and Company

Average number of employees (including Executive Directors) during the year:

	Group		Company	
	2021	2020	**2021**	2020
	Number	Number	**Number**	Number
	6,658	6,524	**6,526**	6,390

9 Directors' interests and remuneration – Group and Company

a) Directors' interests

All of the Directors as at the end of the year are also Directors of Severn Trent Plc, the ultimate parent undertaking, and their interests in the share capital of that Company are disclosed in the Severn Trent Plc Annual Report and Accounts for the year ended 31 March 2021. Share options were granted and exercised in accordance with the Severn Trent Sharesave Scheme as appropriate.

The Executive Directors have further interests in Severn Trent Plc ordinary shares of $97^{17}/_{19}$ p each by virtue of having received contingent awards of shares under the Severn Trent Long Term Incentive Plan (LTIP), deferred shares under the Severn Trent Annual Bonus Scheme.

The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are disclosed in the Annual Report and Accounts of Severn Trent Plc for the year ended 31 March 2021.

b) Directors' remuneration

The following table shows the remuneration due to directors for their services to the Company during the year:

	2021	2020
	£m	£m
Short term employee benefits	**3.1**	3.1
Share based payment	**1.9**	1.6
	5.0	4.7

The emoluments of the non-executive directors are paid by Severn Trent Plc.

There were no retirement benefits accruing to directors (2020: nil) under a defined benefit scheme and one director (2020: one director) under a defined contribution scheme.

Two directors (2020: three directors) exercised share options or received LTIP awards which vested during the year.

9 Directors' interests and remuneration – Group and Company (continued)

c) Highest paid director

	2021 £m	2020 £m
Aggregate emoluments (excluding pension contributions)	**2.8**	2.7
	2.8	2.7

The highest paid director at 31 March 2021 and 31 March 2020 was not a member of the defined benefit pension scheme.

10 Finance income - Group

	2021 £m	2020 £m
Interest income earned on:		
Bank deposits	**0.1**	0.3
Amounts due from group undertakings	**0.1**	2.4
Other finance income	**2.1**	3.0
Total interest receivable	**2.3**	5.7
Interest income on defined benefit scheme assets	**57.3**	58.2
	59.6	63.9

11 Finance costs - Group

	2021 £m	2020 £m
Interest expense charged on:		
Bank loans and overdrafts	**11.2**	21.5
Other loans	**158.4**	146.3
Lease liabilities	**4.0**	4.2
Amounts payable to group undertakings	**0.9**	–
Total borrowing costs	**174.5**	172.0
Other finance expenses	**0.2**	0.1
Interest cost on defined benefit scheme liabilities	**62.5**	69.1
	237.2	241.2

Borrowing costs of £30.4 million (2020: £44.2 million) incurred funding eligible capital projects have been capitalised at an interest rate of 2.44% (2020: 2.95%). Tax relief of £5.8 million (2020: £8.4 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £5.8 million (2020: £8.4 million).

12 Net (losses)/gains on financial instruments - Group

	2021 £m	2020 £m
(Loss)/gain on swaps used as hedging instruments in fair value hedges	**(8.0)**	5.1
Gain/(loss) arising on debt in fair value hedges	**4.2**	(1.6)
Exchange gain/(loss) on other loans	**14.8**	(6.7)
Loss on cash flow hedges transferred from equity	**(8.5)**	(8.5)
Hedge ineffectiveness on cash flow hedges	**(1.9)**	2.5
Loss arising on swaps where hedge accounting is not applied	**(8.2)**	(9.9)
Amortisation of fair value adjustment on debt	**1.2**	1.1
Gain on revaluation of investment	**11.2**	28.1
	4.8	10.1

The net loss on financial assets and liabilities mandatorily measured at fair value through profit or loss was £16.3 million (2020: loss of £4.8 million). There were no financial assets or liabilities designated as at fair value through the profit or loss (2020: nil).

The Group’s hedge accounting arrangements are described in note 34.

13 Taxation

a) Analysis of tax charge in the year

	2021 £m	2020 £m
Current tax		
Current year at 19% (2020: 19%)	**28.3**	34.2
Prior years	**(3.4)**	(1.2)
Total current tax	**24.9**	33.0
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**26.1**	28.6
Prior years	**0.1**	(0.3)
Deferred tax before exceptional deferred tax	**26.2**	28.3
Exceptional charge on rate change	**–**	90.1
Total deferred tax	**26.2**	118.4
	51.1	151.4

b) Factors affecting the tax charge in the year

The Group tax charge for the current year is lower (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021 £m	2020 £m
Profit before taxation	**290.0**	374.6
Tax at standard rate of corporation tax in the UK 19% (2020: 19%)	**55.1**	71.2
Tax effect of depreciation on non-qualifying assets	**3.5**	1.0
Other permanent differences	**(4.2)**	(9.4)
Adjustments in respect of prior years	**(3.3)**	(1.5)
Exceptional deferred tax arising on rate change	–	90.1
Total tax charge	**51.1**	151.4

13 Taxation (continued)

b) Factors affecting the tax charge in the year (continued)

The Group current tax charge is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021 £m	2020 £m
Profit before taxation	**290.0**	374.6
Tax at standard rate of corporation tax in the UK 19% (2020: 19%)	**55.1**	71.2
Tax effect of depreciation on non-qualifying assets	**3.5**	1.0
Other permanent differences	**(4.2)**	(9.4)
Tax effect of accelerated capital allowances	**(20.4)**	(25.0)
Other timing differences	**(5.7)**	(3.6)
Adjustments in respect of prior years	**(3.4)**	(1.2)
Total current tax charge	**24.9**	33.0

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 cumulative amount of the capital allowances received is greater than the depreciation charged this is referred to as accelerated capital allowances.

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.

Deferred tax is provided at 19%, being the rate applicable at the balance sheet date.. The impact of the UK Government's announcement of its intention to increase the rate of corporation tax to 25% with effect from 1 April 2023 is set out in note 26.

Other timing 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 liabilities 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.

c) Tax (credited)/charged directly to other comprehensive income or equity

In addition to the amount charged to the income statement, the following amounts of tax have been (credited)/charged directly to other comprehensive income or equity:

	2021 £m	2020 £m
Current tax		
Share based payments	**(0.4)**	–
Pension contributions in prior periods	–	(9.5)
Total current tax credited to other comprehensive income or equity	**(0.4)**	(9.5)
Deferred tax		
Actuarial losses/gains	**(30.7)**	37.0
Cash flow hedges	**6.0**	(7.4)
Share based payments	**(0.4)**	(0.7)
Transfers to the income statement	**1.6**	1.6
Pension contributions in prior periods	–	9.5
Effect of change in tax rate	–	(2.5)
Total deferred tax charged to other comprehensive income or equity	**(23.5)**	37.5

14 Dividends – Group and Company

Amounts recognised as distributions to equity holders in the period:

	2021		2020	
	Pence per share	**£m**	Pence per share	£m
Interim dividend for the year ended 31 March	**6.4**	**64.0**	24.40	244.0

15 Goodwill - Group

Goodwill impairment tests

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the operating segment.

A summary of the carrying amount of goodwill allocation by CGU is presented below.

	2021	2020
	£m	£m
Regulated Water and Waste Water	**63.5**	63.5

Regulated Water and Waste Water also has an intangible asset with indefinite useful life amounting to £4.3 million (2020: £4.3 million).

On 1 July 2018 the Instruments of Appointment of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig (formerly Dee Valley Water Limited) were amended to align the areas for which the appointments were made with the national border between England and Wales. As a result, the business that the goodwill relates to is now partly in Severn Trent Water and partly Hafren Dyfrdwy consequently this goodwill is allocated to the Regulated Water and Waste Water CGU.

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 Regulated Water and Waste Water CGU 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 Regulated Water and Waste Water CGU is based on the most recent financial projections available for the business, which cover the current AMP period, which runs to 31 March 2025. As a regulated water company, the revenues and costs within the Regulated Water and Waste Water segment are significantly influenced by the regulatory settlement for each AMP period so management considers it appropriate for the detailed projections to be coterminous with the AMP period.

The key assumptions underlying these projections are the cash flows in the projections and the following:

	%
Discount rate	5.9
RPI inflation	2.7
CPI inflation	2.0
Growth rate in the period beyond the detailed projections	1.5

The discount rate is an estimate for the weighted average cost of capital at the year end date based on the nominal post-tax WACC detailed in the Ofwat PR19 final determination. The rate disclosed above is the equivalent pre-tax nominal rate.

Inflation has been included in the detailed projections at 2.7% and 2.0% for RPI and CPI respectively 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 CGU exceeded its carrying value by £3,725 million. An increase in the discount rate to 6.8% or a reduction in the growth rate in the period beyond the detailed projections to 1.0% would reduce the recoverable amount to the carrying amount of the CGU.

Severn Trent Water Limited
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For the year ended 31 March 2021

16 Other intangible assets – Group and Company

Group

	Computer software				
	Internally generated	Purchased	Capitalised development costs and patents	Instrument of appointment	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2019	228.5	135.2	12.0	4.3	380.0
Additions	42.7	18.0	–	–	60.7
At 1 April 2020	271.2	153.2	12.0	4.3	440.7
Additions	10.3	11.4	–	–	21.7
Disposals	(8.9)	(1.8)	–	–	(10.7)
Transfers from property, plant and equipment	22.2	–	–	–	22.2
At 31 March 2021	**294.8**	**162.8**	**12.0**	**4.3**	**473.9**
Amortisation					
At 1 April 2019	(184.7)	(93.8)	(12.0)	–	(290.5)
Amortisation for the year	(16.3)	(13.4)	–	–	(29.7)
At 1 April 2020	(201.0)	(107.2)	(12.0)	–	(320.2)
Amortisation for the year	(19.2)	(12.1)	–	–	(31.3)
Disposals	8.9	1.8	–	–	10.7
At 31 March 2021	**(211.3)**	**(117.5)**	**(12.0)**	**–**	**(340.8)**
Net book value					
At 31 March 2021	**83.5**	**45.3**	**–**	**4.3**	**133.1**
At 31 March 2020	70.2	46.0	–	4.3	120.5

Company

	Computer software			
	Internally generated	Purchased	Capitalised development costs and patents	Total
	£m	£m	£m	£m
Cost				
At 1 April 2019	222.3	135.2	12.0	369.5
Additions	39.3	18.0	–	57.3
At 1 April 2020	261.6	153.2	12.0	426.8
Additions	10.3	11.4	–	21.7
Disposals	(8.9)	(1.8)	–	(10.7)
Transfers from property, plant and equipment	22.2	–	–	22.2
At 31 March 2021	**285.2**	**162.8**	**12.0**	**460.0**
Amortisation				
At 1 April 2019	(184.0)	(93.8)	(12.0)	(289.8)
Amortisation for the year	(15.4)	(13.4)	–	(28.8)
At 1 April 2020	(199.4)	(107.2)	(12.0)	(318.6)
Amortisation for the year	(18.2)	(12.0)	–	(30.2)
Disposals	8.9	1.8	–	10.7
At 31 March 2021	**(208.7)**	**(117.4)**	**(12.0)**	**(338.1)**
Net book value				
At 31 March 2021	**76.5**	**45.4**	**–**	**121.9**
At 31 March 2020	62.2	46.0	–	108.2

17 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 2019	3,484.4	5,277.8	3,985.9	65.6	1,259.9	14,073.6
Additions	88.1	162.9	167.3	7.7	520.3	946.3
Transfers on commissioning	93.0	56.9	145.8	1.1	(296.8)	–
Disposals	(12.2)	–	(5.1)	(7.8)	(9.0)	(34.1)
At 1 April 2020	3,653.3	5,497.6	4,293.9	66.6	1,474.4	14,985.8
Additions	119.5	108.8	221.7	6.2	200.7	656.9
Transfers on commissioning	144.2	166.7	257.8	2.5	(571.2)	–
Disposals	(5.1)	–	(31.7)	(3.8)	–	(40.6)
Transfers to intangible assets	–	–	–	–	(22.2)	(22.2)
At 31 March 2021	**3,911.9**	**5,773.1**	**4,741.7**	**71.5**	**1,081.7**	**15,579.9**
Depreciation						
At 1 April 2019	(1,367.5)	(1,354.2)	(2,529.1)	(37.4)	–	(5,288.2)
Charge for the year	(85.9)	(39.3)	(186.8)	(5.6)	–	(317.6)
Disposals	9.5	–	4.9	7.3	–	21.7
Impairment	(0.5)	–	–	–	–	(0.5)
At 1 April 2020	(1,444.4)	(1,393.5)	(2,711.0)	(35.7)	–	(5,584.6)
Charge for the year	(91.7)	(41.0)	(193.1)	(5.9)	–	(331.7)
Disposals	5.0	–	31.7	3.6	–	40.3
At 31 March 2021	**(1,531.1)**	**(1,434.5)**	**(2,872.4)**	**(38.0)**	**–**	**(5,876.0)**
Net book value						
At 31 March 2021	**2,380.8**	**4,338.6**	**1,869.3**	**33.5**	**1,081.7**	**9,703.9**
At 31 March 2020	2,208.9	4,104.1	1,582.9	30.9	1,474.4	9,401.2

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £44.9 million (2020: £71.1 million).

17 Property, plant and equipment (continued)

Company

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Moveable plant £m	Assets under construction £m	Total £m
Cost						
At 1 April 2019	3,241.0	5,152.1	3,911.2	65.6	1,224.1	13,594.0
Additions	87.8	161.4	163.0	7.6	513.3	933.1
Transfers on commissioning	93.0	56.9	145.8	1.1	(296.8)	–
Disposals	(12.2)	–	(5.1)	(7.8)	(9.0)	(34.1)
At 1 April 2020	3,409.6	5,370.4	4,214.9	66.5	1,431.6	14,493.0
Additions	116.8	108.4	219.8	6.2	188.4	639.6
Transfers on commissioning	141.7	166.4	253.3	2.5	(563.9)	–
Disposals	(5.1)	–	(31.6)	(3.8)	–	(40.5)
Transfers to intangible assets	–	–	–	–	(22.2)	(22.2)
At 31 March 2021	**3,663.0**	**5,645.2**	**4,656.4**	**71.4**	**1,033.9**	**15,069.9**
Depreciation						
At 1 April 2019	(1,306.2)	(1,345.0)	(2,502.4)	(37.4)	–	(5,191.0)
Charge for the year	(82.3)	(37.6)	(182.4)	(5.6)	–	(307.9)
Disposals	9.5	–	4.9	7.3	–	21.7
Impairment	(0.5)	–	–	–	–	(0.5)
At 1 April 2020	(1,379.5)	(1,382.6)	(2,679.9)	(35.7)	–	(5,477.7)
Charge for the year	(86.5)	(39.7)	(188.2)	(5.9)	–	(320.3)
Disposals	5.0	–	31.6	3.6	–	40.2
At 31 March 2021	**(1,461.0)**	**(1,422.3)**	**(2,836.5)**	**(38.0)**	**–**	**(5,757.8)**
Net book value						
At 31 March 2021	**2,202.0**	**4,222.9**	**1,819.9**	**33.4**	**1,033.9**	**9,312.1**
At 31 March 2020	2,030.1	3,987.8	1,535.0	30.8	1,431.6	9,015.3

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £44.9 million (2020: £71.1 million).

The net book value of land and buildings is analysed as follows:

Group

	2021 £m	2020 £m
Freehold	**2,380.5**	2,208.6
Short leasehold	**0.3**	0.3
	2,380.8	2,208.9

Company

	2021 £m	2020 £m
Freehold	**2,201.7**	2,029.8
Short leasehold	**0.3**	0.3
	2,202.0	2,030.1

18 Leases

a) The Group's leasing activities

The Group and Company leases various properties, equipment and vehicles. Lease agreements are typically made for fixed periods of up to 999 years but may have extension options as described in note 2i).

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 2021:

	Group		Company	
	2021	2020	**2021**	**2020**
	£m	£m	**£m**	**£m**
Depreciation charge of right-of-use assets:				
Land and buildings	**0.5**	0.5	**4.1**	4.2
Infrastructure assets	**1.2**	1.0	**13.0**	1.0
Fixed plant and equipment	**0.3**	3.5	**0.3**	3.1
Total depreciation of right-of-use assets	**2.0**	5.0	**17.4**	8.3
Interest expense included in finance cost	**4.0**	4.2	**18.4**	4.5
Expense relating to short-term leases included in operating costs	**–**	0.3	–	0.3
Expense relating to leases of low-value assets included in operating costs	**0.2**	0.1	**0.1**	0.1

c) Balance sheet

The balance sheet includes the following amounts relating to leases:

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Right-of-use assets:				
Land and buildings	**3.0**	3.5	**157.4**	161.5
Infrastructure assets	**112.6**	113.8	**374.2**	113.8
Fixed plant and equipment	**3.6**	3.4	**3.3**	3.4
Moveable plant	**–**	–	**0.3**	–
	119.2	120.7	**535.2**	278.7

Additions to right-of-use assets for the Group were £0.5 million (2020: nil) and for the Company were £273.9 million (2020: nil).

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Lease liabilities:				
Current	**5.3**	4.4	**20.8**	27.4
Non-current	**106.5**	111.4	**545.4**	300.0
	111.8	115.8	**566.2**	327.4

18 Leases (continued)

c) Balance sheet (continued)

Obligations under lease liabilities are as follows:

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Within 1 year	**9.1**	8.4	**39.6**	**42.6**
1 - 2 years	**9.3**	9.0	**39.7**	**22.8**
2 - 5 years	**31.5**	28.8	**122.8**	**70.5**
After more than 5 years	**96.8**	107.7	**544.4**	**337.5**
Gross obligations under finance leases	**146.7**	153.9	**746.5**	**473.4**
Less: future finance charges	**(34.9)**	(38.1)	**(180.3)**	**(146.0)**
Present value of lease obligations	**111.8**	115.8	**566.2**	**327.4**

Net obligations under leases were as follows:

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Within 1 year	**5.3**	4.4	**20.8**	27.4
1 - 2 years	**5.8**	5.1	**21.7**	9.0
2 - 5 years	**22.0**	19.5	**72.4**	32.4
After more than 5 years	**78.7**	86.8	**451.3**	258.6
Included in non-current liabilities	**106.5**	111.4	**545.4**	300.0
	111.8	115.8	**566.2**	327.4

d) Cash flow

The Group's total cash outflow for leases in the year was £8.5 million (2020: £8.9 million) which consists of £3.9 million (2020: £4.2 million) payment of interest and £4.6 million (2020: £4.7 million) repayment of principal elements.

The Company's total cash outflow was £43.0 million (2020: £22.6 million) which consists of £8.1 million (2020: £4.3 million) payment of interest and £34.9 million (2020: £18.3 million) repayment of principal elements. This is included in financing cash flows.

19 Investments

	Group			Company
	Other investments	Subsidiaries £m	Other investments	Total £m
At 1 April 2020	1,538.9	610.8	1,538.9	2,149.7
Gain on revaluation	11.2	–	11.2	11.2
Additions	–	20.0	–	20.0
At 31 March 2021	**1,550.1**	**630.8**	**1,550.1**	**2180.9**

The Company has the following subsidiary undertakings:

Subsidiary undertaking	Country of operation and incorporation	Principal activity	Percentage and class of share capital held
Aqua Deva Limited	England and Wales	Dormant company	100% ordinary
Chester Water Limited	England and Wales	Holding company	100% ordinary
Dee Valley Group Limited	England and Wales	Holding company	100% ordinary
Dee Valley Limited	England and Wales	Holding company	100% ordinary
Dee Valley Services Limited	England and Wales	Dormant company	100% ordinary
Dee Valley Water (Holdings) Limited	England and Wales	Holding company	100% ordinary
East Worcester Water Limited	England and Wales	Finance company	100% ordinary and 100% non-voting
Hafren Dyfrdwy Cyfyngedig	England and Wales	Regulated water and waste water company	100% ordinary
Energy Supplies UK Limited	England and Wales	Dormant company	100% ordinary
North Wales Gas Limited	England and Wales	Dormant company	100% ordinary
Northern Gas Supplies Limited	England and Wales	Dormant company	100% ordinary
Severn Trent Funding Limited	England and Wales	Dormant company	100% ordinary
Severn Trent General Partnership Limited	Scotland	Finance company	100% ordinary
Severn Trent LCP Limited	England and Wales	Leasing company	100% ordinary
Severn Trent Leasing Limited	England and Wales	Leasing company	100% ordinary
Severn Trent Reservoirs Limited	England and Wales	Finance company	100% ordinary
Severn Trent Utilities Finance Plc	England and Wales	Finance company	100% ordinary
Severn Trent WWIF Limited	England and Wales	Trading company	100% ordinary
Wrexham Water Limited	England and Wales	Dormant company	100% ordinary

The Company has the following investment:

Associated undertaking	Country of operation and incorporation	Principal activity	Percentage and class of share capital held
Severn Trent Trimpley Limited	England and Wales	Non-trading company	49% ordinary

The Company also has an indirect investment in Severn Trent Limited Partnership and Severn Trent 2017 Limited Partnership, limited partnerships 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 the following entities is Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH:

Dee Valley Limited
Hafren Dyfrdwy Cyfyngedig

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	2021 £m	2020 £m
Fair value through profit and loss			
Cross currency swaps - not hedge accounted		**16.6**	36.7
Interest rate swaps - not hedge accounted		**–**	4.9
Investments		**1,550.1**	1,538.9
		1,566.7	1,580.5
Derivatives designated as hedging instruments			
Cross currency swaps - fair value hedges		**15.9**	23.7
Energy hedges - cash flow hedges		**8.4**	0.2
		24.3	23.9
Total financial assets at fair value		**1,591.0**	1,604.4
Financial assets at amortised cost			
Trade receivables	21	**202.0**	211.7
Accrued income	21	**198.6**	220.3
Other amounts receivable	21	**26.1**	31.5
Amounts due from parent company	21	**104.0**	–
Amounts due from group undertakings	21	**9.7**	9.5
Amounts due from related parties	21	**–**	93.0
Short-term deposits		**–**	7.0
Cash at bank and in hand		**12.1**	8.2
Total financial assets at amortised cost		**552.5**	581.2
Total financial assets		**2,143.5**	2,185.6
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		**37.1**	65.5
Trade and other receivables		**52.0**	96.3
Investments		**1,550.1**	1,538.9
		1,639.2	1,700.7
Current assets			
Derivative financial assets		**3.8**	–
Trade and other receivables		**488.4**	469.7
Cash and cash equivalents		**12.1**	15.2
		504.3	484.9
		2,143.5	2,185.6

21 Trade and other receivables

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Current assets				
Net trade receivables	**202.0**	211.7	**194.1**	203.3
Other amounts receivable	**26.1**	31.5	**58.2**	44.8
Prepayments	**14.3**	13.8	**13.9**	13.5
Net accrued income	**198.6**	220.3	**194.3**	216.1
Receivables due from parent company	**52.0**	–	**52.0**	–
Receivables due from group undertakings	**9.7**	6.2	**24.3**	16.1
Receivables due from group undertakings under finance leases	**–**	–	**0.8**	0.6
Receivables due from group undertakings under loan agreements	**–**	–	**3.3**	–
	502.7	483.5	**540.9**	494.4
Non-current assets				
Prepayments	**1.6**	3.0	**1.4**	3.3
Loan receivable from related parties	**–**	93.0	**–**	93.0
Receivables due from group undertakings	**–**	3.3	**–**	3.3
Receivables due from group undertakings under finance leases	**–**	–	**96.5**	97.2
Receivables due from parent company under loan agreements	**52.0**	–	**52.0**	–
Receivables due from group undertakings under loan agreements	**–**	–	**33.1**	60.8
	53.6	99.3	**183.0**	257.6
	556.3	582.8	**723.9**	752.0

The carrying values of trade and other receivables are reasonable approximations of their fair values.

a) Credit risk

i) Trade receivables and accrued income

Severn Trent Water and Hafren Dyfrdwy have statutory obligations to provide water and sewerage services to customers within their regions. Therefore there is no concentration of credit risk with respect to their trade receivables and the credit quality of their customer bases reflect the wealth and prosperity of all of the domestic households within the Severn Trent Water region and the commercial businesses and domestic households within the Hafren Dyfrdwy region.

In the current and prior year, Water Plus, a joint venture between Severn Trent and United Utilities, was the largest retailer for non-domestic 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 the COVID-19 outbreak on unemployment levels and hence 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 (2020: nil).

ii) Loans receivable from related parties

In the prior year, as well as trade receivables from Water Plus the Group and Company advanced loans to its related party. These loans are assessed for impairment under the two stage impairment model in IFRS 9. In the previous year, the Group determined that there had been a significant increase in the credit risk since inception relating to its loans receivable of £97.5 million from Water Plus, in the light of a significant increase in losses incurred by Water Plus. The Group therefore assessed the lifetime expected credit loss of its loans to Water Plus at 31 March 2020 based on Water Plus's financial projections, taking into account the expected impact of COVID-19 in more than one scenario, as this is considered to be reasonable and supportable forward-looking information. During the current year, the loans receivable was novated from the Company to Severn Trent Plcand therefore the impairment provision for expected credit losses recognised in the prior year of £4.9 million was released resulting in a net loan receivable of nil (2020: £93.0 million).

21 Trade and other receivables (continued)

b) Expected credit loss allowance – trade receivables and accrued income

The expected credit loss at 31 March 2021 and 2020 was as set out below. The expected loss rate disclosed is calculated as the expected loss on the total amount originally billed for each age category.

Group

2021	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	£m	£m	£m
Not past due	6	262.1	(14.3)	247.8
Up to 1 year past due	30	81.9	(24.6)	57.3
1 - 2 years past due	44	56.5	(24.9)	31.6
2 - 3 years past due	49	43.2	(21.2)	22.0
3 - 4 years past due	47	32.9	(15.4)	17.5
4 - 5 years past due	49	22.1	(10.8)	11.3
5 - 6 years past due	62	16.2	(10.0)	6.2
6 - 7 years past due	62	10.6	(6.6)	4.0
7 - 8 years past due	61	4.9	(3.0)	1.9
8 - 9 years past due	64	2.8	(1.8)	1.0
More than 9 years past due	100	3.6	(3.6)	–
		536.8	**(136.2)**	**400.6**

2020	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	£m	£m	£m
Not past due	7	318.4	(22.9)	295.5
Up to 1 year past due	33	62.2	(20.3)	41.9
1 – 2 years past due	43	67.4	(28.7)	38.7
2 – 3 years past due	49	41.5	(20.3)	21.2
3 – 4 years past due	50	29.3	(14.6)	14.7
4 – 5 years past due	64	21.7	(13.8)	7.9
5 – 6 years past due	66	15.2	(10.1)	5.1
6 – 7 years past due	48	8.3	(4.0)	4.3
7 – 8 years past due	46	4.1	(1.9)	2.2
8 – 9 years past due	50	1.0	(0.5)	0.5
More than 9 years past due	100	1.1	(1.1)	–
		570.2	(138.2)	432.0

21 Trade and other receivables (continued)

b) Expected credit loss allowance – trade receivables and accrued income (continued)

Company

2021	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	£m	£m	£m
Not past due	5	256.6	(13.8)	242.8
Up to 1 year past due	30	78.3	(23.8)	54.5
1 - 2 years past due	44	54.2	(23.6)	30.6
2 - 3 years past due	49	41.2	(20.2)	21.0
3 - 4 years past due	47	31.0	(14.7)	16.3
4 - 5 years past due	49	21.0	(10.3)	10.7
5 - 6 years past due	62	15.6	(9.7)	5.9
6 - 7 years past due	63	10.0	(6.3)	3.7
7 - 8 years past due	61	4.9	(3.0)	1.9
8 - 9 years past due	64	2.8	(1.8)	1.0
More than 9 years past due	100	3.6	(3.6)	–
		519.2	**(130.8)**	**388.4**

2020	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	£m	£m	£m
Not past due	7	309.3	(22.3)	287.0
Up to 1 year past due	33	58.1	(19.1)	39.0
1 – 2 years past due	42	64.8	(27.5)	37.3
2 – 3 years past due	49	41.2	(20.0)	21.2
3 – 4 years past due	49	29.1	(14.3)	14.8
4 – 5 years past due	63	21.6	(13.6)	8.0
5 – 6 years past due	66	15.1	(10.0)	5.1
6 – 7 years past due	48	8.3	(4.0)	4.3
7 – 8 years past due	46	4.1	(1.9)	2.2
8 – 9 years past due	50	1.0	(0.5)	0.5
More than 9 years past due	100	1.1	(1.1)	–
		553.7	(134.3)	419.4

Movements on the expected credit loss allowance were as follows:

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
At 1 April	**138.2**	119.4	**134.3**	115.2
Charge for bad and doubtful debts	**39.9**	42.4	**37.8**	42.1
Amounts written off during the year	**(41.9)**	(23.6)	**(41.3)**	(23.0)
At 31 March	**136.2**	138.2	**130.8**	134.3

22 Finance lease receivables - Company

Minimum lease payments receivable are as follows:

	2021 £m	2020 £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	**210.2**	215.8
Gross obligations under finance leases	**238.6**	244.2
Less: unearned interest receivable	**(141.4)**	(146.4)
	97.2	97.8

The present value of minimum lease payments receivable are as follows:

	2021 £m	2020 £m
Within 1 year	**0.7**	0.6
1 - 2 years	**0.7**	0.7
2 - 5 years	**2.5**	2.2
After more than 5 years	**93.3**	94.3
Included in non-current liabilities	**96.5**	97.2
	97.2	97.8

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 (2020: 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% (2020: 5.1%).

23 Borrowings

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Current liabilities				
Bank loans	**228.9**	469.5	**228.9**	469.5
Other loans	**249.0**	–	**1.1**	–
Loans due to fellow subsidiary undertakings	**–**	–	**249.9**	–
Lease liabilities	**5.3**	4.4	**5.3**	23.7
Lease liabilities payable to other group companies	**–**	–	**15.5**	3.7
	483.2	473.9	**500.7**	496.9
Non-current liabilities				
Bank loans	**751.9**	750.3	**751.9**	750.3
Other loans	**4,928.4**	4,765.4	**923.0**	924.7
Loans due to parent company	**–**	158.8	**–**	158.8
Loans due to fellow subsidiary undertakings	**–**	–	**4,529.4**	4,340.5
Lease liabilities	**106.5**	111.4	**106.5**	111.4
Lease liabilities payable to other group companies	**–**	–	**438.9**	188.6
	5,786.8	5,785.9	**6,749.7**	6,474.3
	6,270.0	6,259.8	**7,250.4**	6,971.2

See note 33 for details of interest rates payable and maturity of borrowings.

24 Categories of financial liabilities - Group

	Note	2021 £m	2020 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		**0.6**	–
Interest rate swaps - not hedge accounted		**63.9**	78.5
Inflation swaps - not hedge accounted		**32.1**	27.7
		96.6	106.2
Derivatives designated as hedging instruments			
Interest rate swaps - cash flow hedges		**24.9**	43.4
Energy hedges - cash flow hedges		**–**	7.2
		24.9	50.6
Total derivative financial liabilities		**121.5**	156.8
Other financial liabilities			
Borrowings	23	**6,270.0**	6,259.8
Trade payables	25	**41.0**	42.4
Other payables	25	**8.9**	9.1
Amounts due to parent and fellow subsidiary undertakings	25	**5.8**	4.3
Total other financial liabilities		**6,325.7**	6,315.6
Total financial liabilities		**6,447.2**	6,472.4
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		**121.5**	152.3
Borrowings		**5,786.8**	5,785.9
Other payables		**0.2**	1.0
		5,908.5	5,939.2
Current liabilities			
Derivative financial liabilities		–	4.5
Borrowings		**483.2**	473.9
Trade payables		**41.0**	42.4
Other payables		**8.7**	8.1
Amounts due to group undertakings		**5.8**	4.3
		538.7	533.2
		6447.2	6,472.4

25 Trade and other payables

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Current liabilities				
Trade payables	**41.0**	42.4	**40.0**	40.7
Social security and other taxes	**6.7**	6.6	**6.6**	6.5
Other payables	**8.7**	8.1	**34.1**	17.4
Accruals	**457.6**	466.5	**396.6**	411.7
Deferred income	**15.1**	16.2	**14.9**	15.0
Amounts owed to parent and fellow subsidiary undertakings	**5.8**	4.3	**63.2**	56.6
	534.9	544.1	**555.4**	547.9
Non-current liabilities				
Other payables	**0.2**	1.0	**–**	0.7
Accruals	**5.8**	4.7	**5.8**	4.6
Deferred income	**1,244.0**	1,172.1	**1,230.3**	1,161.2
	1,250.0	1,177.7	**1,236.1**	1,166.5
	1,784.9	1,721.8	**1,791.5**	1,714.4

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	Retirement benefit obligations	Fair value of financial instruments	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2019	813.2	(41.2)	(35.9)	(1.2)	734.9
Charge/(credit) to income	29.2	1.2	(1.1)	(1.0)	28.3
Charge/(credit) to income arising from rate change	95.7	(1.5)	(3.9)	(0.2)	90.1
Charge/(credit) to equity	–	46.5	(5.8)	(0.7)	40.0
Credit to equity arising from rate change	–	(2.2)	(0.3)	–	(2.5)
At 1 April 2020	938.1	2.8	(47.0)	(3.1)	890.8
Charge/(credit) to income	20.9	3.8	1.4	–	26.1
Charge/(credit) to equity	–	(30.6)	7.6	(0.4)	(23.4)
At 31 March 2021	**959.0**	**(24.0)**	**(38.0)**	**(3.5)**	**893.5**

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	Retirement benefit obligations	Fair value of financial instruments	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2019	800.7	(44.4)	(35.9)	(4.7)	715.7
Charge/(credit) to income	28.1	1.1	(1.1)	(1.0)	27.1
Charge/(credit) to income arising from rate change	94.2	(1.7)	(3.9)	(0.5)	88.1
Charge/(credit) to equity	–	45.4	(5.8)	(0.7)	38.9
Credit to equity arising from rate change	–	(2.4)	(0.3)	–	(2.7)
At 1 April 2020	923.0	(2.0)	(47.0)	(6.9)	867.1
Charge/(credit) to income	20.2	4.5	1.4	–	26.1
Charge/(credit) to equity	–	(29.8)	7.6	(0.4)	(22.6)
At 31 March 2021	**943.2**	**(27.3)**	**(38.0)**	**(7.3)**	**870.6**

The majority of the Group and Company's deferred tax liability is 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

	2021	2020
	£m	£m
Deferred tax asset	**(65.5)**	(50.1)
Deferred tax liability	**959.0**	940.9
	893.5	890.8

Company

	2021	2020
	£m	£m
Deferred tax asset	**(72.6)**	(55.9)
Deferred tax liability	**943.2**	923.0
	870.6	867.1

In March 2021 the UK Government announced its intention to increase the rate of corporation tax to 25% with effect from 1 April 2023. If this rate had applied at the balance sheet date the Group's deferred tax liability would have been £274.9 million higher and the Company's deferred tax liability would have been £282.2 million higher.

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 and the Severn Trent Mirror Image Pension Scheme closed to future accrual on 31 March 2015, while the Dee Valley Water Limited Section of the Water Companies Pension Scheme, which is a sectionalised scheme, currently remains open to accrual. 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 2019
Severn Trent Mirror Image Pension Scheme (STMIPS)	31 March 2019
Water Companies Pension Scheme – Dee Valley Water Limited Section (DVWS)	31 March 2020

* 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.

ii) Amounts included in the balance sheet arising from the Group's obligations under defined benefit pension schemes

		Group		**Company**
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Fair value of assets	**2,600.4**	2,414.1	**2,768.4**	2,594.2
Present value of the defined benefit obligations	**(2,959.8)**	(2,640.2)	**(2,911.8)**	(2,596.4)
	(359.4)	(226.1)	**(143.4)**	(2.2)
Presented on the balance sheet as:				
Retirement benefit obligation – funded schemes in surplus	**17.1**	21.3	–	–
Retirement benefit obligation – funded schemes in deficit	**(376.5)**	(247.4)	**(143.4)**	(2.2)
Net retirement benefit obligation	**(359.4)**	(226.1)	**(143.4)**	(2.2)

The Schemes' assets were as follows:

		Group		**Company**
	2021	2020	**2021**	2020
STPS, STMIPS, and DVWS	**£m**	£m	**£m**	£m
Fair value of scheme assets				
Equities	**493.3**	275.6	**493.3**	275.6
Corporate bonds	**1,047.5**	925.7	**1,047.5**	925.7
Liability driven investment funds (LDI)	**629.9**	720.4	**597.4**	687.7
Property	**255.1**	261.9	**255.1**	261.9
High-yield bonds	**28.4**	28.2	**–**	–
Contributions due from Scottish Limited Partnerships[1]	**–**	–	**233.1**	245.2
Cash	**146.2**	202.3	**142.0**	198.1
	2,600.4	2,414.1	**2,768.4**	2,594.2

1 The Scottish Limited Partnerships are subsidiaries of Severn Trent Water and therefore any movements are eliminated upon consolidation.

Most of the assets have quoted prices in active markets, but there are equities, corporate bonds and LDI investments which are unquoted amounting to £544.6 million.

Severn Trent Water Limited
Notes to the Group and Company financial statements (continued)
For the year ended 31 March 2021

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:

	2021	2020	**2021**	2020
	£m	£m	£m	£m
Fair value at 1 April	**2,414.1**	2,418.9	**2,594.2**	2,609.8
Interest income on scheme assets	**57.3**	58.2	**55.7**	56.6
Contributions paid by the group/company	**37.7**	45.8	**12.7**	21.0
Contributions from scheme members	**–**	0.1	**–**	–
Return on plan assets (excluding amounts included in finance income)	**212.7**	(0.4)	**211.8**	(0.5)
Scheme administration costs	**(3.9)**	(3.4)	**(3.7)**	(3.2)
Benefits paid	**(117.5)**	(105.1)	**(115.0)**	(101.8)
Unwind of discount on contribution due from SLPs	**–**	–	**12.7**	12.3
Fair value at 31 March	**2,600.4**	2,414.1	**2,768.4**	2,594.2

Movements in the present value of the schemes' defined benefit obligations were as follows:

		Group		**Company**
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Present value at 1 April	**(2,640.2)**	(2,863.2)	**(2,596.4)**	(2,815.2)
Current Service cost	**(0.2)**	(0.2)	**–**	–
Past service cost	**(0.3)**		**(0.3)**	
Interest cost	**(62.5)**	(69.1)	**(61.5)**	(68.0)
Contributions from scheme members	**–**	(0.1)	**–**	–
Actuarial gains/(losses) arising from changes in demographic assumptions	**33.8**	(49.0)	**33.2**	(48.6)
Actuarial (losses)/gains arising from changes in financial assumptions	**(438.9)**	222.1	**(432.7)**	219.6
Actuarial gains arising from experience adjustments	**31.0**	14.2	**30.9**	14.0
Benefits paid	**117.5**	105.1	**115.0**	101.8
Present value at 31 March	**(2,959.8)**	(2,640.2)	**(2,911.8)**	(2,596.4)

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 and therefore the surplus in DVWS has been recognised in full.

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

iii) Amounts recognised in the income statement in respect of these defined benefit schemes

		Group
	2021	2020
	£m	£m
Amounts credited/(charged) to operating costs		
Current service cost	**(0.2)**	(0.2)
Past service cost	**(0.3)**	–
Scheme administration costs	**(3.9)**	(3.4)
	(4.4)	(3.6)
Amounts charged to finance costs		
Interest cost	**(62.5)**	(69.1)
Amounts credited to finance income		
Interest income on scheme assets	**57.3**	58.2
Total amount charged/(credited) to the income statement	**(9.6)**	(14.5)

The actual return on scheme assets was a gain of £270.0 million (2020: gain of £57.8 million).

Actuarial gains and losses have been reported in the statement of comprehensive income.

On 20 November the High Court issued a judgment in relation to the application of gender equality in Guaranteed Minimum Pension rights as far as it relates to historical transfer values paid that may have an impact on the Group's defined benefit pension liabilities. The Group has estimated the cost of equalising these further benefits, and has allowed for this cost within the past service cost item over 2020/21 (£0.3 million).

iv) Actuarial risk factors

The Schemes typically expose the group to actuarial risks such as investment risk, inflation risk and longevity risk.

Investment risk

The Group's contributions to the schemes are based on actuarial calculations which make assumptions about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long-term then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

Each scheme's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made to both the maturity of liabilities and the funding level of that scheme. A number of further strategies are employed to manage underlying risks, including liability-matching asset strategies, diversification of asset portfolios and interest rate hedging.

Currently the schemes have a balanced approach to investment in equity securities, debt instruments and real estate. Due to the long-term nature of the scheme liabilities, we consider it appropriate to invest a portion of the scheme assets in equity securities and in real estate to leverage the return generated by the fund.

Inflation risk

The benefits payable to members of the schemes are linked to inflation measured by the RPI or CPI, subject to caps. The Group's contributions to the schemes are based on assumptions about the future level of inflation. If inflation is higher than the levels assumed in the actuarial calculations then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

The schemes use LDI's within the asset portfolios to hedge against the value of liabilities changing as a result of movements in long-term interest rate and inflation expectations. This structure allows the schemes to both hedge against these risks and retain capital investment in assets that are expected to generate higher returns.

Longevity risk

The Group's contributions to the schemes are based on assumptions about the life expectancy of scheme members after retirement. If scheme members live longer than assumed in the actuarial calculations then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

v) Actuarial assumptions

The major financial assumptions used in the accounting valuation of the obligations for the STPS which represents by far the largest defined benefit obligation for the Group were as follows.

	2021	2020
	% pa	% pa
Price inflation – RPI	**3.2**	2.5
Price inflation – CPI	**2.4**	1.7
Discount rate	**2.0**	2.4
Pension increases in payment	**3.2**	2.5
Pension increases in deferment	**3.2**	2.5

The assumption for RPI price inflation is derived from the difference between the yields on longer-term fixed rate gilts and on index-linked gilts.

In setting our discount rate, we construct a yield curve. Short dated yields are taken from market rates for AA corporate bonds. Long-dated yields for the curve are based on the average yield available on all long-dated AA corporate bonds. We project the expected cash flows of the schemes and adopt a single equivalent cash flow weighted discount rate taking account of the constructed yield curve.

The mortality assumptions are based on those used in the latest triennial funding valuations. The mortality assumptions adopted at the year end for accounting purposes and the life expectancies at age 65 implied by the assumptions are as follows for the STPS:

	2021		2020	
	Men	**Women**	Men	Women
Mortality table used	**S3PMA_L**	**S3PFA_M**	S3PMA_L	S3PFA_M
Mortality table compared with standard table	**112%**	**95%**	112%	95%
Mortality projections	**CMI 2020**	**CMI 2020**	CMI 2019	CMI 2019
Long-term rate of future improvement per annum	**1.0%**	**1.0%**	1.0%	1.0%
Weighting factor given to data for 2020	**20%**	**20%**	n/a	n/a
Remaining life expectancy for members currently aged 65 (years)	**21.8**	**23.6**	22.2	23.9
Remaining life expectancy at age 65 for members currently aged 45 (years)	**22.7**	**24.8**	23.1	25.1

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 £48/£50 million
Price inflation[2]	Increase/decreased by 0.1% pa	Increase/decrease by £42/£41 million
Mortality[3]	Increase in life expectancy by 1 year	Increase by £125 million

1 A change in discount rate is likely to occur as a result of changes in bond yield and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the Schemes.
2 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant pension increases.
3 The change in assumption is based on triennial valuations and reflect the fact that life expectancy rates are expected to increase.

In reality, interrelationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these interrelationships. Also, in practice any movement in obligations arising from assumption changes are likely to be accompanied by movements in asset values – and so the impact on the accounting deficit may be lower than the impact on the obligations shown above.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(vi) Effect on future cash flows

Contribution rates are set in consultation with the Trustees for each Scheme and each participating employer.

The average duration of the benefit obligation at the end of the year is 17 years for STPS and STMIPS (2020: 16 years) and 15 years for DVWS (2020: 14 years).

The most recent completed formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2019 for the STPS and STMIPS schemes and 31 March 2020 for DVWS. As a result of the STPS and STMIPS actuarial valuations, deficit reduction contributions of £32.4 million increasing in line with CPI inflation until 31 March 2027, were agreed for the STPS. During the financial year ending 31 March 2021, £12.7 million of these payments were made. With the approval of the scheme Trustee, the remaining scheduled contributions in respect of the financial year ending 31 March 2021 have been paid in April 2021.

Payments of £8.2 million per annum through an asset backed funding arrangement will 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.

b) Defined contribution pension schemes

The Group also operates the Severn Trent Group Personal Pension, a defined contribution scheme, for certain of its UK employees.

The total cost charged to operating costs of £25.2 million (2020: £24.4 million) for the Group and £25.0 million (2020: £24.2 million) for the Company represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme. As at 31 March 2021, no contributions (2020: nil) in respect of the current reporting period were owed to the schemes.

Hafren Dyfrdwy operates two defined contribution pension schemes, neither of which were material in either the current or prior year.

28 Provisions – Group and Company

Group

	Insurance £m	Other £m	Total £m
At 1 April 2020	13.5	11.4	24.9
Charged to income statement	6.1	3.6	9.7
Other net additions	–	12.5	12.5
Utilisation of provision	(4.9)	(4.7)	(9.6)
Unwinding of discount	–	0.1	0.1
At 31 March 2021	**14.7**	**22.9**	**37.6**

	2021 £m	2020 £m
Included in		
Current liabilities	**23.9**	10.6
Non-current liabilities	**13.7**	14.3
	37.6	24.9

28 Provisions – Group and Company (continued)

Other net additions to provisions comprise mainly provisions for capital works.

The insurance provision relates to self-insurance. 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 and commercial disputes. The associated outflows are estimated to arise over a period up to 10 years from the balance sheet date.

Company

	Insurance £m	Other £m	Total £m
At 1 April 2020	13.5	11.4	24.9
Charged to income statement	6.3	2.4	8.7
Other net additions	–	7.8	7.8
Utilisation of provision	(5.1)	(4.5)	(9.6)
Unwinding of discount	–	0.1	0.1
At 31 March 2021	**14.7**	**17.2**	**31.9**

	2021 £m	2020 £m
Included in		
Current liabilities	**22.5**	10.6
Non-current liabilities	**9.4**	14.3
	31.9	24.9

29 Share capital

	2021 £m	2020 £m
Total issued and fully paid share capital		
1,000,100,000 ordinary shares of 0.1p (2020: 1,000,100,000)	**1.0**	1.0

30 Hedging reserve – Group and Company

	Hedging reserve £m
At 1 April 2019	(79.5)
Total comprehensive income for the year	(24.8)
At 1 April 2020	(104.3)
Total comprehensive income for the year	32.7
At 31 March 2021	**(71.6)**

The hedging reserve arises from gains or losses on interest rate swaps and energy swaps taken directly to equity under the hedge accounting provisions of IFRS 9 and the transition rules of IFRS 1.

31 Capital management – Group

The Group’s principal objectives in managing capital are:

- to maintain a flexible and sustainable balance sheet structure;
- to maintain an investment-grade credit rating;
- to access a broad range of sources of finance to obtain both the quantum required and lowest cost compatible with the need for continued availability;
- to manage exposure to movements in interest rates to provide an appropriate degree of certainty as to its cost of funds;
- to minimise exposure to counterparty credit risk; and
- to provide the Group with an appropriate degree of certainty as to its foreign exchange exposure.

The Group seeks to achieve a balance of long-term funding or commitment of funds across a range of funding sources at the best possible economic cost. The Group monitors future funding requirements and credit market conditions to ensure continued availability of funds.

The Group's dividend policy is to declare dividends which are consistent with the Group's regulatory obligations and at a level which is decided each year after consideration of a number of factors, including regulatory uncertainty, future cash flow requirements and balance sheet considerations. The amount declared is expected to vary each year as the impact of these factors changes.

The Group's capital at 31 March was:

	2021 £m	2020 £m
Cash and cash equivalents	**12.1**	15.2
Bank loans	**(980.8)**	(1,219.8)
Other loans	**(5,177.4)**	(4,765.4)
Loans due from/(to) parent company	**52.0**	(158.8)
Lease liabilities	**(111.8)**	(115.8)
Cross currency swaps	**31.9**	60.4
Loans due from related party	**–**	93.0
Net debt	**(6,174.0)**	(6,091.2)
Equity attributable to owners of the Company	**(2,707.5)**	(2,622.2)
Total capital	**(8,881.5)**	(8,713.4)

32 Fair values of financial instruments – Group

a) Fair value measurements

The valuation techniques that the Group applies in determining the fair values of its financial instruments on a recurring basis are described below. The techniques are classified under the hierarchy defined in IFRS 13 which categorises valuation techniques into Levels 1 - 3 based on the degree to which the fair value is observable. The Group's valuation techniques are Level 2 unless otherwise stated below:

	2021 £m	2020 £m	**Valuation techniques and key inputs**
Cross currency swaps			Discounted cash flow
Assets	**32.5**	60.4	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Liabilities	**(0.6)**	–	
Interest rate swaps			Discounted cash flow
Assets	–	4.9	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(88.8)**	(121.9)	
Energy swaps			Discounted cash flow
Assets	**8.4**	0.2	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.
Liabilities	–	(7.2)	
Inflation swap			Discounted cash flow
Liabilities	**(32.1)**	(27.7)	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	**1,550.1**	1,538.9	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.

32 Fair values of financial instruments – Group (continued)

a) Fair value measurements (continued)

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 2019	(6.2)	1,510.8
(Losses)/gains recognised in profit or loss	(21.5)	28.1
At 31 March 2020	(27.7)	1,538.9
(Losses)/gains recognised in profit or loss	(4.4)	11.2
At 31 March 2021	**(32.1)**	**1,550.1**

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 £7.0 million.

b) Comparison of fair value of financial instruments with their carrying amounts

The Directors consider that the carrying amounts of all financial instruments, except those disclosed in the table below, approximate to their fair values. The carrying values and estimated fair values of other financial instruments are set out below:

	31 March 2021		31 March 2020	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**858.4**	**860.0**	949.0	947.1
Other loans	**183.0**	**190.8**	187.2	180.9
Loan from parent company	**–**	**–**	158.8	158.8
	1,041.4	**1,050.8**	1,295.0	1,286.8
Fixed rate debt				
Bank loans	**–**	**–**	150.0	150.0
Other loans	**3,552.0**	**4,016.5**	3,272.6	3,634.1
Lease liabilities	**111.8**	**124.6**	115.8	122.6
	3,663.8	**4,141.1**	3,538.4	3,906.7
Index-linked debt				
Bank loans	**122.3**	**146.2**	120.8	138.0
Other loans	**1,442.5**	**2,396.7**	1,307.6	1,816.5
	1,564.8	**2,542.9**	1,428.4	1,954.5
	6,270.0	**7,734.8**	6,261.8	7,148.0

The above classification does not take into account the impact of unhedged interest rate swaps or cross currency swaps.

Fixed rate sterling and currency bonds are valued using market prices for similar instruments, which is a Level 2 valuation technique.

Index-linked bonds are rarely traded and therefore quoted prices are not considered to be a reliable indicator of fair value. Therefore, these bonds are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds, which is a Level 2 valuation technique.

Fair values of the other debt instruments are also calculated using discounted cash flow models with discount rates derived from observed market prices, which is a Level 2 valuation technique.

33 Risks arising from financial instruments – Group

The Group's activities expose it to a variety of financial risks:

- market risk (including interest rate risk exchange rate risk and other price risk);
- credit risk;
- liquidity risk; and
- inflation risk.

The Group's overall risk management programme addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance or position.

Financial risks are managed by a central treasury department ("Group Treasury") under policies approved by the Board of Directors. The Board has established a Treasury Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary. Group Treasury operates under the Group's Treasury Procedures Manual and Policy Statement and identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board defines written principles for overall risk management, as well as written policies covering specific areas such as exchange rate risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments. The Group's policy is that derivative financial instruments are not held for trading but may be used to mitigate the Group's exposure to financial risk. The types of derivative instruments held and the related risks are described below.

Interest rate swaps are held to mitigate the Group's exposure to changes in market interest rates. Further details are set out in sections a) (i) and note 34 below.

Cross currency swaps are held to mitigate the Group's exposure to exchange rate movements on amounts borrowed in foreign currencies. Further details are set out in section a) (ii) below.

Energy swaps are held to mitigate the Group's exposure to changes in electricity prices. Further details are provided in note 34 below.

Severn Trent Water and Hafren Dyfrdwy operate 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 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:

	2021 **£m**	2020 £m
Net debt (note 36)	**6,174.0**	6,091.2
Cash and cash equivalents	**12.1**	15.2
Loan due from parent company	**52.0**	–
Loans due from related party	**–**	93.0
Cross currency swaps included in net debt at fair value	**31.9**	60.4
Fair value hedge accounting adjustments	**(23.9)**	(29.3)
Exchange on currency debt not hedge accounted	**(8.4)**	(23.1)
Interest-bearing financial liabilities	**6,237.7**	6,207.4

The Group manages its cash flow interest rate risk by borrowing at fixed or index-linked rates and by using interest rate swaps. Under these swaps the Group receives floating rate interest and pays fixed rate interest calculated by reference to the agreed notional principal amounts. In practice the swaps are settled by transferring the net amount. These swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group has entered into a series of these interest rate swaps to hedge future interest payments to beyond 2030.

33 Risks arising from financial instruments – Group (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

The following tables show analyses of the Group's interest-bearing financial liabilities by type of interest. Debt which is hedged by interest rate swaps is included in the category after taking account of the impact of the swap. Debt raised in foreign currencies has been included at the notional sterling value of the payable leg of the corresponding cross currency swap since this is the amount that is exposed to changes in interest rates.

Valuation adjustments that do not impact the amount on which interest is calculated, such as fair value hedge accounting adjustments, are excluded from this analysis.

The net principal amount of swaps is shown as an adjustment to floating rate and fixed rate debt to demonstrate the impact of the Group's interest rate swaps on the amount of liabilities bearing fixed interest.

2021	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Bank loans	(858.4)	–	(122.3)	**(980.7)**
Other loans	(183.0)	(3,519.7)	(1,442.5)	**(5,145.2)**
Lease liabilities	–	(111.8)	–	**(111.8)**
	(1,041.4)	**(3,631.5)**	**(1,564.8)**	**(6,237.7)**
Impact of swaps not matched against specific debt instruments	524.6	(524.6)	–	–
Interest-bearing financial liabilities	**(516.8)**	**(4,156.1)**	**(1,564.8)**	**(6,237.7)**
Proportion of interest-bearing financial liabilities that are fixed		**67%**		
Weighted average interest rate of fixed rate debt		**3.91%**		
Weighted average period for which interest is fixed (years)		**8.9**		

2020	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Bank loans	(949.0)	(150.0)	(120.8)	**(1,219.8)**
Other loans	(187.2)	(3,220.2)	(1,305.6)	**(4,713.0)**
Loans due to parent company	(158.8)	–	–	**(158.8)**
Lease liabilities	–	(115.8)	–	**(115.8)**
	(1,295.0)	**(3,486.0)**	**(1,426.4)**	**(6,207.4)**
Impact of swaps not matched against specific debt instruments	126.6	(126.6)	–	**–**
Interest-bearing financial liabilities	**(1,168.4)**	**(3,612.6)**	**(1,426.4)**	**(6,207.4)**
Proportion of interest-bearing financial liabilities that are fixed		**58%**		
Weighted average interest rate of fixed rate debt		**4.19%**		
Weighted average period for which interest is fixed (years)		**7.8**		

33 Risks arising from financial instruments – Group (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

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 £17.0 million (2020: charge of £7.0 million) in the income statement.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2021	2020	**2021**	2020	**2021**	2020
		%	**£m**	£m	**£m**	£m
Pay fixed rate interest						
2-5 years	**5.10**	5.10	**(200.0)**	(200.0)	**(33.3)**	(41.4)
5-10 years	**5.52**	–	**(35.0)**	–	**(13.9)**	–
10-20 years	**5.41**	5.46	**(40.0)**	(75.0)	**(16.8)**	(37.1)
	5.20	5.20	**(275.0)**	(275.0)	**(64.0)**	(78.5)
Receive fixed rate interest						
10-20 years	–	2.75	–	50.0	–	4.9
			(275.0)	(225.0)	**(64.0)**	(73.6)

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:

	2021		2020	
	1.0%	**-1.0%**	1.0%	-1.0%
	£m	**£m**	£m	£m
Profit or loss	**9.4**	**(10.6)**	6.2	(7.0)
Cash flow	**(6.9)**	**6.9**	(7.8)	7.8
Equity	**9.4**	**(10.6)**	6.2	(7.0)

(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 (2020: 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 LIBOR.

Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges, hence the swaps have been accounted for as fair value hedges. The notional value and fair value of these swaps is shown in note 32 a).

The Group also has cross currency swaps with a notional sterling value of £98.3 million (2020: £98.3 million) which are not accounted for as fair value hedges. Economically these swaps act to mitigate the exchange rate risk of debt within the Group which is denominated in foreign currency and also swap the interest from fixed to floating, but they are not designated hedges under IFRS 9. This has led to a debit of £19.7 million (2020: credit of £18.6 million) in the income statement, which is partly offset by the exchange gain of £12.3 million (2020: loss of £5.6 million) on the underlying debt.

The Group's gross and net currency exposures arising from currency borrowings are summarised in the tables below. These show, in the relevant currency, the amount borrowed and the notional principal of the related swap or forward contract. The net position shows the Group's exposure to exchange rate risk in relation to its currency borrowings.

33 Risks arising from financial instruments – Group (continued)

a) Market risk (continued)

(ii) Exchange rate risk (continued)

2021	Euro €m	US Dollar $m	Yen ¥bn
Borrowings by currency	**(19.9)**	**(180.0)**	**(2.0)**
Cross currency swaps - hedge accounted	**19.9**	**30.0**	**2.0**
Cross currency swaps - not hedge accounted	**–**	**150.0**	**–**
Net currency exposure	**–**	**–**	**–**

2020	Euro €m	US Dollar $m	Yen ¥bn
Borrowings by currency	(19.9)	(180.0)	(2.0)
Cross currency swaps - hedge accounted	19.9	30.0	2.0
Cross currency swaps - not hedge accounted	–	150.0	–
Net currency exposure	–	–	–

b) Credit risk

Operationally the Group has no significant concentrations of credit risk. Amounts provided against accounts receivable and movements on the provision during the year are disclosed in note 20.

Cash deposits and derivative contracts are only placed with high credit quality financial institutions, which have been approved by the Board. Group Treasury monitors the credit quality of the approved financial institutions and the list of financial institutions that may be used is approved annually by the Board. The Group has policies that limit the amount of credit exposure to any one financial institution.

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	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Double A range	–	15.0	–	–
Single A range	**890.5**	800.0	–	7.0
Below single A range	**10.0**	–	–	–
	900.5	815.0	–	7.0

The fair values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
	2021 £m	2020 £m
Double A range	**–**	4.9
Single A range	**40.9**	60.6
	40.9	65.5

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.

33 Risks arising from financial instruments – Group (continued)

c) Liquidity risk (continued)

i) Committed facilities (continued)

At the balance sheet date the Group had committed undrawn borrowing facilities expiring as follows:

	2021	2020
	£m	£m
Within 1 year	**55.8**	–
1 - 2 years	**689.2**	–
2 - 5 years	**–**	660.0
	745.0	660.0

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.

2021 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	(233.9)	(388.8)	(26.9)	(49.7)	(699.3)
1 - 2 years	(7.3)	(385.1)	(27.6)	(0.2)	(420.2)
2 - 5 years	(647.9)	(1,177.6)	(129.8)	–	(1,955.3)
5 - 10 years	(158.8)	(1,337.6)	(187.0)	–	(1,683.4)
10 - 15 years	–	(710.0)	(221.1)	–	(931.1)
15 - 20 years	–	(567.8)	(153.8)	–	(721.6)
20 - 25 years	–	(367.1)	(181.0)	–	(548.1)
25 - 30 years	–	–	(210.8)	–	(210.8)
30 - 35 years	–	–	(918.8)	–	(918.8)
35 - 40 years	–	–	(2,950.8)	–	(2,950.8)
40 - 45 years	–	–	(20.2)	–	(20.2)
45 - 50 years	–	–	(257.8)	–	(257.8)
Total	**(1,047.9)**	**(4,934.0)**	**(5,285.6)**	**(49.9)**	**(11,317.4)**

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	426.7	12.1	9.7	448.5
1-2 years	–	–	52.0	52.0
Total	**426.7**	**12.1**	**61.7**	**500.5**

2020 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	(328.9)	(282.5)	(26.4)	(50.5)	(688.3)
1 - 2 years	(7.9)	(377.5)	(27.1)	(1.0)	(413.5)
2 - 5 years	(650.5)	(902.8)	(129.5)	–	(1,682.8)
5 - 10 years	(109.9)	(1,881.9)	(510.3)	–	(2,502.1)
10 - 15 years	(49.0)	(709.2)	(213.0)	–	(971.2)
15 - 20 years	–	(241.9)	(146.5)	–	(388.4)
20 - 25 years	–	(384.1)	(177.4)	–	(561.5)
25 - 30 years	–	–	(210.6)	–	(210.6)
30 - 35 years	–	–	(642.8)	–	(642.8)
35 - 40 years	–	–	(3,181.2)	–	(3,181.2)
40 - 45 years	–	–	(21.6)	–	(21.6)
45 - 50 years	–	–	(280.3)	–	(280.3)
Total	(1,146.2)	(4,779.9)	(5,566.7)	(51.5)	(11,544.3)

33 Risks arising from financial instruments – Group (continued)

c) Liquidity risk (continued)

ii) Cash flows from non-derivative financial instruments (continued)

Undiscounted amounts receivable:	Loans due from related parties	Trade receivables	Cash and short term deposits	Amounts due from group undertakings	Receipts from financial assets
	£m	£m	£m	£m	£m
Within 1 year	465.1	9.3	2.9	15.2	492.5
1-2 years	–	–	99.4	–	99.4
Total	465.1	9.3	102.3	15.2	591.9

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. 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.

	Derivative liabilities		**Derivative assets**			
				Cross currency swaps		
2021	**Interest rate swaps**	**Inflation swaps**	**Energy swaps**	**Cash receipts**	**Cash payments**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Within 1 year	(19.9)	0.1	7.7	6.0	(2.2)	(8.3)
1 - 2 years	(18.3)	0.1	3.9	6.0	(2.6)	(10.9)
2 - 5 years	(33.8)	0.6	0.5	35.5	(21.0)	(18.2)
5 - 10 years	(19.8)	(5.2)	–	147.8	(135.1)	(12.3)
10 - 15 years	(0.8)	2.0	–	–	–	1.2
15 - 20 years	–	(37.3)	–	–	–	(37.3)
	(92.6)	**(39.7)**	**12.1**	**195.3**	**(160.9)**	**(85.8)**

	Derivative liabilities			Derivative assets				
						Cross currency swaps		
2020	Interest rate swaps	Inflation swaps	Energy swaps	Interest rate swaps	Energy swaps	Cash receipts	Cash payments	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Within 1 year	(15.5)	–	(2.8)	0.3	–	6.6	(2.8)	(14.2)
1 - 2 years	(18.7)	0.1	(2.6)	0.5	–	6.6	(2.6)	(16.7)
2 - 5 years	(50.7)	0.6	(1.9)	1.5	0.2	19.9	(8.1)	(38.5)
5 - 10 Years	(38.3)	(2.8)	–	2.1	–	196.0	(148.6)	8.4
10 - 15 Years	(5.7)	2.3	–	0.8	–	–	–	(2.6)
15 – 20 years	–	(28.7)	–	–	–	–	–	(28.7)
	(128.9)	(28.5)	(7.3)	5.2	0.2	229.1	(162.1)	(92.3)

33 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 (for the period to 31 March 2021 as measured by CPIH). Its operating profits and cash flows are therefore exposed to changes in inflation. In order to mitigate and partially offset this risk, Severn Trent Water Limited has raised debt which pays interest at a fixed coupon based on a principal amount that is adjusted for the change in inflation during the life of the debt instrument (index-linked debt). The amount of index-linked debt at the balance sheet date is shown in section a) (i) interest rate risk, and the estimated future cash flows relating to this debt are shown in section c) (ii) cash flows from non-derivative financial instruments.

Ofwat is moving the measure of inflation used in the economic regulatory model from RPI to CPIH over a period of time. In anticipation of this the Group has entered into CPI/RPI swaps with a notional value of £350 million (2020: £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.

	2021		2020	
	+1.0%	**-1.0%**	+1.0%	-1.0%
	£m	**£m**	£m	£m
Profit or loss	**(12.7)**	**12.7**	(11.6)	11.6
Equity	**(12.7)**	**12.7**	(11.6)	11.6

34 Hedge accounting – Group

The Group uses derivative financial instruments to hedge exposures to changes in exchange rates and interest rates. Hedge accounting is adopted for such instruments where the criteria set out in IFRS 9 are met. Hedge ineffectiveness arises from credit risk, which is not hedged.

a) Fair value hedges

(i) Cross currency swaps

The Group raises debt denominated in currencies other than sterling. Cross currency swaps are entered into at the time that the debt is drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR 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**	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Euro	**11.4**	11.4	**9.1**	10.1
US dollar	**23.2**	23.2	**7.4**	3.4
Yen	**8.5**	8.5	**(0.6)**	10.2
	43.1	43.1	**15.9**	23.7

b) Cash flow hedges

(i) **Interest rate swaps**

The Group has entered into interest rate swaps under which it has agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. Where the hedge is expected to be highly effective these interest rate swaps are accounted for as cash flow hedges.

34 Hedge accounting – Group (continued)

b) Cash flow hedges (continued)

(i) Interest rate swaps (continued)

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	
	2021	2020	**2021**	2020	**2021**	2020
Period to maturity	**%**	%	**£m**	£m	**£m**	£m
5-10 years	**1.73**	1.73	**100.0**	100.0	**(5.7)**	(8.4)
10-20 years	**1.83**	1.83	**248.0**	298.0	**(19.2)**	(35.0)
	1.80	1.80	**348.0**	398.0	**(24.9)**	(43.4)

The Group recognised a loss on hedge ineffectiveness of £1.9 million (2020: gain of £2.5 million) in gains 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 to March 2025.

Details of energy swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract price		Notional contracted amount		Fair value	
	2021	2020	**2021**	2020	**2021**	2020
Period to maturity	**£/MWh**	£/MWh	**MWh**	MWh	**£m**	£m
Less than 1 year	**43.2**	44.7	**306,360**	372,240	**3.8**	(4.4)
1-2 years	**38.6**	43.1	**175,680**	372,240	**2.0**	(1.6)
2-5 years	**48.3**	44.6	**284,040**	459,720	**2.6**	(1.0)
	44.0	44.2	**766,080**	1,204,200	**8.4**	(7.0)

At the year end the cumulative fair value adjustments arising from the corresponding continuing hedge relationships were as follows:

2021

	Carrying amount of hedged items		Cumulative amount of fair value adjustments on the hedged items	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	£m	**£m**	**£m**	**£m**
Cross currency swaps	–	(58.7)	–	(15.3)
Interest rate swaps	–	(347.5)	–	–
	–	**(406.2)**	**–**	**(15.3)**

34 Hedge accounting – Group (continued)

b) Cash flow hedges (continued)

(ii) Energy swaps (continued)

2020

	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	–	(65.4)	–	(19.5)
Interest rate swaps	–	(147.7)	–	–
	–	(213.1)	–	(19.5)

£58.7 million (2020: £65.4 million) of the carrying amount of hedged items and £15.3 million (2020: £19.5 million) of the cumulative amount of fair value adjustments on the hedged items relates to fair value hedges. The remainder relates to cash flow hedges.

c) Amendments to IFRS 9 – Group and Company

From 1 April 2019, the Group early adopted the amendments to IFRS 7 and IFRS 9 introduced to provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the planned replacement of benchmark interest rates such as LIBOR.

The Group is exposed to GBP LIBOR, which is subject to interest rate benchmark reform within its hedge accounting relationships. The hedged items include issued sterling, Euro and Yen denominated fixed rate debt and issued sterling denominated floating rate debt.

As well as the benchmark interest rate exposures described in note 33, the Group has derivative financial instruments that are not included in hedge accounting relationships. Given hedge accounting is not applied, there is no accounting relief. The fair value of these financial assets and liabilities reflects the uncertainties arising from the interest rate benchmark reforms.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA) to the Sterling Overnight Index Average Rate (SONIA). On 5 March 2021, the FCA announced that all panel bank LIBOR settings will cease at the end of 2021.

In response to the announcements, the Group has established a LIBOR transition group within Group Treasury with an objective of identifying and assessing LIBOR exposures within the business and developing and delivering an action plan to enable a smooth transition to alternative risk-free rates ahead of 31 December 2021.

The Group has commenced transitioning its floating rate debt. In April 2021 Severn Trent Water refinanced its committed bank facilities, agreeing a £1 billion Revolving Credit Facility which uses SONIA as its reference rate. The Group is in dialogue with our other lenders, comprising bank lenders and USPP noteholders to agree amendments to the fall-back provisions to move from GBP LIBOR to SONIA.

For the Group's derivatives, the Group plans to transition its swap book ahead of 31 December 2021 through adoption of the International Swaps and Derivatives Association (ISDA) IBOR Fall Back protocol, or through bilateral agreement of the transition of individual swaps with its counterparties.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9/IAS 39 amendments due to interest rate benchmark reform, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

34 Hedge accounting – Group (continued)

c) Amendments to IFRS 9 – Group and Company (continued)

Below are the details of the cash flow hedging instruments and hedged items:

Instrument type	Instrument details	Maturing in	Nominal £m	Hedged item
Interest rate swaps	Pay sterling fixed, receive 6m GBP LIBOR	2027	50.0	6m GBP LIBOR debt with same nominal as the swap.
	Pay sterling fixed, receive 6m GBP LIBOR	2028	50.0	
	Pay sterling fixed, receive 6m GBP LIBOR	2031	48.0	
	Pay sterling fixed, receive 6m GBP LIBOR	2030	50.0	
	Pay sterling fixed, receive 6m GBP LIBOR	2030	150.0	

Below are the details of the fair value hedging instruments and hedged items:

Instrument type	Instrument details	Maturing in	Nominal	Hedged item
Cross currency swaps	Receive JPY fixed, pay 6m GBP LIBOR	2029	¥2bn	Fixed JPY debt with same maturity and nominal of the swap
	Receive EUR fixed, pay 6m GBP LIBOR	2025	€19.9m	Fixed EUR debt with same maturity and nominal of the swap

The Group and Company will continue to apply the amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group and Company is exposed ends. The Group and Company has assumed that this uncertainty will not end until the Group and Company's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fall back clauses which have yet to be added to the Group and Company's contracts and the negotiation with lenders and bondholders.

35 Share based payment – Group

The Group operates a number of share based remuneration schemes for employees. During the year, the Group recognised total expenses of £7.5 million (2020: £7.8 million) related to equity settled share based payment transactions.

The weighted average share price of Severn Trent Plc during the period was £23.86 (2020: £22.07).

At 31 March 2021, there were no options exercisable (2020: 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 2017, 2018, 2019 and 2020 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% (2020: 100%).

35 Share based payment – Group (continued)

a) Long Term Incentive Plans ('LTIPs') (continued)

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards
Opening at 1 April 2019	621,969
Granted during the year	279,356
Vested during the year	(172,089)
Lapsed during the year	(13,634)
Outstanding at 1 April 2020	715,602
Granted during the year	216,579
Vested during the year	(171,326)
Lapsed during the year	(76,633)
Outstanding at 31 March 2021	**684,222**

Details of LTIP awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	**Normal Date of Vesting**	**2021**	2020
July 2017	2020	**–**	181,070
July 2018	2021	**237,003**	266,179
July 2019	2022	**235,314**	268,353
July 2020	2023	**211,905**	–
		684,222	715,602

The awards outstanding at 31 March 2021 had a weighted average remaining contractual life of 1.3 years (2020: 1.4 years).

Details of the basis of the LTIP scheme are set out in the Directors' remuneration report on pages [ ] and [ ].

b) Employee Sharesave Scheme

Under the terms of the Sharesave Scheme, the Board may grant the right to purchase ordinary shares in Severn Trent Plc to those employees who have entered into an HMRC approved Save As You Earn contract for a period of three or five years.

35 Share based payment – Group (continued)

b) Employee Sharesave Scheme (continued)

Options outstanding

Details of changes in the number of options outstanding during the year are set out below:

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2019	3,614,433	1,585p
Granted during the year	1,006,030	1,787p
Forfeited during the year	(42,926)	1,580p
Cancelled during the year	(145,848)	1,565p
Exercised during the year	(589,825)	1,625p
Lapsed during the year	(9,074)	1,623p
Outstanding at 1 April 2020	3,832,790	1,632p
Granted during the year	1,003,531	1,860p
Forfeited during the year	(55,412)	1,604p
Cancelled during the year	(111,102)	1,688p
Exercised during the year	(712,453)	1,640p
Lapsed during the year	(2,848)	1,652p
Outstanding at 31 March 2021	**3,954,506**	**1,687p**

Sharesave options outstanding at 31 March were as follows:

			Number of awards	
Date of grant	Normal date of exercise	Option price	2021	2020
January 2015	2020	1,584p	**–**	212,666
January 2016	2021	1,724p	**105,205**	110,747
January 2017	2020 or 2022	1,633p	**126,908**	607,594
January 2018	2021 or 2023	1,652p	**686,875**	718,329
January 2019	2022 or 2024	1,474p	**1,115,372**	1,181,927
January 2020	2023 or 2025	1,787p	**924,428**	1,001,527
January 2021	2024 or 2026	1,860p	**995,718**	–
			3,954,506	3,832,790

The awards outstanding at 31 March 2021 had a weighted average remaining contractual life of 2.0 years (2020: 2.0 years).

35 Share based payment – Group (continued)

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:

	2021			2020		
	LTIP	**SAYE**		LTIP	SAYE	
		3 year scheme	**5.00**		3 year scheme	5.00
Share price at grant date (pence)	**2,460**	**2,336**	**2,336**	2,026	2,515	2,515
Option life (years)	**3**	**3.5**	**5.5**	3	3.5	5.5
Vesting period (years)	**3**	**3**	**5**	3	3	5
Expected volatility (%)	**18.2**	**18.2**	**18.2**	18	18.2	18.2
Expected dividend yield (%)	**4.2**	**4.3**	**4.3**	5	5.0	5.0
Risk free rate (%)	**n/a**	**(0.1)**	**(0.1)**	n/a	0.5	0.6
Fair value per share (pence)	**2,443**	**342**	**302**	2,007	489	416

Expected volatility is measured over the three years prior to the date of grant of the awards or share options. Volatility has been calculated based on historical share price movements.

The risk-free rate is derived from yields at the grant date of gilts of similar duration to the awards or share options.

The dividend yield is calculated using the expected dividend for the year divided by the share price at the date of grant.

36 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2021 £m	2020 £m
Profit before interest and tax	**457.9**	546.7
Depreciation and impairment of property, plant and equipment	**331.7**	318.1
Depreciation of right-of-use assets	**2.0**	5.0
Amortisation of intangible assets	**31.3**	29.7
Pension service cost	**0.5**	0.2
Defined benefit pension scheme administration costs	**3.9**	3.4
Defined benefit pension scheme contributions	**(37.7)**	(45.8)
Share based payments charge	**7.5**	7.8
Profit on sale of property, plant and equipment and intangible assets	**(3.2)**	(3.3)
Release of deferred credits	**(15.5)**	(15.4)
Contributions and grants received	**41.4**	39.6
Provisions charged to the income statement	**9.7**	5.5
Utilisation of provisions for liabilities and charges	**(9.6)**	(4.9)
Operating cash flows before movements in working capital	**819.9**	886.6
Decrease/(increase) in inventory	**1.3**	(0.5)
Increase in amounts receivable	**(13.5)**	(6.4)
Increase in amounts payable	**27.9**	36.5
Cash generated from operations	**835.6**	916.2
Tax paid	**(26.9)**	(28.2)
Net cash generated from operating activities	**808.7**	888.0

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 17)
- Shares issued to employees for no cash consideration under the LTIP (note 35)

c) Exceptional cash flows

There were no cash flows from items classified as exceptional in the income statement (2020: nil).

d) Reconciliation of movement in cash and cash equivalents to movement in net debt

Group

	At 1 April 2020 £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 2021 £m
Net cash and cash equivalents	15.2	(3.1)	–	–	–	–	**12.1**
Loans due (to)/from parent company	(158.8)	210.8	–	–	–	–	**52.0**
Bank loans	(1,219.8)	241.3	–	(0.9)	–	(1.4)	**(980.8)**
Other loans	(4,765.4)	(416.5)	5.4	(16.7)	14.8	1.0	**(5,177.4)**
Leases	(115.8)	4.6	–	–	–	(0.6)	**(111.8)**
Cross currency swaps	60.4	–	(28.5)	–	–	–	**31.9**
Loans due from joint related party	93.0	(98.0)	–	–	–	5.0	**–**
Net debt	**(6,091.2)**	**(60.9)**	**(23.1)**	**(17.6)**	**14.8**	**4.0**	**(6,174.0)**

Liabilities from financing activities comprise loans due to parent company, bank loans, other loans and leases.

36 Cash flow statement (continued)

e) Liabilities from financing activities

	Bank loans £m	Other loans £m	Lease liabilities £m	**Total £m**
At 1 April 2020	(1,219.8)	(4,765.4)	(115.8)	**(6,101.0)**
Cash flow	241.3	(416.5)	4.6	**(170.6)**
Fair value adjustments	–	5.4	–	**5.4**
Inflation adjustment on index-linked debt	(0.9)	(16.7)	–	**(17.6)**
Foreign exchange	–	14.8	–	**14.8**
Other non-cash movements	(1.4)	1.0	(0.6)	**(1.0)**
	(980.8)	**(5,177.4)**	**(111.8)**	**(6,270.0)**

37 Contingent liabilities – Group and Company

a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2020: 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 2021 the Group and Company's maximum liability under these arrangements was nil (2020: nil).

c) Claims under the Environmental Information Regulations 2004 regarding property searches

Since 2016, the Group has received letters of claim from a number of groups of personal search companies (PSCs) which allege that the information held by Severn Trent Water Limited (STW) used to produce the CON29DW residential and also the commercial water and drainage search reports sold by Severn Trent Property Solutions Limited (STPS), is disclosable under the Environmental Information Regulations. In April 2020, a group of over 100 PSCs commenced litigation against all water and sewerage undertakers in England and Wales, including STW and STPS. The claimants are seeking damages, on the basis that STW and STPS charged for information which should have been made available either free, or for a limited charge, under the Environmental Information Regulations. STW and STPS are defending this claim. This is an industry-wide issue and the litigation is in progress. A timetable for the claim has recently been set by the court leading up to a stage 1 trial on the EIR legal issues only (not the other issues or amount of damages) which could be held in late 2021 or early 2022.

38 Financial and other commitments – Group and Company

a) Investment expenditure commitments

Capital commitments are as follows:

	Group		**Company**	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Property, Plant and Equipment contracted for but not provided for in the financial statements	**222.1**	287.6	**215.4**	280.9

In addition to these contractual commitments, the Group and Company have longer term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of Water Services (Ofwat) and to provide for growth in demand for water and waste water services.

39 Post balance sheet events – Group and Company

Refinancing

On 22 April the Group completed the refinancing of Severn Trent Water's £900 million revolving credit facility ('RCF') and £75 million of bilateral loan arrangements, with a new £1.0 billion RCF. The new syndicated RCF provides equal financing from 12 banks, and extends the maturity date to April 2026 (plus two one year extension options).

Pensions buy-in

On 29 June, the Group completed the bulk annuity buy-in of the Severn Trent Mirror Image Pension Scheme ('STMIPS'). The Company is the only employer in this scheme. As a result, whilst the legal obligation to pay the employee benefits directly as they fall due remains with the Company, the right to reimbursement of such amounts to the Company has been obtained under the insurance policy.

40 Related party transactions – Group and Company

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Transactions between the Group, ultimate parent Severn Trent Plc and other related parties are disclosed below.

Transactions

	Transactions with fellow subsidiary undertakings		Transactions with ultimate parent		Transactions with other related parties	
	2021	2020	**2021**	2020	**2021**	2020
	£m	£m	**£m**	£m	**£m**	£m
Sale of services	**0.6**	0.3	**–**	–	216.1	306.6
Purchase of services	**1.9**	2.1	**1.0**	0.9	–	–
Net interest expense/income	**–**	–	**0.7**	2.4	2.3	3.2
Dividends paid to related parties	–	–	**64.0**	244.0	–	–
Balances outstanding at 31 March:						
Amounts due from related parties	**6.1**	7.8	**1.8**	1.5		12.1
Amounts due to related parties	**(0.3)**	(0.6)	**(5.2)**	(3.5)	**(2.4)**	–
Loans due from related parties	–	–	**52.0**	–	–	93.0
Loans due to related parties	–	–	–	(158.8)	–	–

The related parties are fellow subsidiary undertakings, the ultimate parent Severn Trent Plc, and the 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.

The remuneration of the directors is included within the amounts disclosed below.

	2021	2020
	£m	£m
Short-term employee benefits	**7.3**	7.4
Share based payment	**4.9**	4.2
	12.2	11.6

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.

41 Alternative performance measures – Group

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures ('APMs'). The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable with other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

a) Exceptional items

Exceptional items are income or expenditure which individually or, if of a similar type, in aggregate should, in the opinion of the Directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view.

b) Adjusted PBIT

Adjusted profit before interest and tax is profit before interest and tax excluding exceptional items as recorded in the income statement. This provides a consistent measure of operating performance excluding distortions caused by exceptional items. The calculation of this APM is shown on the face of the income statement.

c) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures. See note 36.

d) 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.

$$\frac{\textit{(net finance costs – net finance costs from pensions + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2021	2020
	£m	£m
Net finance costs	**177.6**	177.3
Net finance costs from pensions	**(5.2)**	(10.9)
Capitalised interest	**30.4**	44.2
	202.8	210.6
Average net debt	**6,036.5**	5,928.3
Effective interest cost	**3.4%**	3.6%

This APM is used as it shows the average finance cost for the net debt of the business.

e) Effective cash cost of interest

The effective cash cost of interest is calculated on the same basis as the effective interest cost except that it excludes finance costs that are not paid in cash but are accreted to the carrying value of the debt (principally inflation adjustments on index-linked debt).

$$\frac{\textit{(net finance costs – net finance costs from pensions – inflation adjustments + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2021	2020
	£m	£m
Net finance costs	**177.6**	177.3
Net finance costs from pensions	**(5.2)**	(10.9)
Indexation adjustments	**(17.6)**	(31.2)
Capitalised interest	**30.4**	44.2
	185.2	179.4
Average net debt	**6,036.5**	5,928.3
Effective cash cost of interest	**3.1%**	3.0%

This is used as it shows the average finance cost that is paid in cash.

41 Alternative performance measures – Group (continued)

f) Adjusted PBIT interest cover

The ratio of adjusted PBIT (see (b) above) to net finance costs excluding net finance costs from pensions.

$$\frac{\textit{Adjusted PBIT}}{\textit{(net finance costs – net finance costs from pensions)}}$$

	2021 £m	2020 £m
Adjusted PBIT	**457.9**	546.7
Net finance costs	**177.6**	177.3
Net finance costs from pensions	**(5.2)**	(10.9)
Net finance costs excluding finance costs from pensions	**172.4**	166.4

	Ratio	Ratio
PBIT interest cover ratio	**2.7**	3.3

This is used to show how the adjusted PBIT of the business covers the financing costs associated only with net debt on a consistent basis.

g) EBITDA and EBITDA interest cover

The ratio of profit before interest, tax, exceptional items, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

$$\frac{\textit{(adjusted PBIT + depreciation + amortisation)}}{\textit{(net finance costs – net finance costs from pensions)}}$$

	2021 £m	2020 £m
Adjusted PBIT	**457.9**	546.7
Depreciation (including right-of-use assets)	**333.7**	322.6
Amortisation	**31.3**	29.7
EBITDA	**822.9**	899.0
Net finance costs	**177.6**	177.3
Net finance costs from pensions	**(5.2)**	(10.9)
Net finance costs excluding finance costs from pensions	**172.4**	166.4

	Ratio	Ratio
EBITDA interest cover ratio	**4.8**	5.4

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

41 Alternative performance measures – Group (continued)

h) Adjusted effective current tax rate

The current tax charge for the year, excluding prior year charges, exceptional current tax, and current tax on exceptional items and on financial instruments, divided by profit before tax, net losses/gains on financial instruments and exceptional items.

(Current year current tax charge in the income statement – current tax on exceptional items – current tax on financial instruments)
(PBT – exceptional items – net losses/gains on financial instruments)

		2021		2020
		Current tax thereon		Current tax thereon
	£m	**£m**	£m	£m
Profit before tax	**290.0**	**(28.3)**	374.6	(34.2)
Adjustments:				
Exceptional items	**–**	**–**	4.9	(0.9)
Net gains on financial instruments	**(4.8)**	**(2.6)**	(10.1)	(2.5)
	285.2	**(30.9)**	369.3	(37.6)
Adjusted effective current tax rate		**10.8%**		10.1%

i) Operational cashflow

Cash generated from operations less contributions and grants received.

	2021	2020
	£m	£m
Cash generated from operations	**835.6**	916.2
Contributions and grants received	**(41.4)**	(39.6)
Operational cashflow	**794.2**	876.6

This APM is used to show operational cash excluding the effect of contributions and grants received as part of capital programmes.

j) 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.

	2021	2020
	£m	£m
Purchase of property, plant and equipment	**(606.7)**	(787.7)
Purchase of intangible assets	**(21.7)**	(45.1)
Contributions and grants received	**41.4**	39.6
Proceeds on disposal of property, plant and equipment	**2.4**	3.2
Operational cashflow	**(584.6)**	(790.0)

This APM is used to show the cash impact of the Group's capital programmes.

42 Ultimate parent undertaking

The immediate parent undertaking is Severn Trent Draycote Limited.

The ultimate parent undertaking and controlling party is Severn Trent Plc, which is the parent undertaking and controlling party of the smallest and 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.