



# OUR EU TAXONOMY DISCLOSURE

NOVEMBER 2023

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# OUR EU TAXONOMY DISCLOSURE

**Our group strategy to be ‘Performance driven, sustainability led’ drives us to invest in a way that contributes to social and environmental value. As a business we think it’s important to operate in a way that goes hand-in-hand with nature and to drive positive change, whilst at the same time being transparent about the impact we have on the world around us. This report provides a summary of how we align to the EU Green Taxonomy, a system we have chosen to use as it aligns with our sustainable investment objectives. It puts the focus on businesses to do more, and is designed to highlight sustainable choices for both investors and businesses.**

As we don’t operate in the EU, we don’t currently need to report against the requirements of a green Taxonomy. A UK Taxonomy is still under development, and given the EU Taxonomy is the most developed, we have chosen to apply this to our activities.

This is our second disclosure, with our first included in our [Annual Report for the year to 31 March 2023](#).

We have already reported **eligible** ‘green’ Turnover, Operating Costs and Capital Expenditure of 95%, 95% and 99% respectively for our group. On a review of our **alignment** to the more complex and detailed criteria of the Taxonomy, we are reporting **aligned** Turnover, Operating Costs (‘Opex’) and Capital Expenditure

(‘Capex’) of 53%, 53% and 62% respectively. Given our substantial investment focused on our rivers, nature and biodiversity, we are delighted to benchmark well against the European companies who have so far reported alignment. We recognise that the detailed requirements of the EU Taxonomy ensure a high standard is met, and we have used the outcomes of this review to identify areas we can further expand and improve.

We expect our alignment to the EU Taxonomy to increase as we put action plans in place. In addition, as the scale of our investment increases over the five year period to 2030 (from £6.6 billion in 2020-2025 to £12.9 billion in 2025-2030), not only will absolute values of investment aligned to the taxonomy increase, but our plan outlines a greater mix of green investment than previously.

We expect that our alignment will expand across the six objectives, giving greater breadth to the disclosure and increasing transparency of how much our business contributes to these aims.

The companies included within this review are Severn Trent Water Limited, Hafren Dyfrdwy Cyfyngedig and Severn Trent Green Power Limited as these operate most of our core business activities. We aim to expand our EU Taxonomy analysis to other companies in the group as we embed our processes and reporting approaches.

Our final alignment percentages of 53% of Turnover, 53% of Opex and 62% of Capex were subject to third line assurance by DNV Business Assurance Services UK Limited (‘DNV’)

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# OUR BUSINESS

The nature of our business means we have a wide range of activities that are eligible under the EU Taxonomy. We reported previously that we identified 26 activities eligible to report against the first two climate objectives. We have now revisited this analysis and incorporated the four new environmental objectives. By applying increased scrutiny under the substantial contribution requirements, we have identified 34 activities relevant to our business and we are fully aligned to the EU Taxonomy criteria within five of these. We are reporting material financial contributions for four (as set out on page 6) - as we scale deployment for our Sustainable Urban Drainage Systems ('SUDS') project we expect to see this reported as a material value in future.

## OUR ELIGIBLE AND ALIGNED BUSINESS ACTIVITIES

Our Business Activities	EU Taxonomy objectives	Alignment status
<b>Water resources, water networks and water treatment</b> <ul style="list-style-type: none"> <li>Construction, extension and operation of water collection treatment and supply systems*</li> <li>Renewal of water collection, treatment and supply systems*</li> <li>Water supply*</li> </ul>	<p>CCM</p> <p>CCM</p> <p>SPW</p>	Eligible and aligned
<b>Waste water collection and treatment</b> <ul style="list-style-type: none"> <li>Construction, extension and operation of waste water collection and treatment</li> <li>Sustainable Urban Drainage Systems ('SUDS')</li> <li>Renewal of waste water collection and treatment</li> <li>Urban waste water treatment</li> </ul>	<p>CCM</p> <p>SPW</p> <p>CCM CCA</p> <p>SPW</p>	
<b>Bioresources</b> <ul style="list-style-type: none"> <li>Electricity generation from bioenergy</li> <li>Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels</li> <li>Cogeneration of heat/cool and power from bioenergy</li> <li>Production of heat/cool from bioenergy</li> <li>Anaerobic digestion of sewage sludge</li> </ul>	<p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p>	Eligible
<b>Severn Trent Green Power</b> <ul style="list-style-type: none"> <li>Recovery of bio-waste by anaerobic digestion or composting</li> <li>Electricity generation using solar photovoltaic technology</li> <li>Electricity generation from wind power</li> <li>Electricity generation from hydropower</li> <li>Electricity generation from bioenergy</li> <li>Cogeneration of heat/cool and power from bioenergy</li> <li>Anaerobic digestion of bio-waste</li> <li>Composting of bio-waste</li> <li>Installation, maintenance and repair of renewable energy technologies</li> </ul>	<p>TCE</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p>	
<b>Other activities</b> <ul style="list-style-type: none"> <li>Conservation, including restoration, of habitats, ecosystems, and species</li> <li>Afforestation</li> <li>Forest management</li> <li>Restoration of wetlands</li> <li>Nature-based solutions for flood and drought risk prevention and protection</li> <li>Renovation of existing buildings</li> <li>Installation, maintenance and repair of energy efficiency equipment</li> <li>Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)</li> <li>Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings</li> <li>Acquisition and ownership of buildings</li> <li>Close to market research, development and innovation</li> <li>Flood risk prevention and protection infrastructure</li> <li>Manufacture, installation and associated services for leakage control technologies enabling leakage reduction and prevention in water supply systems</li> </ul>	<p>PRBE</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>SPW</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>CCM CCA</p> <p>SPW</p>	

**CCM** Climate change mitigation **CCA** Climate change adaptation **SPW** Sustainable use and protection of water and marine resources

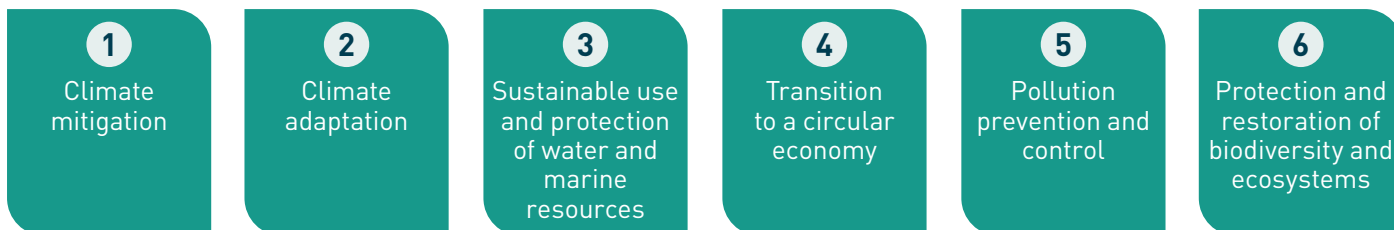
**TCE** Transition to a circular economy **PRBE** Protection and restoration of biodiversity and ecosystems

\*Our alignment to these EU Taxonomy activities is based on our interpretation that the Ofwat-approved methodology we use to measure both our leakage performance and to set threshold values is an "appropriate alternative" in accordance with EU Taxonomy legislation.



# OUR ALIGNMENT TO THE EU GREEN TAXONOMY

As a group, we are reporting alignment to the EU Taxonomy of over 50% across the three financial KPIs, Turnover, Operating Costs and Capital Expenditure. We have included here our summary position resulting from a full alignment review against all of the six climate and environmental objectives included in the EU Taxonomy.



We report alignment under the 'Climate Change Mitigation' and 'Sustainable Use and Protection of Water and Marine Resources' objectives.

CDA/EDA OBJECTIVES	Turnover		Operating Costs		Capital Expenditure	
	Eligible %	Aligned %	Eligible %	Aligned %	Eligible %	Aligned %
Climate change mitigation	90%	48%	84%	47%	94%	57%
Sustainable use and protection of water and marine resources	5%	5%	6%	6%	5%	5%

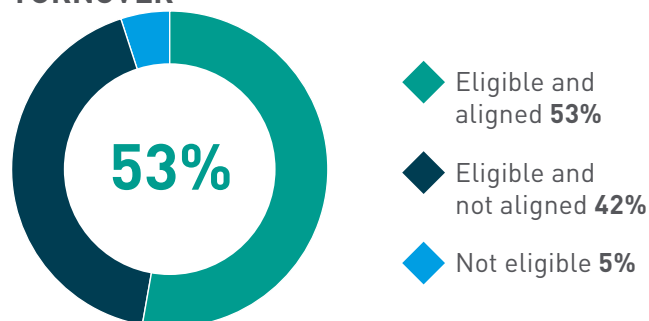
\*Whilst a number of our business activities are eligible to also report under the other objectives, they don't yet meet the alignment criteria so we have reported our eligible activities here under only the 'Climate Change Mitigation' objective and the 'Sustainable Use and Protection of Water and Marine Resources' objective to avoid double counting.

**Severn Trent is connected to and relies on the natural landscape of the region we serve. We are committed to protecting and enhancing our environment in a positive, sustainable way. Being able to report on our progress is vital.**

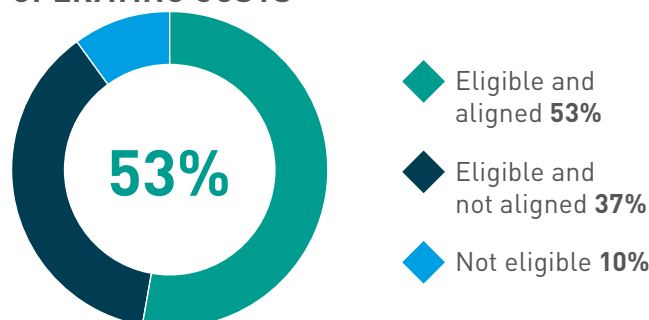
The EU and UK have each taken strides in developing and implementing standardised reporting frameworks for environmental, social and governance ('ESG') activities. Whilst a UK Green Taxonomy is still to be established, we have decided to make disclosures on a voluntary basis under the current EU framework. This allows us to accelerate our work and provides greater transparency for all stakeholders, including debt and equity investors.

Whilst this is a detailed review, we are continuing to establish and adapt our processes. We have included in this disclosure the methodologies and assumptions we used in preparing the analysis, together with the reliance on professional expertise and judgment.

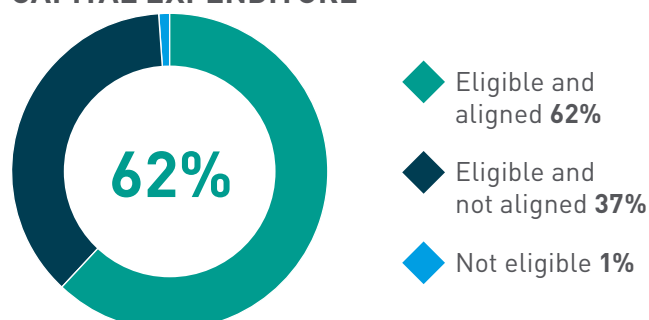
## TURNOVER



## OPERATING COSTS



## CAPITAL EXPENDITURE



Our final alignment percentages of 53% of Turnover, 53% of Opex and 62% of Capex were subject to third line assurance by DNV Business Assurance Services UK Limited ('DNV')

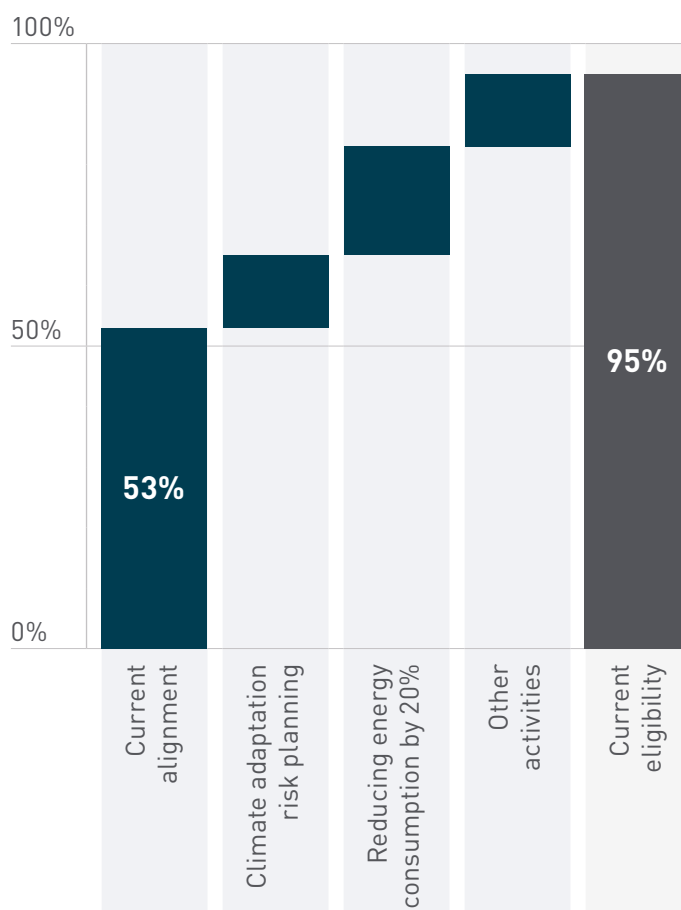
## Eligibility and alignment

Primarily the gap between the value of our eligible and aligned activities relates to three key areas:

- As a business we have a Group level **Climate Change Adaptation Report** and we undertake extensive scenario modelling as part of our **Water Resources Management Plan ('WRMP')** and **Drainage and Wastewater Management Plan ('DWMP')**. However, our focus now needs to be on ensuring our assets and activities are resilient to a changing climate on a more granular level. This includes embedding more detailed climate adaptation risk plans across our assets and activities, and creating dedicated climate action plans. We look forward to seeing this reflected in our future EU Taxonomy profile.
- There are gaps between the legislation relied on in the EU and the way we model and calculate performance in the water sector in England and Wales. Where the taxonomy allows alternative methodologies, we have incorporated these in our alignment analysis, but for EU specific requirements that we cannot follow, we have reported the associated activities as not aligned.
- Whilst we are committed to ambitious targets, such as our recent pledge to double our biodiversity target to 10,000 hectares or the river pledges we set out in March 2022, we acknowledge that the EU Taxonomy requires greater levels of detail and documentation to support increased credibility. In our waste water activities, the EU Taxonomy sets a target for renewal work to reduce energy consumption by 20%. As part of our commitment to reducing emissions under our Triple Carbon Pledge, we already target a reduction in energy use across our business. We don't yet meet the specific reduction target set by the EU Taxonomy, but we continue to work towards this through our future investment planning. We also welcome the requirements that pursuing progress in one environmental objective should not compromise the progress of another, and have reviewed the 'Do No Significant Harm' ('DNSH') criteria in detail. We are already benefiting from the increased scrutiny we have had to apply to our activities, and the increased clarity we now have over target areas we can seek to address, putting this into an action plan that we have approved at Executive level.

The chart below sets out the key gaps between eligibility and alignment for Turnover, as an indicator of the scale of the challenge for us. More detail on the gap analysis we have performed and our plans and next steps is outlined on p18.

## Gap analysis between Eligibility and Alignment for Turnover



Moving forward we will expand on the work reported here, including a more detailed gap analysis to understand the areas that need more investment. Building more detail into our reporting will also mean we can provide a more complete picture of our work and the successes to date, to create a greener future.

As part of our Green Recovery Programme we are investing in Sustainable Urban Drainage schemes across Mansfield. We are tackling the threat of flooding using nature-based solutions, and installing rain gardens across the district. In total we are installing around 15,000 ground-breaking green interventions to make the area cleaner, greener and healthier. This activity is aligned to the EU Taxonomy activity 'Sustainable Urban Drainage Systems (SUDS)' under the Environmental Delegated Act ('EDA').

As we work on creating a scaled deployable approach, we will see the investment in this activity increase in future periods, making it more material to the alignment values we report in future EU Taxonomy disclosures.



## Our aligned activities

The activities we report as aligned to the EU Taxonomy are set out in the table below:

EU TAXONOMY ACTIVITY	Environmental Objective	Severn Trent activity that aligns to the criteria	Aligned Turnover (£m)	Aligned Operating Costs (£m)	Aligned Capital Expenditure (£m)	Aligned Turnover (%)	Aligned Operating Costs (%)	Aligned Capital Expenditure (%)
Construction, extension and operation of water collection, treatment and supply systems	<b>CCM</b>	Water resources, raw water transport, raw water storage and water treatment	520	303	277	24%	25%	33%
Renewal of water collection, treatment and supply systems	<b>CCM</b>	Water resources, raw water transport, raw water storage, water treatment and treated water distribution	276	161	147	13%	13%	17%
Construction, extension and operation of waste water collection and treatment	<b>CCM</b>	Sewage collection (Foul, Surface water drainage, Highway drainage)	243	114	58	11%	9%	7%
Water Supply (EDA)	<b>SPW</b>	Water resources	113	70	41	5%	6%	5%
						<b>53%</b>	<b>53%</b>	<b>62%</b>

**CCM** Climate change mitigation **SPW** Sustainable use and protection of water and marine resources

The applicable DNSH criteria for all other objectives and the Minimum Social Safeguard ('MSS') requirements have all been met for each of the activities reported in the table above.

## Additional eligible activities

As a result of our updated review incorporating the four new environmental objectives, we identified additional eligible activities within our business. We have identified areas to focus on in future to achieve closer alignment with the EU Taxonomy, and capture the benefits of investment in these areas.

The additional EU Taxonomy activities that are relevant to our business, within the new Environmental Delegated Act ('EDA') and amended Climate Delegated Act ('CDA'), are outlined below.

### Sustainable use and protection of water and marine resources



- 1.1. (EDA) Manufacture, installation and associated services for leakage control technologies enabling leakage reduction and prevention in water supply systems
- 2.1. (EDA) Water Supply
- 2.2. (EDA) Urban Waste Water Treatment
- 2.3. (EDA) Sustainable urban drainage systems (SUDS)
- 3.1. (EDA) Nature-based solutions for flood and drought risk prevention and protection

### Protection and restoration of biodiversity and ecosystems



- 1.1. (EDA) Conservation, including restoration, of habitats, ecosystems, and species

### Transition to a circular economy



- 2.5. (EDA) Recovery of bio-waste by anaerobic digestion or composting

### Additional CDA activities



- 14.2. (Amended CDA) Flood risk prevention and protection infrastructure

More detail on the activities we identified as eligible and aligned is included on the following pages.

Our final alignment percentages of 53% of Turnover, 53% of Opex and 62% of Capex were subject to third line assurance by DNV Business Assurance Services UK Limited ('DNV')



In 2020, we launched our Great Big Nature Boost, committing to enhance the biodiversity of 5,000 hectares of land, plant 1.3 million trees and restore 2,000 km of rivers by 2027. We also committed to improve rivers in 44 catchments covering 432,000 hectares through our Farming for Water programme by working with two thirds of all farmers in our region. 381 hectares of our land will be managed using an approved biodiversity action plan.

We have already exceeded our target of enhancing the biodiversity of 5,000 hectares, four years early, and have set ourselves a new target to enhance 10,000 hectares by 2025. We have awarded 923 grants under our Severn Trent Environmental Protection Scheme ('STEPS') since 2020, with a total investment applied for of £5.6 million. You can read more about these initiatives on pages **18 and 19** of our **Annual Report and Accounts** and on our dedicated website pages on the **environment and biodiversity**.

We aren't currently reporting these activities as aligned to the EU Taxonomy objectives. We need to do more work to clarify how the EU legislation underpinning the criteria applies to our activities, as a business operating in the UK, and ensure we have our ambitious long-term plans documented beyond existing price review cycles.





# OUR APPROACH

After we published our initial **eligibility** disclosure in our 2022/23 Annual Report and Accounts ('ARA'), we built on our processes, expanding our reporting to a full **alignment** review.

## Governance

We established our Taxonomy Working Group in February 2023 to embed new processes and adapt our existing reporting approach so it was in line with the EU Taxonomy requirements. The working group includes finance and sustainability professionals, is sponsored and guided by senior Finance leadership, and reports monthly to the Chief Financial Officer ('CFO').

The working group coordinates the analysis of activities, relying on Subject Matter Experts ('SMEs') from across the business to provide their expertise. To ensure the robustness of this analysis, we made an investment in licensing specialised EU Taxonomy analysis software from Celsia.

The working group manages and controls the governance of the analysis in line with the EU Taxonomy. This includes undertaking external benchmarking and coordinating review by external advisors and stakeholders, as well as ensuring assurance processes are created and followed in line with our assurance policies.



For more information on our assurance policies, refer to [The Regulatory Reporting and Assurance Approach](#)

This includes the appointment of our third line external assurance provider, DNV Business Assurance Services UK Limited ('DNV'), who assured this disclosure before publication. Their assurance statement is included at the back of this report.

Third line assurance is not currently a mandatory requirement of the EU Taxonomy. We chose to engage one of the highest regarded sustainability assurance providers to add a level of rigour to our disclosure and the underlying processes.

We have gone through the same governance processes for this disclosure as we do for those included in our ARA. The data and the narrative in this report are reviewed and signed off by our Disclosure Committee, Audit and Risk Committee, Corporate Sustainability Committee, and Board.

## Analysing our activities

In our first disclosure, published as part of our 2022/23 ARA, we covered the analysis we did to assess the eligibility of our activities. Since then, we have expanded our work, conducting a full review against the Taxonomy's Technical Screening Criteria ('TSC') and Do No Significant Harm ('DNSH') and Minimum Social Safeguard ('MSS') requirements.

At the same time, we're continuing to develop our methods, both for reporting and in our business activity, so we can identify better alignment against the EU Taxonomy in future, and create more channels to report the work we do. We believe that this will help us demonstrate the integrity of our ambitions, both against the results we achieve and the investments we make.

**Our Severn Trent Green Power business currently recycles over 500,000 tonnes of green and mixed food waste every year, and is growing. Following the recent acquisition of Andigestion, approved by the Competition and Markets Authority ('CMA') earlier this year, energy generation will increase by 45 GWh per annum. Our electricity generation from bioenergy in food waste is aligned to the substantial contribution criteria of the EU Taxonomy's climate mitigation objective as it reduces Greenhouse Gas ('GHG') emissions by over 80% compared to fossil fuel equivalents.**

However the energy produced from crops doesn't yet meet this target, reaching between 52% and 59%, based on EU industry data. Having this insight informs us of how high a bar is being set by the EU Taxonomy and what areas we can focus on in future. We have not reported any of our Severn Trent Green Power business activities as aligned, although we believe they will be aligned as we complete more work on physical climate risk screening to meet the 'Do No Significant Harm' criteria for the 'Climate Change Adaptation' objective.

We carry out this process in three stages:



- 1 Eligibility assessment** – we use final and draft legislation available, as outlined in the next section, to identify all eligible activities in our business. We create a list of those activities we could report on and identify SMEs within each business area to support the next stage of analysis.
- 2 Activity analysis** – we assess which activities we could align to the EU Taxonomy with a detailed review against all of the Technical Screening Criteria, DNSH and MSS requirements. To help us do this faster and more efficiently we used new software, which also ensures a clear and supported audit trail. We partnered with Celsia, the software provider, and IMS Consulting, to launch a new process, including training and engagement for all SMEs involved.
- 3 Financial mapping** – following identification of eligible and aligned activities from the above two steps, we use existing and adapted reports from our financial systems to report the financial KPI metrics set out in the Taxonomy. Read more on our Financial Methodology on pages 14-15.



## The EU Delegated Acts

To compile this disclosure we looked in detail at our economic activities based on the EU Taxonomy Regulation. This includes associated legislative acts (the 'Delegated Acts') described below, together with any additional guidance released up until the date of reporting:

- **The Climate Delegated Act (EU) 2021/2139** – this establishes the rules for deciding whether an economic activity qualifies as contributing substantially to one of the climate objectives:

- ➔ Climate change mitigation
- ➔ Climate change adaptation

It also determines whether the economic activity does no significant harm ('DNSH') to any other environmental objectives.

- **The Disclosure Delegated Act (EU) 2021/2178** – covers the content and format of any information that we are disclosing about environmentally sustainable economic activities. It also determines the methods we use to assess those activities.

- **The Environmental Delegated Act\*** – determines whether any economic activity has a substantial impact on any of the following non-climate environmental objectives:

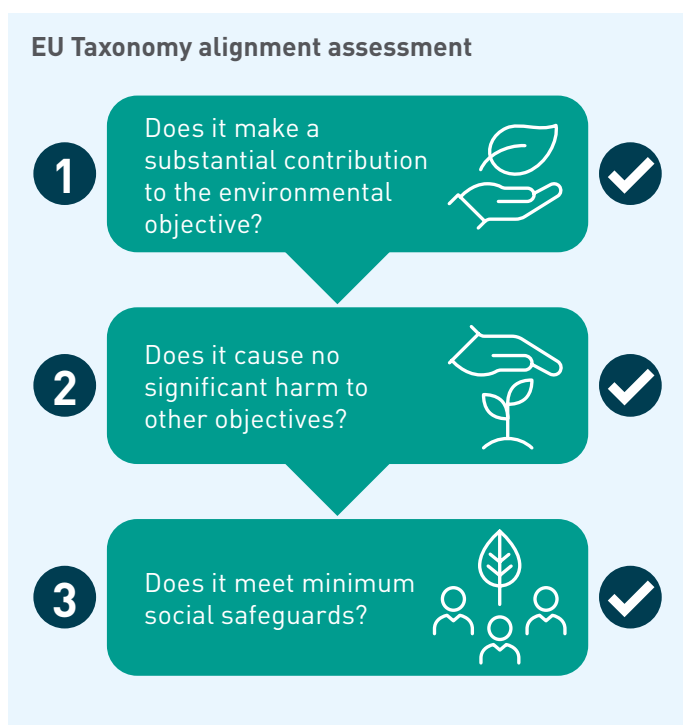
- ➔ Sustainable use of water and marine resources
- ➔ Transition to a circular economy
- ➔ Pollution prevention and control, and
- ➔ Protection and restoration of biodiversity and ecosystems

\*On 5 April 2023, the European Commission published the draft Environmental Delegated Act ('EDA') which outlined four new objectives (in addition to the climate change mitigation and climate change adaptation objectives outlined in The Climate Delegated Act). The Commission approved the final EDA on 13 June 2023, although this is not yet published at the time of preparing this disclosure. We have incorporated these four new objectives in our analysis.



## Eligible and aligned activity

Where the EU Taxonomy identifies an activity as being environmentally sustainable, it refers to it as **'eligible'** or **'aligned'**. One of our activities is eligible if it is on the list of EU Taxonomy activities under any of the six environmental objectives. For each eligible activity, we need to assess:



If an activity passes the three tests, it is classed as 'aligned'. We cover each of these tests, or Technical Screening Criteria ('TSC') in the following pages.

For all of its eligible and aligned activities, the business must report financial KPIs that show how much of its Turnover, Operating Costs and Capital Expenditure meet the objectives set out in the EU Taxonomy. Our results are set out on page 4, and the detail included within the tables and narrative at the back of this report.

Our previous disclosure showed our approach and results from our initial **eligibility** assessment. We have now expanded our work to review the technical aspects of our activities to determine their **alignment** to each of the environmental objectives. We are reporting here the financial KPIs against each activity and the processes we applied in coming to these conclusions.

Connected to this, you can also find more detail on our Principal Adverse Impact ('PAI') assessment in our ESG data book on [our website](#).

You can read more about our activities, achievements and plans, both contributing towards, and ensuring we do no significant harm to, the environmental objectives in the documents set out in the table below.

## Six environmental objectives

ENVIRONMENTAL OBJECTIVES	Read more in our other reports and disclosures
1 Climate change mitigation	<p>Please see the following documents:</p> <ul style="list-style-type: none"> <li>• <a href="#">Our TCFD disclosure within our Annual Report for 2022-23 on pages 39-63</a></li> <li>• <a href="#">Our Water Resources Management Plan ('WRMP')</a></li> <li>• <a href="#">Our Drainage and Wastewater Management Plan ('DWMP')</a></li> <li>• <a href="#">Our Drought Management Plan ('DMP')</a></li> <li>• <a href="#">Our Sustainability Report for 2022-23 on pages 23-31</a></li> </ul>
2 Climate change adaptation	
3 Sustainable use and protection of water and marine resources	
4 Pollution prevention and control	<p>Please see:</p> <ul style="list-style-type: none"> <li>• <a href="#">Our Annual Report for 2022-23 on pages 12 and 17-21</a></li> </ul>
5 Protection and restoration of biodiversity and ecosystems	<p>Please see:</p> <ul style="list-style-type: none"> <li>• <a href="#">Our Annual Report for 2022-23 on pages 18 - 21</a></li> <li>• <a href="#">Our Sustainability Report for 2022-23 on pages 21-22</a></li> </ul>
6 Transition to a circular economy	<p>Please see:</p> <ul style="list-style-type: none"> <li>• <a href="#">Our Sustainability Report for 2022-23 on pages 21-22</a></li> </ul>



**1** Does it make a substantial contribution to the environmental objective?

To assess if an economic activity is aligned to the EU Taxonomy criteria, we need to determine whether it makes a substantial contribution to one of the six environmental objectives. This criteria varies in complexity across each activity and objective. In some cases, this can be extensive and detailed, with multiple references to EU legislation and supporting criteria. In others, it can simply mean acquiring an asset, such as solar panels.

In the year to March 2023, we reported that over **95%** (95% of Turnover, 95% of Operating Costs and 99% of Capital Expenditure) of Severn Trent's economic activities were **eligible** under the climate change mitigation and climate change adaptation objectives.

After we carried out our detailed analysis, we identified that **over 50%** of these eligible activities (53% of Turnover, 53% of Operating Costs, and 62% of Capital Expenditure) are also **aligned** with the substantial contribution criteria for the 'Climate Change Mitigation' objective and the 'Sustainable Use and Protection of Water and Marine Resources' objective. The latter forms part of the EDA which had not been published at the time of our initial eligibility review. On a review of the four new environmental objectives, we identified further eligible activities, some of which overlap with previously identified eligible activities, but we have more work to do to confirm alignment to these objectives. To see more information on the activities and their financial KPIs, please refer to the detail on pages 16-19.

Our Bioresources team is responsible for transporting and treating sewage sludge which is collected from more than 950 of our wastewater treatment sites across the region.

We treat over 200,000 tonnes of sewage sludge every year at our 28 Bioresources Treatment hubs, and we use the sludge to create two useful products – renewable energy, which we use to power our sites or feed into the gas and electricity grids, and a bio-fertiliser, which we supply to farmers to sustainably return nutrients to the land.

In 2022/23, we generated 548GWh of renewable energy, across both our Bioresources and Green Power businesses, which is equivalent to 53% of our group energy needs.

Under the EU Taxonomy, our business activity associated with the 'Anaerobic digestion of sewage sludge' meets the substantial contribution criteria for the Climate Change Mitigation objective. We produce biogas directly for generation of electricity or heat and we manufacture biomethane for injection into the national gas grid and for use as vehicle fuel, whilst ensuring we have effective monitoring and contingency plans in place to minimise methane leakage.

We are not yet reporting these activities as aligned as we need to complete more granular physical climate risk assessments and review the comparisons between UK and EU standards on environmental screening, in order to ensure we meet the 'DNSH' criteria for the objectives 'Climate Change Adaptation' and 'Protection and Restoration of Biodiversity and Ecosystems'.

Our expectation is that after completing this work we will report greater alignment to the EU Taxonomy across the financial KPIs.





## 2 Does it cause no significant harm to other objectives?

The Do No Significant Harm ('DNSH') criteria require that business activities that contribute to the environment in one way don't hinder achievement of other environmental objectives in another way. This ensures that progress made towards one of the objectives is not at the expense of another.

We apply all of the DNSH criteria at an asset and activity level throughout our detailed analysis, ensuring we analyse our alignment with the DNSH criteria in parallel with the substantial contribution criteria.

To do no harm to the climate change adaptation objective, we must have climate risk plans in place for all assets and activities. Whilst we have a [Group Climate Change Adaptation Report](#), which we published in 2021, we are still working to embed more granular level risk plans for specific assets and activities as we expand our understanding of the impacts climate change has on our business. As a result we are not currently aligned for a number of our activities, despite meeting the substantial contribution criteria for other objectives.

Our expectation is that as we dedicate more resource and investment in this area, we will see greater EU Taxonomy alignment across a number of our business activities.

We have a business activity dedicated to the installation, maintenance and repair of charging stations for electric vehicles across our sites. We set ourselves ambitious targets as part of our Triple Carbon Pledge, including the aim to have a 100% electric vehicle fleet by 2030, where possible. We have installed over 350 electric vehicle charging points to make this ambition a reality, putting the necessary infrastructure in place to support our teams. As a result, this activity meets the substantial contribution criteria set out under the 'Climate Change Mitigation' objective.

However, we have not reported this activity as aligned to the EU Taxonomy. Whilst we consider the impacts of climate change on this infrastructure in order to ensure resilience, we have more to do to report and record quantitative analysis of future climate change scenarios in order to align to the EU Taxonomy requirements for 'Do No Significant Harm' to the 'Climate Change Adaptation' objective.





### 3 Does it meet minimum social safeguards?

For us to disclose any of our activities as aligned to the EU Taxonomy, there are minimum social safeguards we must have in place. These ensure the business has policies to protect people impacted by their activities. It means companies cannot classify investments as sustainable if, for example, they violate human and labour rights, encourage anti-competitive or corrupt behaviour, or operate non-compliant tax practices.

To meet these minimum social standards, the business needs to operate within:

- The OECD Guidelines for Multinational Enterprises
- The UN Guiding Principles on Business and Human Rights
- The Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work
- The International Bill of Human Rights

Severn Trent's Code of Conduct, '**Doing the Right Thing**' is designed to protect the rights of our employees and contractors. We accept our responsibility both to understand our impact on human rights and to prevent potentially negative impacts.

While we don't have a specific standalone human rights policy, we have a range of policies embedded across the organisation. These include policies on Human Resources, Anti-Bribery and Anti-Fraud, Whistleblowing ('Speak Up') and Procurement, as well as a Modern Slavery Escalation and Remediation Policy and a separate Anti-Slavery and Human Trafficking Statement.

We believe this goes above and beyond a separate human rights policy and have assessed ourselves as compliant with the minimum social safeguards.



You can find more information on [our website](#)

Each financial year we publish our Group Anti-Slavery and Human Trafficking Statement in compliance with the Modern Slavery Act 2015. The statement is published on behalf of Severn Trent Plc and its Group Subsidiaries and outlines our processes and procedures to mitigate the risk of slavery and human trafficking within our Group for the financial year.

Our commitments extend beyond our legal requirements to ensure we have a zero-tolerance approach to modern slavery in all parts of our business. Through our partnerships with Slave-Free Alliance, Supply Chain Sustainability School, and Utilities Against Slavery, we ensure that our approach remains appropriate and effective in consideration of the evolving external landscape.

We recognise that the greatest risk of modern slavery in the delivery of our operations lies within our supply chain, due to its complexity and breadth. To enable our Group companies to deliver our operations responsibly, we engage with over 2,000 supply chain partners which constitutes direct and subcontracted parties, who work with us to construct, operate, and maintain our water and sewage treatment works, provide security and cleaning services and serve our customers daily. We mandate that all of our suppliers adopt and apply our high standards consistently in order to identify and address modern slavery risks, irrespective of supplier size or industry; and conduct robust due diligence on all suppliers to ensure compliance.



# FINANCIAL METHODOLOGY

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**In this disclosure we report against the three financial key performance indicators ('KPIs') set out in the EU Taxonomy legislation. These are Turnover, Operating Costs ('Opex'), Capital Expenditure ('Capex'). We report these for all business activities against each environmental objective. We have followed the guidance and rules set out in the EU Taxonomy User Guide and sought expert support and advice from our key advisors and consultants. Any conclusions on interpretation or uncertainty are set out here alongside the rules themselves.**

As this is an interim disclosure, we have chosen to report financial information here based entirely on the financial year to 31 March 2023.

All of the KPIs reported are based on the same cost allocation approach we use for both entity and regulatory reporting. For the regulated entities Severn Trent Water and Hafren Dyfrdwy we report to Ofwat under price controls. This approach means we report costs based on activities across the business. We believe this is a reasonable basis for identifying our eligible activities and then determining the costs within each price control that can be reported. The actual values reported have been adjusted to reflect the differences between Ofwat regulatory reporting and statutory reporting under International Financial Reporting Standards ('IFRS'), in order to arrive at a proportion of the Turnover, Opex and Capex reported in our Annual Report and Accounts ('ARA').

## What are the Financial KPIs?

- The Turnover KPI is reported as the proportion of net Turnover derived from products or services (including intangibles) that are taxonomy-aligned or taxonomy-eligible.
- The Capital Expenditure KPI includes Capital Expenditure that is either already aligned or is part of a plan to extend or reach environmental sustainability in the next five years and is credible and feasible. It is calculated based on intangible and tangible asset additions, excluding any depreciation or amortisation. We have included in the disclosure our Capital Expenditure related to our leakage reduction targets. These costs are associated with our long term reduction activity as Severn Trent Water is targeting a 50% reduction by 2045 from a 2017/18 baseline, and this company expects to achieve at least a 20% reduction (the target set by the EU Taxonomy) within the next five years.
- The Operating Costs KPI relates to costs such as maintenance or servicing assets associated with taxonomy-aligned or taxonomy-eligible activities, building renovations, research and development, or short-term leasing costs. It can also include enabling costs associated with the aligned activities as well as costs associated with a plan to reach environmental sustainability in the next five years. We have included Operating Costs associated with our leakage reduction targets on the same basis as those included for the Capital Expenditure KPI.
- For Climate Change Adaptation, only the Operating Costs and Capital Expenditure associated with making an activity climate-resilient are considered. As we expand on our work to document the risks and solutions associated with adapting to climate change, we expect to increase investment in adaptation aligned activities and for this to be visible in future EU Taxonomy disclosures.







## Allocation assessment

In our earlier disclosure, we made an assumption that the cost allocation approach used for regulatory reporting provides a reasonable representation of the costs associated with each of our business activities. This approach ensures that all central costs that are directly attributable to the operation of our activities are captured in reporting against each of the financial KPIs.

We have performed a more detailed analysis of our operational costs as part of this review, ensuring centralised costs not directly attributable to business activities, such as those related to executive costs, HR, Finance and Strategy are excluded, in line with EU Taxonomy legislation. This has resulted in a small decrease in the percentage of eligible Opex that we report from 95% to 90%, improving the accuracy of this reporting.

We also included a pro-rata allocation of costs and Turnover from within our Retail price control, representing the division responsible for delivering the service from our waste and water business to our customers. We follow [Regulatory Accounting Guideline 4 \('RAG4'\)](#) which outlines the costs and associated activities to be captured for each of our appointed business activities, ensuring only the Retail costs associated with our regulated activities are captured. We believe this remains in line with the EU Taxonomy requirements to include only costs directly attributable to our business activities when reporting them as eligible and aligned.

The numerators and denominators used to calculate the financial KPIs are based on IFRS financial reporting practices, as disclosed within our Annual Report and Accounts. There are adjustments made between regulatory and statutory reporting that we have reversed in order to report by business activity against IFRS figures. For example income from the sale of renewable energy is treated as negative Opex for regulatory reporting purposes, so we have adjusted both Opex and Turnover to reflect the statutory reporting approach under IFRS. We have also made assessments and adjustments where our existing financial reports don't support the breakdown required to report under the EU Taxonomy. For example, our Turnover is reported at a higher level than the business activities we want to disclose here, so we have applied a reasonable apportionment, based on Opex proportions, to allocate income between activities.

The EU Taxonomy identifies separate activities for 'Renewal' and 'Construction' of water and waste water assets and systems. We have allocated costs between these separate activities by reference to our Capex profile, although we also had to make some assessments in this approach, including assuming that the interpretation of what might be classed as a 'Renewal' for EU Taxonomy purposes would be the same as that already used in the UK water industry for regulatory and statutory reporting purposes.

# OUR ALIGNED ACTIVITIES

Following a detailed review of all of our activities against the TSC, DNSH and MSS requirements, the value and proportion of our aligned and eligible business activities are set out below by business unit, alongside the financial KPIs associated with them.

In this review we have continued to rely on our regulatory reporting systems and processes as these provide a profile of costs associated with our business activities. However, as we continue to adapt our sustainability reporting practices for this and other disclosures, we may achieve a greater level of granularity in a future analysis.

On the following pages we have outlined more information on our aligned activities, to give greater insight into our business and what we deliver. We have also included more detail on the activities that are eligible and not aligned to outline the results of our initial gap analysis. These pages include:

- Water Resources and Water Networks
- Waste Water Networks
- Eligible activities not aligned to the EU Taxonomy

TURNOVER	Eligible (£m)	Eligible %	Aligned (£m)	Aligned %
Water resources and water networks*	934	100%	909	97%
Waste water networks	893	100%	243	27%
Bioresources	168	100%	0	0%
<b>Regulated business</b>	<b>1,995</b>	<b>100%</b>	<b>1,151</b>	<b>58%</b>
Green Power	73	100%	0	0%
Business services (other)	0	0%	0	0%
<b>Non-regulated business</b>	<b>73</b>	<b>41%</b>	<b>0</b>	<b>0%</b>
<b>GROUP</b>	<b>2,068</b>	<b>96%</b>	<b>1,151</b>	<b>53%</b>

OPERATING COSTS	Eligible (£m)	Eligible %	Aligned (£m)	Aligned %
Water resources and water networks*	561	96%	534	92%
Waste water networks	421	96%	114	26%
Bioresources	75	96%	0	0%
<b>Regulated business</b>	<b>1,057</b>	<b>96%</b>	<b>647</b>	<b>59%</b>
Green Power	35	100%	0	0%
Business services (other)	0	0%	0	0%
<b>Non-regulated business</b>	<b>35</b>	<b>31%</b>	<b>0</b>	<b>0%</b>
<b>GROUP</b>	<b>1,092</b>	<b>90%</b>	<b>647</b>	<b>53%</b>

CAPITAL EXPENDITURE	Eligible (£m)	Eligible %	Aligned (£m)	Aligned %
Water resources and water networks*	477	100%	465	98%
Waste water networks	312	100%	58	19%
Bioresources	40	100%	0	0%
<b>Regulated business</b>	<b>829</b>	<b>100%</b>	<b>523</b>	<b>63%</b>
Green Power	11	100%	0	0%
Business services (other)	0	0%	0	0%
<b>Non-regulated business</b>	<b>11</b>	<b>77%</b>	<b>0</b>	<b>0%</b>
<b>GROUP</b>	<b>840</b>	<b>99%</b>	<b>523</b>	<b>62%</b>

\*The alignment we report here for our water resources and water networks activities is based on our interpretation that the Ofwat-approved methodology we use to measure both our leakage performance and to set threshold values is an "appropriate alternative" in accordance with EU Taxonomy legislation.

Our final alignment percentages of 53% of Turnover, 53% of Opex and 62% of Capex were subject to third line assurance by DNV Business Assurance Services UK Limited ('DNV')



## Water resources and water networks

**We serve 4.8 million households and businesses and supply two billion litres of drinking water every day. It is vital we provide this service continuously and we have a number of targets and measures to maintain this.**

Severn Trent Water has set a target to reduce leakage by 50% (against a three year average baseline across 2017/18 to 2019/20) by 2045. This requires extensive investment across a range of our business activities, including mains renewal, pressure management and proactive leak detection. Within Severn Trent Water, we are targeting at least a 20% reduction within the next 5 years, a glidepath that aligns with the ambitions of the EU Taxonomy.

For the purposes of regulatory reporting to Ofwat, our water activities are split into two categories. These are 'Water resources' and 'Water network +'. Within Water network +, we also report separately for raw water transport, raw water storage, water treatment and treated water distribution.

We identified that these activities, within our Severn Trent Water business, are aligned within either the construction or renewal of water collection, treatment and supply systems, under the EU Taxonomy. We invest across these activities to preserve water and support our leakage targets.

Whilst we do not use the Infrastructure Leakage Index ('ILI') when we model our leakage performance, as this is not an approach taken in the UK, we do use Ofwat-approved models. We have asserted that the Ofwat-approved models we use are an adequate alternative, by reference to the EU Taxonomy legislation, in the absence of further guidance. This represents 42%, 44%, and 55% of our aligned Turnover, Opex and Capex respectively.



## Waste water networks

**We maintain over 93,000km of sewer pipes and 1,005 waste treatment works. We invest around £500 million a year (across both Opex and Capex) in our waste network and work hard to reduce blockages and prevent flooding and pollution. We are proud to have zero pollution failures against the Urban Waste Water Treatment Regulations ('UWWTR') in the past financial year, and as a result we meet the requirements to 'Do No Significant Harm' to the EU Taxonomy objective 'Pollution prevention and control'.**

For price control purposes, our wastewater network is split into two key categories within our 'Wastewater Network +' activity. These are 'Sewage collection' (made up of foul, surface water drainage, and highway drainage) and 'Sewage treatment' (made up of sewage treatment and disposal, and imported sludge liquor treatment).

Through our analysis, we identified that our sewage collection activities in our Severn Trent Water business are aligned to the climate change mitigation objective under 'Construction, extension and operation of wastewater collection and treatment'. For our sewage treatment activities we meet the substantial contribution criteria set out under the climate change mitigation objective, but we need to expand on our existing climate adaptation risk analysis and put clear plans in place, to ensure we 'Do No Significant Harm' to the climate change adaptation objective.

Our activities are not aligned to the substantial contribution criteria for 'Renewal of wastewater collection and treatment', as our current approach to renewal investment in our wastewater activities does not provide a confirmed reduction in energy consumption by the targeted 20% set by the EU Taxonomy requirements.

## Eligible Activities not aligned to the EU Taxonomy

**As set out in the case studies throughout this report, we carry out a wide range of business activities eligible to report under the EU Taxonomy. Not all of these are aligned to the requirements, and as a result they impact the value of the financial KPIs we report for alignment.**

We have undertaken a detailed gap analysis to establish the reasons for non-alignment across the business, and established an action plan that has been agreed at executive level.

Through this review, we identified that significant areas of our business such as elements of both Severn Trent Green Power and our Bioresources business, would be aligned to the EU Taxonomy objectives if we had more detailed climate adaptation risk plans in place.

Beyond these areas, we have greater clarity on the level of contribution expected to make a substantial impact on climate change. For example, renewals to our waste water treatment and infrastructure assets would need to target a 20% reduction in energy consumption to meet the criteria set.

Given the breadth of our business and our commitment to Net Zero, other areas of focus may become additional eligible activities in the future. For example, as we complete our Net Zero Hub over the coming months, we may identify activities that expand our contribution to the circular economy objective of the EU Taxonomy.

We are already establishing new internal processes to capture and report on the progress we make against the gaps we have between eligibility and alignment, and we look forward to implementing action as a result.





# SUMMARY

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**Given the greater level of insight we now have into the EU Taxonomy system, we look forward to incorporating our findings into our internal strategic plans, and welcome the opportunity this gives to our business and the investor community.**

We will continue to disclose the results of our analysis in future publications of our Annual Report and Accounts, ensuring annual visibility of our business' alignment to the EU Taxonomy, and the progress we make as we interrogate our gap analysis.

### **Assurance statement**

This disclosure has been subject to external third line assurance by DNV Business Assurance Services UK Limited ('DNV'). The assurance statement issued as a result of this work is appended to this disclosure.



# FOR FURTHER INFORMATION

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Contact details

[investorrelations@severntrent.co.uk](mailto:investorrelations@severntrent.co.uk)

or

[CorporateResponsibility@severntrent.co.uk](mailto:CorporateResponsibility@severntrent.co.uk)

Supporting documents links

[ARA](#)

[DWMP](#)

[Sustainability Report](#)

[WRMP](#)

[Adaptation Report](#)

[Drought Management Plan](#)



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# Independent Limited Assurance Report

## to the Management of Severn Trent plc

Severn Trent plc (“Severn Trent”) commissioned DNV Business Assurance Services UK Limited (“DNV”, “us” or “we”) to conduct a limited assurance engagement over Selected Information presented in the report titled ‘Our EU Taxonomy Disclosure – November 2023’ (the “Report”) for the reporting period ended 31<sup>st</sup> March 2023.



**Our Conclusion:** Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information is not fairly stated and has not been prepared, in all material respects, in accordance with the Criteria.

This conclusion relates only to the Selected Information, and is to be read in the context of this Independent Limited Assurance Report, in particular the inherent limitations explained overleaf.

### Observations

As part of our engagement, we made the following observations which do not affect our conclusion set out above:

1. We noted that for two material economic activities, Severn Trent's EU Taxonomy alignment analysis is based on the interpretation that they are using an "appropriate alternative" methodology to measure both their leakage performance and to set threshold values. The EU Taxonomy legislation offers provision for an appropriate alternative methodology to be used if alignment with EU-specific legislations cannot be demonstrated.
2. We noted that Severn Trent uses a pro-rata methodology to allocate turnover, OpEx and CapEx figures from its internal price controls to economic activities as defined within the EU Taxonomy legislation. This pro-rata methodology is outlined in the Report.
3. We noted that Severn Trent has demonstrated 53% aligned turnover, 53% aligned OpEx and 62% aligned CapEx, and that it has identified focus areas and actions that need to be addressed to increase the alignment levels, as outlined in the Report.

### Selected Information

The scope and boundary of our work is restricted to Severn Trent's EU Taxonomy-aligned disclosures included within the Report for the reporting period, and to the key performance indicators (KPIs) (the “Selected Information”), as listed below:

- Turnover KPI: Proportion of the net turnover derived from products or services that are taxonomy-aligned.
- OpEx KPI: Proportion of the operating expenditure associated with taxonomy-aligned activities.
- CapEx KPI: Proportion of the capital expenditure of activities that are taxonomy-aligned.

To assess the Selected Information, which includes an assessment of the risk of material misstatement in the Report, we have used the following EU Taxonomy criteria supported by Severn Trent's EU Taxonomy Technical Paper (the “Criteria”).

Selected information	Applicable Criteria
<p>The following Severn Trent's EU Taxonomy-aligned disclosures:</p> <ul style="list-style-type: none"> <li>▪ Turnover KPI;</li> <li>▪ OpEx KPI; and</li> <li>▪ CapEx KPI.</li> </ul>	<p>Article 8 of EU Regulation 2020/852 from the European Parliament and the Council of 18 June 2020, as well as Annex I and Annex II in the Delegated Act supplementing Article 8 of the Taxonomy Regulation (EU Commission's Delegated Regulation 2021/2178 of 6 June 2021), as interpreted by Severn Trent and as described in its EU Taxonomy Technical Paper.</p>

We have not performed any work, and do not express any conclusion, on any other information that may be published in the Report or on Severn Trent's website for the current reporting period or for previous periods.

### Our competence, independence and quality control

DNV established policies and procedures are designed to ensure that DNV, its personnel and, where applicable, others are subject to independence requirements (including personnel of other entities of DNV) and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV holds other audit and assurance contracts with Severn Trent, none of which conflict with the scope of this work. Our multi-disciplinary team consisted of professionals with a combination of environmental and sustainability assurance experience.

### Standard and level of assurance

We performed a **limited** assurance engagement using DNV’s assurance methodology which is based on our professional experience, and international assurance best practice including the International Standard on Assurance Engagements (ISAE) 3000 – ‘Assurance Engagements other than Audits and Reviews of Historical Financial Information’ (revised) issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance. The engagement was carried out from September 2023 to October 2023.

DNV applies its own management standards and compliance policies for quality control, in accordance with ISO/IEC 17021:2015 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. We planned and performed our work to obtain the evidence we considered sufficient to provide a basis for our opinion, so that the risk of this conclusion being in error is reduced but not reduced to very low.

### Basis of our conclusion

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information; our work included, but was not restricted to:

- Conducting interviews with Severn Trent’s management and personnel to obtain an understanding of the key processes, systems and controls in place to generate, aggregate and report the Selected Information;
- Performing limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported;
- Reviewing that the data, the evidence and their scope provided to us by Severn Trent for the Selected Information is prepared in line with the Criteria;
- Assessing the appropriateness of the Criteria for the Selected Information; and
- Reading the Report and narrative accompanying the Selected Information within it with regard to the Criteria.

### DNV Business Assurance Services UK Limited

London, UK  
21<sup>st</sup> November 2023



### Inherent limitations

All assurance engagements are subject to inherent limitations as selective testing (sampling) may not detect errors, fraud or other irregularities. Non-financial data may be subject to greater inherent uncertainty than financial data, given the nature and methods used for calculating, estimating and determining such data. The selection of different, but acceptable, measurement techniques may result in different quantifications between different entities. Our assurance relies on the premise that the data and information provided to us by Severn Trent have been provided in good faith. DNV expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Independent Limited Assurance Report.

### Responsibilities of the Management of Severn Trent and DNV

The Management of Severn Trent have sole responsibility for:

- Preparing and presenting the Selected information in accordance with the Criteria;
- Designing, implementing and maintaining effective internal controls over the information and data, resulting in the preparation of the Selected Information that is free from material misstatements;
- Measuring and reporting the Selected Information based on their established Criteria; and
- Contents and statements contained within the Report and the Criteria.

Our responsibility is to plan and perform our work to obtain limited assurance about whether the Selected Information has been prepared in accordance with the Criteria and to report to Severn Trent in the form of an independent limited assurance conclusion, based on the work performed and the evidence obtained. We have not been responsible for the preparation of the Report.

### DNV Supply Chain and Product Assurance

DNV Business Assurance Services UK Limited is part of DNV – Supply Chain and Product Assurance, a global provider of certification, verification, assessment and training services, enabling customers and stakeholders to make critical decisions with confidence.

[www.dnv.co.uk/BetterAssurance](http://www.dnv.co.uk/BetterAssurance)