

Our Board, governance and compliance

Providing robust Governance, Risk Management and Compliance led by our Board

About this section

This section sets out our Board structure, its vision and how we meet our statutory duties and obligations to our customers. In doing this we have considered Ofwat's objectives set out in its January 2019 publication 'Board leadership, transparency and governance – conclusions on revising the principles', its Company Monitoring Framework (CMF), and its Information Notices on Regulatory Accounting Guidelines for 2018/19 reporting.

Throughout this section we reference a number of different documents where you can find more detailed information on our policies, which are available on the Severn Trent Plc website. These include:

- Our group Company structure.
- Detailed information about the Severn Trent Plc Board, Hafren Dyfrdwy Board, other committees including our Plc Audit Committee and Plc Remuneration Committee; and their respective terms of reference.
- 'Doing the right thing' policy.
- Matters reserved policy.
- Conflicts of Interest Policy.
- Remuneration Policy.
- Our assurance summary, which can be found in appendix A.

Our Board's annual risk and compliance statement as set out under licence condition J (levels of service) and Ofwat's CMF is included at the end of this section.

Board leadership, transparency and governance

Hafren Dyfrdwy is fully committed to Ofwat's principles for Board leadership, transparency and governance with its emphasis on the importance of strong Board leadership and the special responsibilities attached to regulated monopoly companies providing an essential public service. As such, our disclosures have been revised this year to fully articulate how we apply the principles and provides links to additional published information where relevant. As we have targeted ourselves against Ofwat's 2019 Board leadership principles, we believe we go above and beyond the original 2014 principles.

Our purpose, values and culture

Our purpose is to serve our communities and build a lasting water legacy. This drives our vision to deliver an outstanding customer experience, best value service and environmental leadership. During the year we were delighted to see this commitment recognised when Severn Trent was named as a pathfinder with the 'Purposeful Company Task Force' - an initiative that seeks to transform British business with purposeful companies, committed to creating long-term value, through serving the needs of society. We are the only utility group to receive this honour.

This understanding and recognition of social purpose has never been more important – our purpose connects us with our customers and communities, inspires our people and reinforces that in the long-term we all share the same interests. We believe that transforming our services and driving growth will lead to mutual benefit for all, with performance that delivers benefits to one group while also delivering

for others. The interests of our stakeholders are often interlinked, with many of our employees also being our customers.

You can read more in our social purpose section of the Hafren Dyfrdwy Cyfyngedig Annual Report and Accounts ('ARA') and our 'explaining Company performance and direction' section on pages 8-11. This sets out what our social purpose is achieving for customers, the environment and society as a whole as well as our colleagues.

Focus on culture

Our Board is responsible for establishing Hafren Dyfrdwy's purpose, vision and strategy, and satisfying itself that its culture is aligned with our Code of conduct, 'Doing the Right Thing', which sets out clearly defined values and standards of behaviour that we expect from everyone who works for, and with, Hafren Dyfrdwy. These values embody the principles by which we operate, and provide a consistent framework for responsible business practices. The supporting policies 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 Severn Trent Plc Board monitors compliance with the Code through consideration of mandatory training completion rates by all subsidiary companies including Hafren Dyfrdwy.

Our purpose – to serve our communities and build a lasting water legacy – reflects why we do what we do. Our strategy provides us with what we do. But how we deliver our purpose and strategy is what differentiates us and sets us apart and that is driven by our culture, values and behaviours.

During the year, our Board spent time deepening its understanding of Hafren Dyfrdwy’s culture, through a dedicated Company purpose and culture session that focused on the results of the Hafren Dyfrdwy employee survey ‘QUEST’ and other forms of employee engagement. Our Board considered the results of the survey and discussed the Company’s approach to addressing areas of employee focus.

Additionally, our Board routinely interacts with employees as part of its site visit programme. These direct interactions with employees, specifically in relation to culture, allow our Board to understand first-hand the key issues identified by our workforce, and provide an opportunity to feedback specific insights.

Our Board continually monitors, assesses and reinforces our values and culture to satisfy itself that the behaviours throughout the business are aligned with the Company’s purpose. Where misalignment is identified by our Board, appropriate corrective action is taken. No instances of misalignment were identified during the year.

Group structure

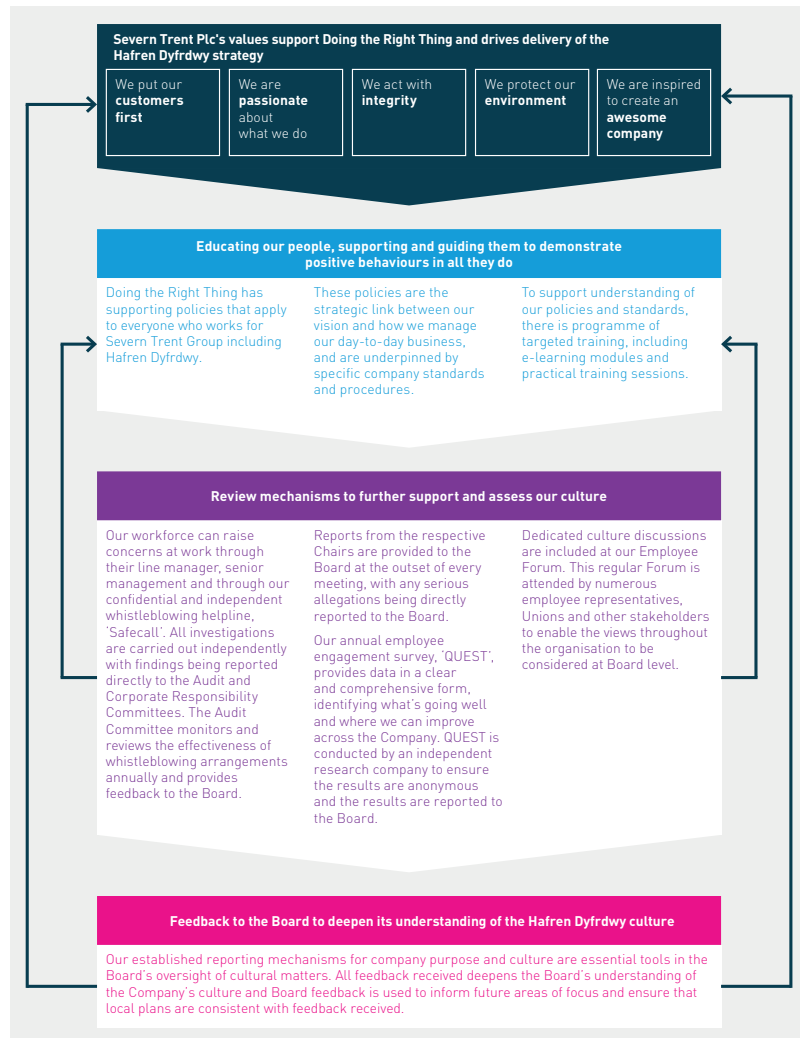
Hafren Dyfrdwy is an operating subsidiary of the FTSE 100 Company Severn Trent Plc, which means we operate at the high standards expected of a publicly listed Company. Severn Trent Plc also publishes its own ARA and a history of the dividend payments for Severn Trent Plc going back to 1990 is available on the Severn Trent Plc website. Severn Trent Plc’s dividend policy is to ensure clarity about how its investors are rewarded based on performance through the group’s activities. We believe we are prudent in how we manage financial risk and even-handed in the way we share the returns from our outperformance with customers and shareholders; we pay our taxes in full and on time; we pay executive salaries that are linked to the

delivery of outcomes to customers; and we avoid complex offshore financial vehicles.

The ownership structure of Hafren Dyfrdwy Cyfyngedig within the Severn Trent group can be found on the Severn Trent Plc website.

A standalone regulated Company and our board structure

Our Board’s role is to ensure the long-term success of Hafren Dyfrdwy. Maintaining the highest standards of governance is integral to the effective delivery of our strategy and ensuring that our 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. Details of the experience of our Hafren Dyfrdwy Board can be found on our website.



Our Board’s collective experience enables it to reach decisions in a focused and balanced way, supported by independent thought and constructive debate between our 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 benefit of the Company in full consideration of the impact on all stakeholders. Responsibility to all of our stakeholders for the approval and delivery of Hafren Dyfrdwy’s strategy and for creating and overseeing the framework to support its delivery sits with our Board.

The majority of our Board and Board Committees comprise independent Non-Executive Directors and there is a clear division of responsibilities between the roles of Chairman and CEO. To allow these responsibilities to be discharged effectively, our Chairman and CEO maintain regular dialogue outside the boardroom, to ensure an effective flow of information.

The requirements of our Board are clearly documented in the Hafren Dyfrdwy Cyfyngedig Articles of Association and Schedule of Matters Reserved to the Board. These set out matters that are reserved for shareholders and the parent Company (where applicable). They also contain provisions in respect of Hafren Dyfrdwy’s regulated business, including strategy and management.

Board appointments and induction

Any new appointments to our Board result from a formal, rigorous and transparent procedure, responsibility for which is delegated to the Nominations Committee (although decisions on appointments are a matter reserved to the Board). Further information can be found in our ARA.

We have an established induction programme in place which can be tailored to meet the requirements of individual Directors and includes the following elements/details:

- Ofwat pre-appointment process.
- Our business and how we are regulated, including performance.
- Strategy.
- Key operations and processes including an immersive, practical journey through the water and waste cycles.
- Key stakeholder relationships.
- Customer delivery.
- Capital delivery and commercial.
- How the business is financed and financial performance.
- Our people and how we work, including health, safety and wellbeing, talent and succession, Trade Unions and an overview of our Remuneration Policy.
- Risk and audit, including the Hafren Dyfrdwy risk profile and our approach to risk.
- Face-to-face meetings with key senior colleagues.
- Directors’ duties.
- Governance matters and Group policies.

We continually enhance our

Board’s induction process, in full consideration of feedback from new appointees and the Board effectiveness evaluation.

Board effectiveness

The effectiveness of our Board is reviewed at least annually, and the 2018/19 evaluation was internally conducted by the Chairman this year with support from the Company Secretary through a series of one-to-one meetings in January and February 2019.

The evaluation concluded that our Board and Nominations Committee were effective and that all Directors were considered to have demonstrated considerable commitment and time to their roles. The Board is considered to be of the right size and has an appropriately diverse and complementary mix of background, skills and cognitive thought.

Our Board noted that PR19 approval and submission had been particularly well managed and that the use of additional Board Committee meetings and briefing papers had ensured that this topic had not distracted the Board from considering other strategic issues and operational performance oversight.

Board and Committee membership and meeting attendance

Details of Board and Board Committee membership, number of meetings held and attendance can be found in our ARA.

Board Membership

Board/Board Committee	Membership
Hafren Dyfrdwy Cyfyngedig Board	Chairman
	One Non-Executive Director
	Three Independent Non-Executive Directors (independent on appointment)
	Two Executive Directors

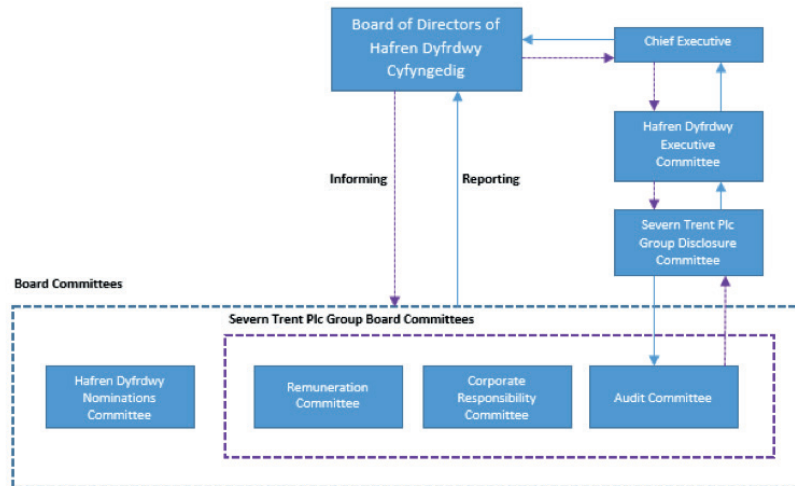
Our governance and assurance framework

The Hafren Dyfrdwy Board is supported by the Severn Trent Plc Governance Framework, which is set out below. The Governance Framework comprises the Board, Executive Committee and their respective Committees.

In line with the 2016 UK Corporate Governance Code, the Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the Board on decisions and actions taken, and making any necessary recommendations to the Board in line with their terms of reference. They also review whether they have discharged their duties under their terms of reference. The Severn Trent Plc Board regularly reviews the terms of reference of each Committee, with the exception of the Hafren Dyfrdwy Nominations Committee (which were reviewed by the Hafren Dyfrdwy Board during the year). The individual Committee terms of reference are available on the Severn Trent Plc website. The Governance Framework is also subject to periodic review to ensure that it remains appropriate.

The Severn Trent Plc Disclosure Committee oversees the Group's reporting obligations under the Companies Act 2006, the UK Corporate Governance Code, the UKLA Listing, Rules, Disclosure Guidance and Transparency Rules and the Company's annual and continuing regulatory reporting requirements, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received.

To support our governance framework, we also have a well-established, rigorous and robust assurance and performance reporting framework. Our



assurance plan for this financial year, 2018/19, continues the high standard processes we developed and implemented in the previous years, for reporting our performance commitments in our ARA and APR.

To ensure we're applying an effective programme of assurance, while balancing value for money, we operate a three lines of assurance model. We target this model using a risk-based approach so areas that we know are of prime importance to customers or may have a significant financial value or operational impact receive the full three lines of assurance while other areas may be targeted with first or second line only. This approach ensures our spending on assurance is proportionate and aligns to what our customers value most. The diagram on page 17 details the three lines and the typical activities that each level is responsible for.

We use a combination of assurance providers for third line activity. The majority of our assurance is provided by the following:

- Black & Veatch – review non-financial operational performance processes and data in respect of the Wrexham area.
- Jacobs - review non-financial operational performance processes and data in respect of

the Powys area. Also responsible for cost allocation activities and financial reporting processes.

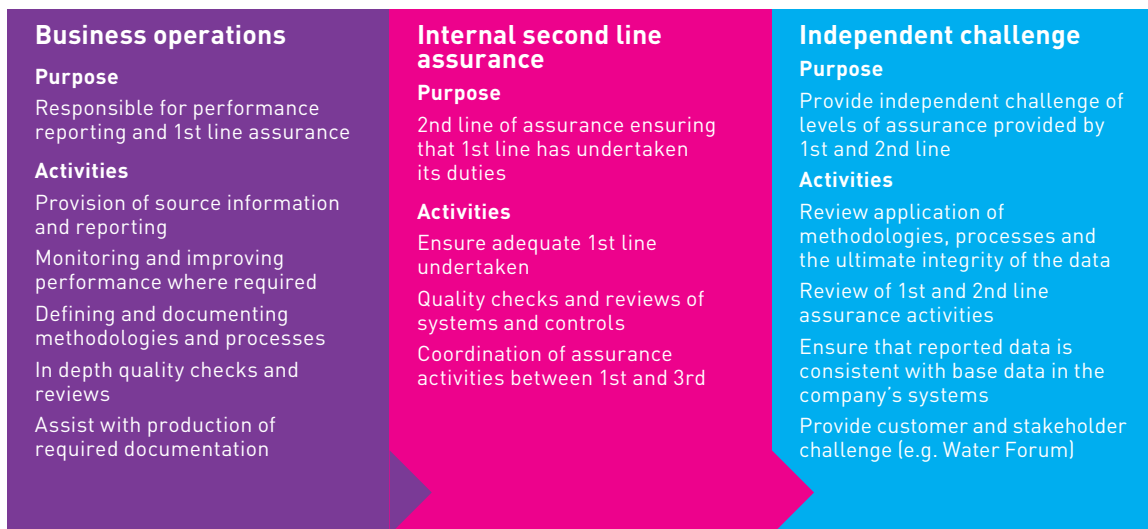
- Deloitte – our financial data and statutory auditor.
- Internal Audit – used for ad-hoc activity and data audits.

We use this model for our regulatory returns so that we, and our customers, have a level of assurance that our submissions have been well prepared - consistent with our robust internal processes. These processes are outlined below and the outcome of the assurance is set out in our Assurance Summary on page 108.

Overall accountability for the preparation and production of the APR (which includes reporting of performance against performance commitments and associated Outcome Delivery Incentives ('ODIs')) rests with the Chief Financial Officer. The outcome of the assurance undertaken is reviewed by the Audit Committee on behalf of the Hafren Dyfrdwy Board.

Internal audit and internal controls

The Severn Trent Plc Internal Audit function ('Internal Audit') is an independent assurance function available to the Board, the Severn Trent Plc Audit Committee ('the Audit Committee'), which operates on behalf of Hafren Dyfrdwy,



and all levels of management. Internal Audit is supported by two main co-sourcing partners, PricewaterhouseCoopers and Ernst & Young. This arrangement is reviewed annually and the Audit Committee believes this structure adds value, through greater access to specific areas of expertise, increased ability to flex resources, and the ability to challenge management independently.

The role of Internal Audit is to provide assurance that the Group's risk management and internal control systems, are well designed and operate effectively and that any corrective action is taken in a timely manner. Each year, Internal Audit develops an annual risk-based audit plan for approval by the Audit Committee and performance dashboards to enable onward monitoring of the plan's execution. The Audit Committee challenges the audit plan, specifically whether the key risk areas identified as part of the Enterprise Risk Management ('ERM') process are being audited with appropriate frequency and depth, and also by bringing an external view of risks the Company may be exposed to. The Head of Internal Audit is invited to attend all Audit Committee meetings. The performance dashboards summarise the performance of the Internal Audit function over the year against key measures

and are reviewed by the Audit Committee twice a year. Following the completion of each planned audit, the Internal Audit function seeks feedback from management which is reported through the performance dashboards and assessed in turn by the Audit Committee twice a year.

To ensure continued efficiency, an external review of the effectiveness of Internal Audit was carried out in January 2019. The review, performed by BDO Global, concluded that the Internal Audit function is fit for purpose, is operating efficiently and effectively and in line with good practice.

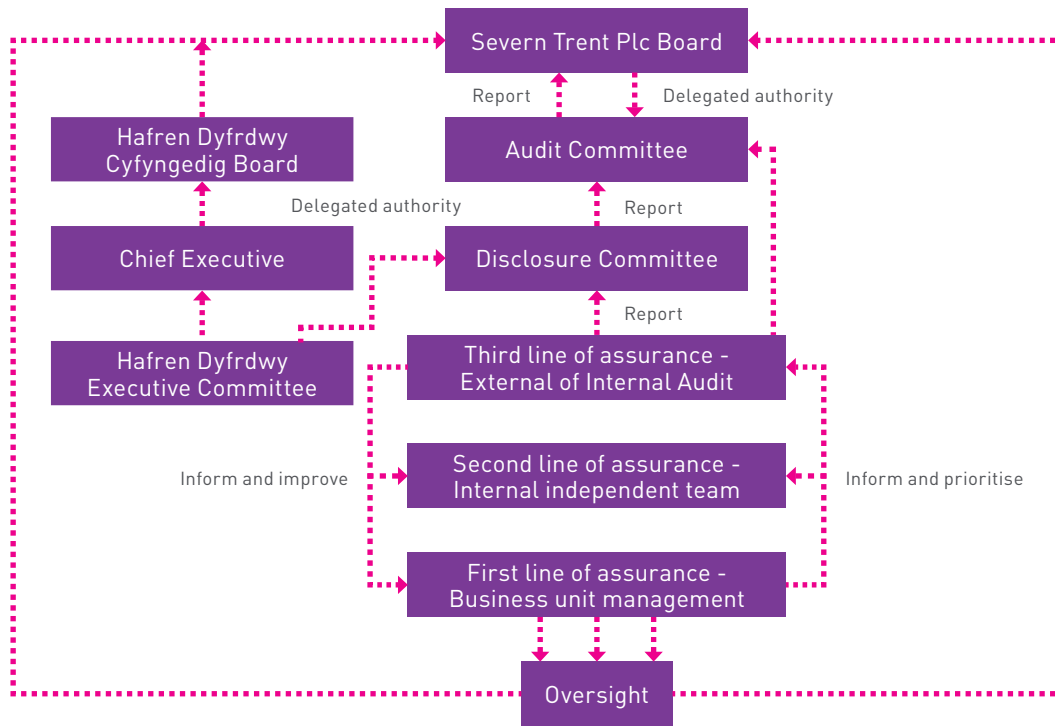
The effectiveness of the controls over the Company's financial reporting is also monitored by the Audit Committee, which receives reports of the testing conducted by the External Auditor. The Audit Committee is confident that, where any failings or weaknesses are identified in the course of its review of internal control systems, management puts in place robust actions to address these on a timely basis. An internal control system can provide only reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Conflict of interest process in action: Revised Group governance arrangements

Following the integration of Hafren Dyfrdwy with the Severn Trent Group, we reviewed our governance arrangements in full consideration of Ofwat's Board leadership, transparency and governance principles. Our Board recognises that there is potential for conflicts of interest to arise from the existence of shared directorships between Severn Trent Water, Severn Trent Plc and Hafren Dyfrdwy.

Severn Trent Plc has a Conflicts of Interest policy in place for all Group companies, including Hafren Dyfrdwy, and our Board considers potential conflicts at the outset of every meeting. The policy promotes independent decision making by our Boards, specifically in respect of any matters where there might be a conflict between the interests of our Boards and the interests of another part of the Group. This ensures that the Boards act in the interests of their respective stakeholders, including customers. Our Boards review the authorisation of any potential conflicts of interest every six months. A copy of the policy is available on the Severn Trent Plc website

In addition, the Hafren Dyfrdwy Board also conducted an annual review of individual Director conflict



authorisations as recorded in our 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 our Board in line with their statutory duties and the practical steps that are to be taken to avoid conflict situations. When reviewing conflict authorisations, our Board considers any other appointments held by the Director as well as the findings of our Board effectiveness evaluation. Should a conflict or potential conflict materialise, then we have a documented process which provides that the relevant Director(s) may not take part in the subject matters to which the conflict relates and may not vote in respect of any decision taken in relation to it.

The policy continues to be applied practically throughout the year, for example in considering the potential conflict presented by Directors having roles on other Group companies. For example, in September 2018 modifications were made to the Audit Committee meeting structure to facilitate dedicated Committee focus for Hafren Dyfrdwy regulatory matters and remove a potential conflict of interest scenario in relation to John Coghlan who is a Director of both Severn Trent Water and Hafren Dyfrdwy.

Monitoring performance and compliance

Performance

Our performance commitments matter to our customers and to us. Our Board is fully engaged in monitoring and assessing the quality of our performance against the commitments and obligations set out in the 2014 Final Determination and providing challenge through our established governance arrangements. These will continue into 2020 and beyond to ensure delivery of our PR19 performance commitments. Performance is reported to and reviewed monthly by the Executive Committee and at every Board, and through the Severn Trent Plc Disclosure Committee and Audit Committee at least twice at mid-year and year end points in the reporting cycle.

Compliance

The statutory and regulatory obligations relevant to our functions as a water and sewerage undertaker are primarily set down in the Water Industry Act 1991 and our Instrument of Appointment - the "licence". The licence also requires us to perform duties imposed under other statutory and regulatory obligations as necessary to fully discharge our duties as a

water and sewerage undertaker. Our approach to achieving compliance with our statutory and regulatory obligations is based on establishing sound governance and systems of internal controls. We set ourselves high standards, though it is important to understand that such systems cannot provide absolute guarantees.

Since Hafren Dyfrdwy, and previously Dee Valley Water, became a member of the Severn Trent family, we implemented a new compliance framework to provide a robust process to set high levels of compliance backed up by rigorous assurance. We continue to refresh and build on this process. Our group compliance and assurance team, oversees this framework and ensures that managers across the Company are aware of their statutory and regulatory obligations. Responsibility for compliance with specific licence conditions and obligations are assigned to individual senior leaders within Hafren Dyfrdwy relevant to their areas of responsibility. This includes the development, implementation and testing of controls to ensure compliance in areas such as policy and standards, procedures, supervision, training, and management information.

An annual process of self-certification takes place to inform this compliance statement, which is called licence to operate and is set out in our assurance summary on page 108 onwards.

In order to comply with the requirements of the Regulatory Accounting Guidelines 5.07 (RAG5), we operate a compliance framework with established processes including: risk assessment and associated controls; guidance and policy documents; maintaining a transaction register; and cost allocation assurance. It also includes senior management sign-off against the requirements of RAG5 via our licence to operate framework. During 2018/19 we have added further controls and governance by establishing a Steering Committee responsible for overseeing RAG5 compliance and reporting directly to the Severn Trent Plc Disclosure Committee. In addition we have established a RAG5 working group reporting directly to the Steering Committee, ensuring that any improvement actions are undertaken at an operational level.

As part of the licence to operate framework, our Board has reviewed and considered any potential departures from our statutory and regulatory obligations

Risk management

Risk is all about uncertainty which, we recognise, can manifest itself as both negative and positive impacts. Our goal is to minimise the threats and maximise the opportunities for the benefit of our customers, shareholders, employees, supply partners and the environment.

Our Board has overall accountability for ensuring that risk is effectively managed across Hafren Dyfrdwy. The Board’s mandate includes defining risk appetite and monitoring risk exposure to ensure significant risks are aligned with the overall strategy of Hafren Dyfrdwy.

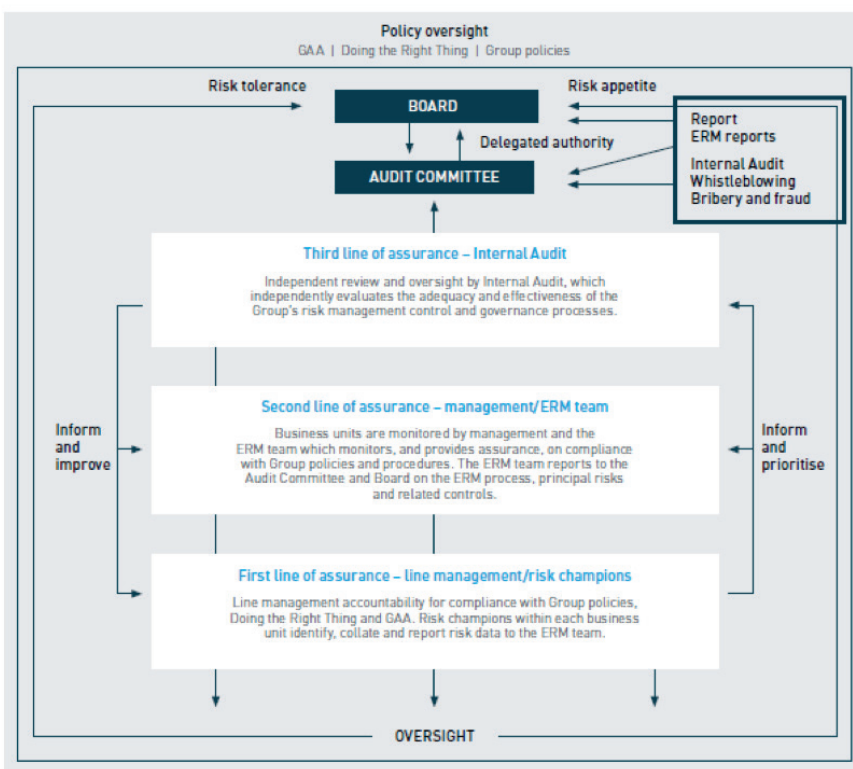
On behalf of the Board, the Audit Committee assesses the effectiveness of the Group’s ERM process and internal controls to identify, assess, mitigate and manage risk.

The Hafren Dyfrdwy Executive Committee reviews strategic objectives and assesses the level of risk taken in achieving these objectives. This ‘top down’ risk process helps to ensure the ‘bottom up’ ERM process, described below, is aligned to current strategy and objectives. The management of risk is embedded in our everyday business activities. We manage risks within the overall Governance Framework which includes clear accountabilities, delegated authority limits and reward policies. These are designed to provide employees with a holistic view of effective risk management.

Hafren Dyfrdwy’s risk management governance process is based on the three lines of assurance model and is scrutinised by the Audit Committee, through delegated authority from the Board.

Within Hafren Dyfrdwy, our approach to risk reflects our status as a regulated utility providing essential services and operating as part of the Critical National Infrastructure for the UK. The nature of the business is such that there are some significant inherent risks. We have a strong control framework in place to enable us to understand and manage these risks in accordance with our risk tolerance and appetite. Given the relative size of Hafren Dyfrdwy in the Severn Trent Group, the Audit Committee are managing risks which are material at a Company level as well as at a Group level.

Our approach to risk reflects our status as a regulated utility providing essential services and operating as part of the Critical National Infrastructure for the UK. The nature of the business is such that there are some significant inherent risks.



Risk appetite

The Board keeps the relationship between our strategic ambitions and the management of risk under continual review. The ERM process establishes target risk positions for each of our significant risks.

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.

These have been categorised across:

- Customer perception.
- Legal, regulatory and environment.
- Operations, assets and people.
- Financial risks.

The principal risks, what they mean for us and what we are doing to manage them are set out on pages 20 to 24 of our ARA.

Customer expectations and stakeholder engagement

We recognise the importance of our commitment to delivering outcomes that reflect our customers' views and environmental needs.

Our customer ODIs provide a transparent mechanism by which we can demonstrate to our customers whether the performance they have received from us is subject to a reward or penalty. We believe our customer ODIs provide strong incentives for us to innovate and become more efficient, protecting our customers against instances of under-delivery and where merited, rewarding us for outperformance in areas where customers are willing to pay more to receive more of what they want.

Since Dee Valley Water became a member of the Severn Trent family we have carried out extensive customer engagement to co-create our PR19 plan for Hafren Dyfrdwy, as well as continuing to track customer sentiment through our quarterly customer tracker. Our Customer Challenge Group, has played a vital role in challenging our customer engagement and reflecting the views of our customers.

In addition to our established 'business as usual' engagement with our regulators, customers and other stakeholders, we undertook focus groups and targeted research to understand our customer views on our plans for assurance, which included three face to face focus groups with customers impacted by the change between Severn Trent Water and Hafren Dyfrdwy.

From an external stakeholder perspective, our vision is to deliver an outstanding customer experience, best value service and environmental leadership; this desire aligns closely to Ofwat's shared vision 'where customers, investors and wider society have trust and confidence in vital public water and waste water services'.

Consistent with the CMF we have considered the risk to customer 'trust and confidence' in the context of provision of accurate data and our ability to demonstrate we are listening to their needs and delivering the services they want and can afford.

We were disappointed to remain 'prescribed assurance' in Ofwat's January 2019 assessment despite acknowledgment that we had made improvements from the prior year. 'Prescribed assurance' companies must put in place assurance processes that give stakeholders the confidence that the information they publish is accurate and reliable. Additionally, 'prescribed assurance' companies are required to:

- Carry out an exercise with stakeholders to identify areas of risks requiring additional assurance
- Publish a statement of risks, strengths and weaknesses on this in the autumn of each year in advance of submitting information.
- Publish their assurance plans for all information in advance of reporting.
- Target their areas of greatest risk with third line assurance.

We sought the views of our customers and stakeholders on our draft assurance plan, published in November 2018 and used these to shape our final assurance plan, which was published in February this year. Our aim has been to address the issues highlighted by Ofwat in their CMF assessment and improve the trust and confidence of all our stakeholders.

Additionally, we have continued to share our operational performance with CCWater on a quarterly basis and consult with external stakeholders on our assurance plans to ensure we received appropriate levels of customer challenge and scrutiny. This year we added a 'regulatory library' to our website to ensure

all our regulatory submissions could be viewed in one place with a prominent link displayed at the top of the homepage. Our communications and customer research teams are continuing improve the way we share our regulatory reporting information in a transparent way that is accessible and engaging to our customers.

Delivering for customers and stakeholders – board engagement

Our Board recognises the importance of considering all stakeholders in its decision-making, as set out in section 172 of the Companies Act, and the positive impact this has in promoting the success of the Company as a whole.

Hafren Dyfrdwy’s success also depends on our Board taking decisions that deliver mutual benefit to our customers, communities and other stakeholders. Our Board meets with stakeholders throughout the year, a summary of which can be found in the table below:

<p>Customers</p>	<p>Performance Reports tabled at every Board meeting including leakage and our other performance commitments.</p> <p>Extensive customer research and consultation considered regularly by the Board in relation to the PR19 plan and submission.</p> <p>Board attended some of our PR19 customer research sessions, where customers were consulted.</p>
<p>Communities</p>	<p>Employees who live and work in our communities met the Board at site / operational visits.</p> <p>Board received updates on the Group’s volunteering and educational programmes during the year.</p> <p>Board site visit to Nant y Ffrith Reservoir</p>
<p>Employees</p>	<p>Employee-shareholders had the opportunity to meet the Board at site / operational visits.</p> <p>CEO Employee engagement and senior leader events.</p> <p>Board discussion of the QUEST survey results.</p> <p>Board meetings held at a variety of sites, including operational sites. Directors met a number of employees at these events.</p> <p>Board site visits outside of the Board meeting calendar, where Directors met employees and discussed matters with them.</p> <p>Internal blogs by Severn Trent Plc Executive Directors.</p>
<p>Regulators/ Government</p>	<p>Regulatory matters regularly considered at Board meetings, including PR19, Water Resources Management Plan and Scheme of Wholesale Charges.</p> <p>Regulatory stakeholder attendance at Board meetings during the year.</p> <p>Chairman and CEO held regular meetings with Jonson Cox, Ofwat.</p>
<p>Suppliers/ Contractors</p>	<p>Performance Reports tabled at every Board meeting.</p> <p>Executive Director attendance at the Employee Forum, including attendance by suppliers, feedback provided to Board.</p>

Statements from non-financial assurer - Jacobs

Independent Technical Assurance Statement - HD

To the Hafren Dyfrdwy Board

Jacobs has been appointed by Hafren Dyfrdwy (HD) to provide independent technical assurance of the data that feeds into their regulatory submissions. For the Annual Performance Report 2019 (APR19) submission we were asked to review the 2018/19 Legacy Severn Trent Water Performance Commitments, AMP7 common Performance Commitments and non-financial section 4 data on a risk-based approach.

Through a series of meetings and information exchanges, we have reviewed and tested the methodologies and processes on which the relevant statements in the APR19 are based, and we have considered the material accuracy of the performance data presented. Our findings have been discussed with management and the ST Plc Audit Committee.

On the basis of our audit work, we are satisfied that the information we reviewed within and which supports the APR19 has been assembled using appropriate methodologies and processes and that the data provides a reliable representation of Company performance. There is also good evidence of engagement from the teams involved in producing the performance data and of governance and programme management. We note that the Board has included issues we noted during our review in its declared departures from compliance in its statement.

Yours sincerely

Alexandra Martin

Divisional Director

Statements from non-financial assurer - Black & Veatch

Annual Performance Review 2019 Independent Technical Assurance Statement

Black & Veatch Ltd has been appointed to provide, among other things, independent technical assurance of information reported in the Annual Performance Report for 2019 (APR19). Our assurance covered only the Wrexham area of the company and was limited to checks on performance reported against selected annual Performance Commitments and against Ofwat Convergence requirements for Leakage, Interruptions to Supply and Per-Capita Consumption.

To provide this assurance we met the members of company staff responsible for collecting and analysing the relevant data and calculating the reported measures. We checked that appropriate procedures were in place and were followed. We followed the audit trail from the figures reported in the APR19 to base data in company systems and confirmed by means of sample checks that these were consistent. We considered the material accuracy of the statements made by the company in its report and checked for material deviations from established procedure. We have provided the company with detailed findings under separate cover.

From our assurance work we are satisfied that for the topics we covered, the information reported in and supporting the APR19 was compiled using appropriate data and methodologies and provides a realistic representation of actual company performance. We identified no material weaknesses or deviations from established procedure.

In our opinion, the company's framework of three lines of assurance provides a good level of confidence that assurance is robust and governance in place. The reporting process and the information for reporting are scrutinized and approved by the Audit Committee and performance is reviewed by the Board.

Stephen Bentley

Independent Technical Assuror
Black & Veatch

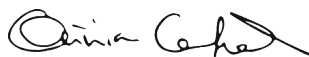
Risk and Compliance Statement

Having reviewed the assurance findings and information contained within our APR, we as a Board have collectively satisfied ourselves that our APR, our PR14 reconciliation, the regulatory statements are sufficiently robust, accurate and complete.

The Board confirms that:

- We have a full understanding of and we comply with our statutory, licence and regulatory obligations in all material respects.
- We have taken appropriate steps to understand and meet customer expectations.
- We have sufficient processes and internal systems of control to fully meet our obligations.
- We have appropriate systems and processes in place to identify, manage, mitigate and review our risks.
- We have reviewed our governance to ensure the regulated Company maintains the principles as if it is a separate public listed Company.

Signed for and on behalf of the Board:



Liv Garfield
Chief Executive
Hafren Dyfrdwy Cyfyngedig



Mohammed Mehmet
Non-executive Director
Hafren Dyfrdwy Cyfyngedig



John Coghlan
Chairman
Hafren Dyfrdwy Cyfyngedig

9 July 2019