

# Hafren Dyfrdwy Cyfyngedig Annual Performance Report 2019

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WONDERFUL ON TAP

HAFREN  
DYFRDwy  
severn dee

# Contents

Introduction	3
Explaining company performance and direction	8
Our Board, governance and compliance	12
• Statements from our non-financial assurers	22
• Risk and Compliance Statement	24
Regulatory statements	25
• Disclosures required by RAG 3	26
• Ring Fencing Certificate (Condition K and P)	28
Annual performance summary	29
Regulatory accounts for the year ended 31 March 2019	41
• Independent auditor's report	42
• Ofwat data tables Section 1 Regulatory financial reporting	46
• Notes to the regulatory accounts	58
• Ofwat data tables Section 2 Price review and other segmental reporting	61
Additional regulatory information	71
• Ofwat data tables Section 3 Performance summary	72
• Ofwat data tables Section 4 Additional regulatory information	75
• Supplementary disclosures	105
Appendix A - Assurance summary 2018/19	108

# Introduction

We are one of the 11 regulated water and sewerage companies in England and Wales. We provide water and waste water services to customers in North East Wales, from Wrexham and Bretton in the north to Llanidloes and Knighton in the south.

The Company was launched as Hafren Dyfrdwy on 1 July 2018 for customers in Wales who were previously in Severn Trent Water Limited and Dee Valley Water Limited. This aligned our operations around the England – Wales border with national boundaries. Hafren Dyfrdwy provides both water and waste water services to customers in Wales, providing clarity to the market in the region.

Hafren Dyfrdwy is Welsh for 'Severn Dee' and represents the two major rivers in the Welsh region that we proudly serve.

## About us

As part of the above change, the licence of Hafren Dyfrdwy was updated to reflect Ofwat's updated licence conditions, including up to date financial and regulatory ring-fencing conditions.

Through our Company values we deliver the commitments expected of a leading, socially responsible company.

- We put our customers first
- We are passionate about what we do
- We act with integrity
- We protect our environment
- We are inspired to create an awesome company

Litres of drinking water supplied each day

61 million

Litres of waste water  
treated per day

3 million

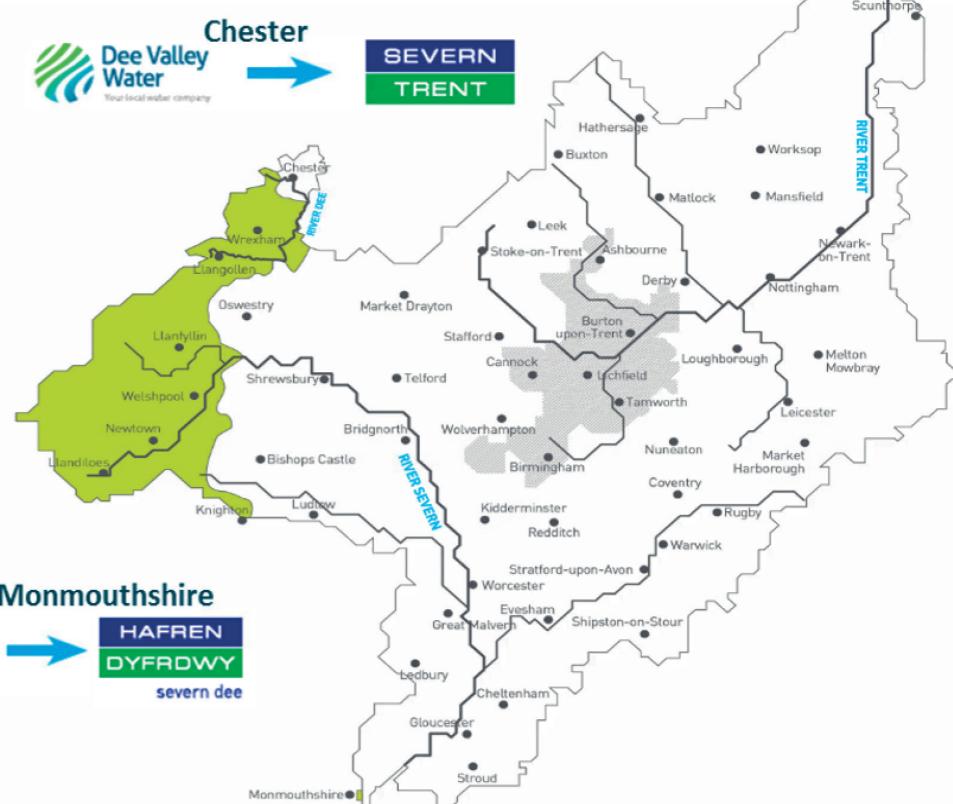
## Number of households and business served

107,000

Average number  
of employees

133

# How Hafren Dyfrdwy has been created from Severn Trent Water and Dee Valley Water



## Ownership

Hafren Dyfrdwy is a subsidiary of Severn Trent Water Limited which is the principal subsidiary of Severn Trent Plc. The full ownership structure of the Company within the Severn Trent Group can be found on the Severn Trent Plc website at [severntrent.com](http://severntrent.com).

## Serving our communities

Every five years we work with our customers to develop new business plans which we agree with our economic regulator, Ofwat. Our plans include commitments to improve our performance. These commitments are in the areas of service that are most import to our customers. Following the launch

of Hafren Dyfrdwy and the licence changes on 1 July 2018 we've had to align targets previously agreed by Severn Trent Water and Dee Valley Water to Hafren Dyfrdwy.

Our average household bill for water and sewerage during the year was £311 per year, or just 85 pence per day. We're proud to say that this is the lowest combined bill in Wales.



# About this report

## Clear and transparent reporting

Providing accurate, clear and understandable information which can be trusted by our stakeholders is important to us. Our Annual Performance Report ('APR') is produced annually to ensure our customers and stakeholders can clearly see how we've performed. It provides:

- A clear and assured account of our financial performance for each price control, based on Ofwat's regulatory accounts framework, to enable customers and stakeholders to consistently assess our relative and absolute performance.
- A clear, detailed and assured account of our performance across our performance commitments in the year.
- In the areas where we've not performed well, the actions we've taken to put things right.

This APR covers the period 1 April 2018 to 31 March 2019.

To enhance the transparency of our reporting we have extended the scope of the 2018/19 APR to include reporting requirements which have previously been published separately. We believe that this will support our customers and other stakeholders to access and use the information which is relevant to them. We have included the following additional sections:

- An overview of our Company performance and direction.
- A section which explains our Board structure and vision and outlines how we meet our statutory duties and obligations. This section includes our Board's annual Risk and Compliance statement.
- Our annual assurance summary is included as an appendix.

## Reporting our performance

Following the boundary alignment on 1 July 2018, we've had to realign targets previously agreed by Severn Trent Water and Dee Valley Water, to the new company Hafren Dyfrdwy.

To avoid making the reporting unnecessarily complex, and to make sure customers in Wrexham and Powys remain protected by the targets originally agreed with Ofwat, we have:

- For customers in Wrexham: We've provided an update for each of the 12 remaining performance commitments originally agreed by Dee Valley Water. The targets reflect performance levels agreed for customers in Wrexham.
- For customers in Powys: We've provided an update for the 45 performance commitments agreed by Severn Trent Water. The targets reflect performance levels agreed for customers in Powys.

The remainder of our 2018/19 APR is set out in the following sections:

Explaining company performance and direction	Summarises our performance during the year, for each our key stakeholders, and our areas of focus going forwards
Our Board, governance and compliance	Sets out our Board structure, vision and how we have met our regulatory duties and obligations, including Ofwat's 2019 Board leadership principles, to our customers during the year. This section includes statements from our non-financial assurers and our Board's annual risk and compliance statement
Regulatory statements	Contains the Regulatory statements approved by our Board
Annual performance summary	Detailed commentary on our operational performance in 2018/19
Regulatory accounts	Regulatory accounting data and disclosures including Ofwat's data tables section 1 and section 2, and our Independent auditor's report
Additional regulatory information	Ofwat's data tables section 3 and section 4 and supplementary disclosures
Appendix 1 Assurance summary and findings	A summary of the assurance undertaken to support our regulatory reporting during the year and the findings of that assurance

## Additional regulatory publications

In addition to the APR, we are publishing the following documents:

- A customer summary which summarises our performance in a way that meets our customers' needs. This will be available in English and Welsh. We'll publish this later in the summer so that we can include comparative performance data.
- A methodology statement which explains the systems and processes used to populate the data tables in the Regulatory accounts.

Hafren Dyfrdwy has also published its Annual Report and Accounts ('ARA') for the year ended 31 March 2019 which is available on our website [hdcmru.co.uk](http://hdcmru.co.uk). The ARA of the Severn Trent Water Group, which include this company, are also available on [stwater.co.uk](http://stwater.co.uk).

Where disclosures in the Hafren Dyfrdwy ARA fulfil the requirements of the APR we have included a cross reference to the relevant section for further information.

# Explaining company performance and direction

## Delivering for those we serve

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.

Our Board is responsible for establishing our purpose, vision, aspirations and strategy, see more on page 13.

As part of the Severn Trent Group we are proud to be a pathfinder for a new breed of long-term, socially purposeful companies working to improve our country's infrastructure. This means that every decision we make is based on providing world-class water services at a fair price. We aim to make the most of our contribution to society as a whole and improve the environment.

Our purpose connects us with our customers and communities, inspires our people and delivers sustainable benefits to our environment. We work with our Severn Trent Water colleagues to understand how to improve services and efficiencies for all stakeholders across our combined regions.

We believe that transforming our services and driving growth will lead to mutual benefit for all, with performance that delivers benefits to one group also delivering for others. The interests of our stakeholders are often inter-linked, with many of our customers also being employees or pensioners.

The key stakeholders we serve are our customers and communities, our people and our environment. Our suppliers and partners support us in delivering for our stakeholders, and we are regulated by Ofwat as well as by a number of other regulators and public bodies. This section summarises how we have performed during 2018/19 for each of these stakeholders.

### Our customers

We serve 107,000 households and businesses. Our customers are at the heart of all we do and we aim to anticipate and meet changing customer and wider societal needs.

We know that keeping bills low is one of their top priorities and so we're proud that our customers benefit from the lowest bills in England and Wales, with an average combined bill of £311 during 2018/19. We're also proud that we've continued to do more to help our customers who are struggling to pay, through a range of support initiatives including flexible payment arrangements and reduced tariff schemes.

Following the transition from Dee Valley Water to Hafren Dyfrdwy we've been busy getting out into local towns and villages, making ourselves available to answer any questions customers might have on bills or anything else. And we've been actively encouraging customers to pop in and see us as we visit locations throughout the region in Dolly, our roadshow vehicle.

We've also been working hard to improve the level of service customers receive when they contact us. Our Customer First initiative, combined with upskilling of more of our customer service staff to deal with more complex billing enquiries, has driven an increase in first time resolution on billing contacts. And we're now seeing benefits from the use of technology, with high self-serve rates through our digital channels and improvements through the use of virtual leakage technicians, where customers can use video calls with our leakage experts to improve our diagnosis of the problem.

However, we know we've got more to do in this area. While we met our target for SIM (Ofwat's current measure of customer service) for non household customers in Wrexham, we were disappointed with our performance for household customers and for our customers in Powys and Monmouthshire.

We recognise that during the prolonged hot, dry weather over the summer we focussed the resources of the business on protecting supplies to customers and supporting those customers who were at risk of, or experiencing, a supply interruption. This was the right thing to do, but it did divert our critical resources from more day-to-day tasks which impacted on our wider service offering to our customers. It also indirectly led to an increase in second stage complaints as customers escalated their concerns.

In AMP7 (Asset Management Plan) SIM is being replaced by a new measure known as C-MeX. This provides a wider view of customer experience of the services we offer and is based partly on customer contact, as with SIM, and partly on customer perception. We're really excited about this as it incorporates all of the activities we do to enrich our customers' lives, such as our visitor experience sites and community work, alongside our operational activities, and we believe it will provide a truer reflection of our relative performance.

Our Annual performance summary 29 to 40 outlines how we have performed on each of our performance commitments, which are the most important issues for our customers.

## Our communities

We are increasingly being seen as having a key role in the everyday lives of local communities and know our customers want us to do more – to improve the environment, to support education and to give something back.

Education gives our customers a better appreciation of our and their roles in achieving societal and environmental goals. Our schools programme continues to focus on three key messages: the importance of using water wisely; helping children understand what they can, and can't, put down the toilet and sink; and the health benefits of staying hydrated. We've complemented this by improving the education section of our website, made use of our social media platforms and provided tips for efficient water use.

We're delighted to support Refill across our region – a fantastic scheme that promotes the health benefits of tap water, while helping to protect the environment. We currently have 90 refill stations in our region and look forward to working with businesses to increase this in the future.

In April 2019, we joined the rest of our sector in agreeing to five challenging pledges which form the new Public Interest Commitment. The new pledges push us to do even more for the communities in which we operate.

## Our people

Our people are fundamental to the success of our business. We directly employ around 130 people. We also work closely with our colleagues in Severn Trent Water, our suppliers and partners, to deliver high quality services to our customers.

We work very hard to ensure Hafren Dyfrdwy is an awesome place to work, one which is welcoming and safe, where good work is rewarded and people are treated with respect. Our goals are to help our colleagues to succeed; to reward fairly people's contributions and to be a company everyone is inspired to work for.

We believe a diverse and inclusive workforce is a key factor in being a successful business and are dedicated to providing opportunities for all. We strive to create careers with purpose and meaning and we support the development of colleagues at every stage of their career journey. The Severn Trent Training Academy is on track to open early in AMP7 and will play a key role in ensuring our people have the right mindset, technical competence and leadership skills for now and the future.

As part of being an awesome place to work it is important that our people are properly rewarded. Our reward strategy is designed to support our purpose, vision and values and to reward all of our employees for delivering

against our strategic objectives. We support our employees to plan for the future and 98% participate in the company pension scheme. Many of our employees are also shareholders in Severn Trent Plc either directly through our Sharesave scheme or indirectly through private pensions, FTSE index trackers or other investments.

We believe that no-one should be hurt or made unwell by what we do. With this in mind we provide extensive training on all aspects of health and safety. We did not experience any major safety incidents and no fatalities during the year. Unfortunately, we were disappointed to experience three lost time incidents. We have plans in place to focus on this over the next year.

## Our environment

Our customers are placing an increasingly high value on the natural environment. We share this view and are committed to protecting and improving it wherever we can.

We look after some of the Wales' most impressive natural resources and take great care to understand and control the impact we have on the environment in everything we do – from taking water from our rivers and reservoirs to returning it safely back to the river in a clean state.

Our Annual performance summary on pages 29 to 40 explains how we have performed on our environmental performance commitments in the year. In addition to our performance commitments we continue to work on delivering our obligations to Natural Resources Wales.

We are looking to do more to maximise the benefits to the environment. As part of this we have committed to the triple pledge of:

- Net zero carbon emissions by 2030
- 100% renewable energy use by 2030; and
- 100% electric vehicles, where available, by 2030.

## Our regulators

Our industry is regulated by Ofwat and a number of other regulators and public bodies. We work with our regulators to shape our industry.

As outlined in more detail on page 5, on 1 July 2018 Hafren Dyfrdwy was launched as a new company bringing together all of the Severn Trent Group's customers in Wales. In September 2018 we submitted our business plan to Ofwat for 2020-25 ('PR19'). Given the lack of historical data, it was not unexpected that the plan was classified as 'significant scrutiny' by Ofwat. We have continued to work constructively with Ofwat to deliver the right outcome for our customers and resubmitted our revised plan in April 2019. We look forward to receiving our Draft Determination in July. Our Customer Challenge Group played a key role in helping to develop and challenge our plan.

# 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.

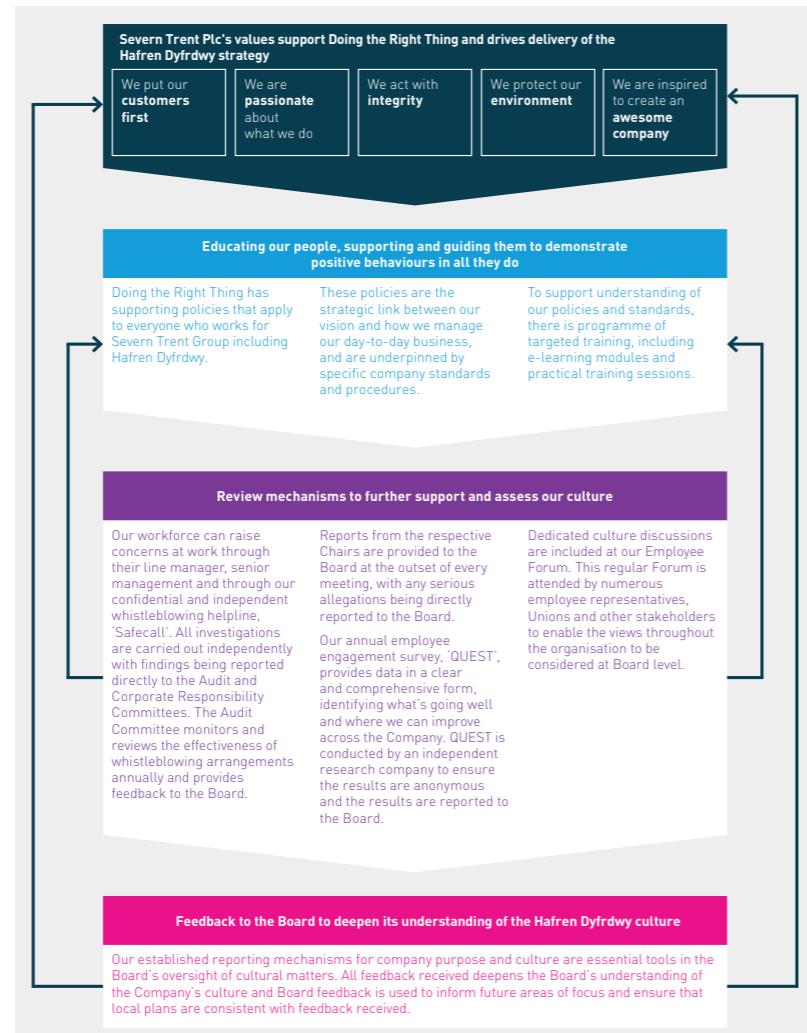
During the year, our Board spent time deepening its understanding of Hafren Dyfrdwy's culture, through a dedicated Company purpose and culture session that focused on the results of the Hafren Dyfrdwy employee survey 'QUEST' and other forms of employee engagement. Our Board considered the results of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

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 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

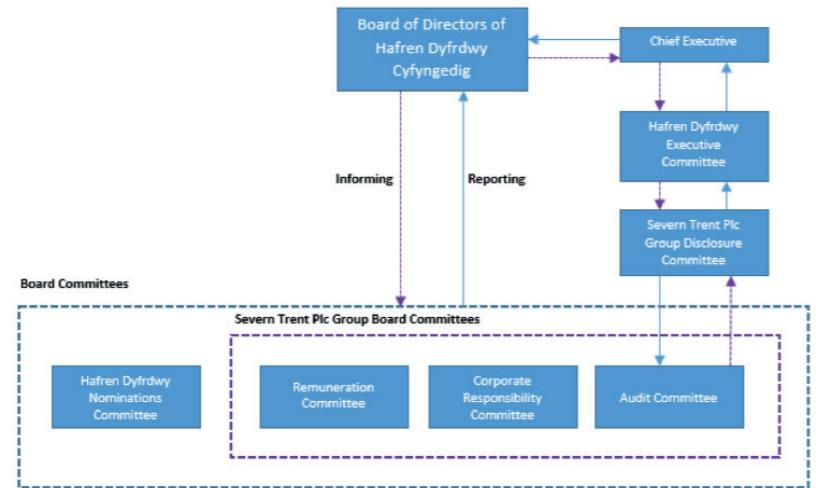
## Our governance and assurance framework

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,

## Business operations

**Purpose**  
Responsible for performance reporting and 1st line assurance  
**Activities**  
Provision of source information and reporting  
Monitoring and improving performance where required  
Defining and documenting methodologies and processes  
In depth quality checks and reviews  
Assist with production of required documentation

## Internal second line assurance

**Purpose**  
2nd line of assurance ensuring that 1st line has undertaken its duties  
**Activities**  
Ensure adequate 1st line undertaken  
Quality checks and reviews of systems and controls  
Coordination of assurance activities between 1st and 3rd

## Independent challenge

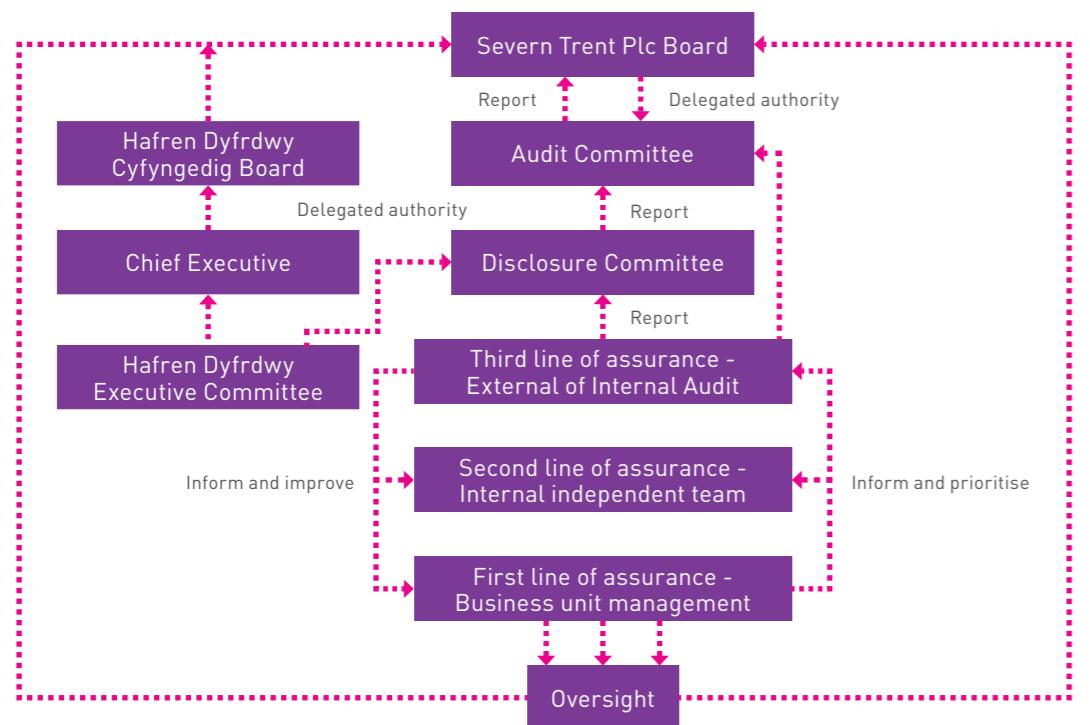
**Purpose**  
Provide independent challenge of levels of assurance provided by 1st and 2nd line  
**Activities**  
Review application of methodologies, processes and the ultimate integrity of the data  
Review of 1st and 2nd line assurance activities  
Ensure that reported data is consistent with base data in the company's systems  
Provide customer and stakeholder challenge (e.g. Water Forum)

## 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.

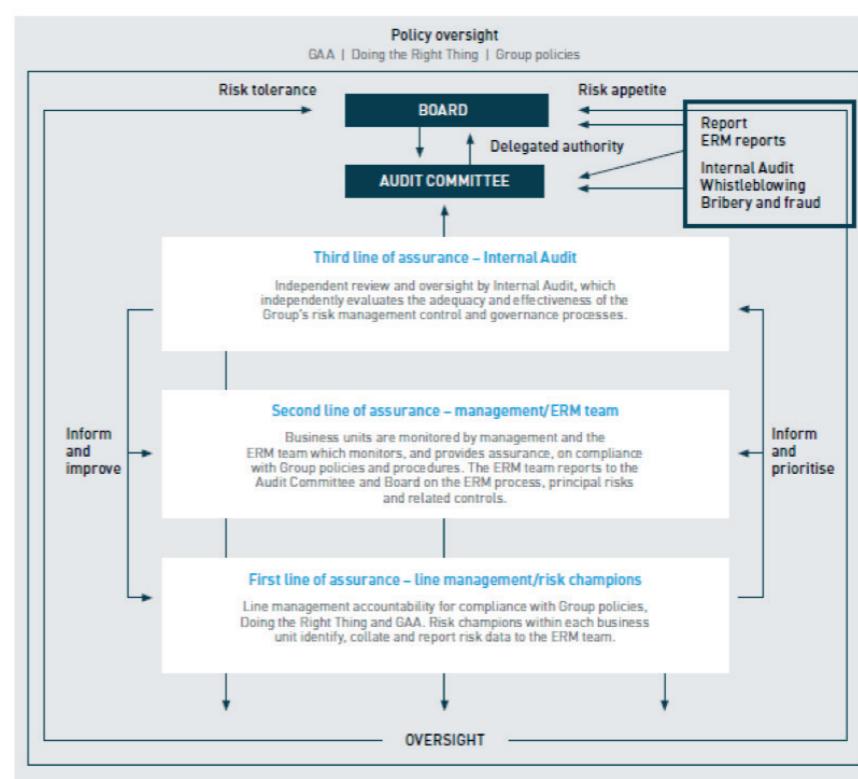
On behalf of the Board, the Audit Committee assesses the effectiveness of the Group's ERM process and internal controls to identify, assess, mitigate and manage risk.

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

**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.

**Customers**

Performance Reports tabled at every Board meeting including leakage and our other performance commitments.

Extensive customer research and consultation considered regularly by the Board in relation to the PR19 plan and submission.

Board attended some of our PR19 customer research sessions, where customers were consulted.

Employees who live and work in our communities met the Board at site / operational visits.

Board received updates on the Group's volunteering and educational programmes during the year.

Board site visit to Nant y Ffrith Reservoir

Employee-shareholders had the opportunity to meet the Board at site / operational visits.

CEO Employee engagement and senior leader events.

Board discussion of the QUEST survey results.

Board meetings held at a variety of sites, including operational sites. Directors met a number of employees at these events.

Board site visits outside of the Board meeting calendar, where Directors met employees and discussed matters with them.

Internal blogs by Severn Trent Plc Executive Directors.

Regulatory matters regularly considered at Board meetings, including PR19, Water Resources Management Plan and Scheme of Wholesale Charges.

Regulatory stakeholder attendance at Board meetings during the year.

Chairman and CEO held regular meetings with Jonson Cox, Ofwat.

Performance Reports tabled at every Board meeting.

Executive Director attendance at the Employee Forum, including attendance by suppliers, feedback provided to Board.

**Regulators/ Government****Suppliers/ Contractors**

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:

# 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

# Regulatory Statements

# Regulatory Statements

The following section contains the statements required by the terms of our licence conditions and the statutory requirements set out in the Water Industry Act 1991 and where required is endorsed and signed by the Board. See also our Board's Risk and Compliance Statement on page 24.

## 1. Disclosures required by RAG 3

### a. Link between directors' pay and standards of performance

Our remuneration policy is aligned to our purpose, vision and strategy thereby incentivising great customer service and the creation of long-term value for all of our stakeholders.

We operate a unified remuneration structure at the Severn Trent group level. The Severn Trent Plc ARA provides detailed disclosures of our renumeration policy and how this has been applied in the year.

The policy and application to Hafren Dyfrdwy is summarised below:

#### i) Non-executive directors:

The Chairman and non-executive directors do not participate in the Company's incentive arrangements (i.e. annual bonus or share schemes) and were paid no remuneration other than their respective Directors' fees. Details can be found in the Hafren Dyfrdwy Annual Report and Accounts.

#### ii) Executive directors:

Hafren Dyfrdwy has Executive Directors who have responsibility for both regulated entities with Severn Trent Plc. As such at a Group level, the Executive Directors receive remuneration through the annual bonus and long-term incentive plan ('LTIP'). Their remuneration is linked to the achievement of performance measures.

A recharge is made to Hafren Dyfrdwy in respect of duties carried out by the Executive Directors on behalf of the Company, based on a proportion of time spent. In 2018/19 this amounted to 2.7% for the Chief Executive and 2.0% for the Chief Financial Officer.

The 2018/19 bonus was based upon five main components:

- Underlying operating profit;
- Customer outcome delivery incentives ('ODIs');
- Customer service in the year (measured through % reduction in written complaints);
- Health and Safety (measured through number of lost time incidents); and
- Personal objectives.

Half of the annual bonus is delivered as cash, and the balance is deferred into shares for a further 3 years. We have an established internal governance processes for setting performance targets and reviewing delivery. This process uses cross company Executive level meetings to review and challenge performance and delivery plans presented by Strategic Leaders accountable for each customer ODI. This process allows Executive level challenge, peer challenge and scrutiny from the Regulatory team which ensures there is a transparent link to customer expectations (as expressed by customer ODI targets), wider regulatory expectations and our licence conditions.

### c. Governance and dividend policy

As a subsidiary of a FTSE 100 listed company, Hafren Dyfrdwy has chosen to apply the principles of the April 2016 version of the UK Corporate Governance Code (the 'Code') to its governance arrangements where appropriate and reasonably practicable. These are the same principles that apply to listed companies. Details of how the Company has applied the Code during the year are set out in the Company's Annual Report and Accounts, which is available on the Company's website.

after 1 April 2018, are subject to an additional stretch target of upper quartile RoRE.

In determining the outcome of the incentive schemes, standards of performance are assessed by the Severn Trent Plc Remuneration Committee to ascertain if targets have been achieved.

### b. Disclosure of information to auditor

The Companies Act requires Directors to make a statement in the Company's Annual Report and Accounts regarding the provision of information to the auditor. RAG 3 requires an equivalent statement to also be made in the Annual Performance Report. This statement is set out below.

In the case of each of the persons who are Directors of the Company at the date when this report was approved, so far as each of the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and each of the Directors has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Company's Annual Report and Accounts includes a long-term viability statement in the Strategic Report on pages 25-31.

The Company's dividend policy is to declare dividends which are consistent with the Company's regulatory obligations and at a level which is decided each year after consideration of a number of factors, including customer service, regulatory uncertainty, customer ODI rewards or penalties, actual and potential efficiencies, future cash flow requirements and balance sheet considerations.

The amount declared is expected to vary each year as the impact of factors changes. No dividend was paid in the current or prior year and the Directors do not recommend a dividend in respect of the year ended 31 March 2019.

On 28 March 2019 we implemented a de-gearing exercise to bring our gearing in line with Ofwat's notional capital structure for AMP7 and to reduce our finance costs to a more sustainable level. The Company issued 132,810,685 ordinary shares of £1 each at par in exchange for repayment of debt due to the parent company.

### d. Long-term viability statement

The Directors' full assessment of financial viability can be found in the Hafren Dyfrdwy Annual Report and Accounts on page 31.

The Directors have assessed the viability of the Company over a seven year period to March 2026, taking into account the Company's current position and principal risks. Based on that assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2026.

### e. Statement of Directors' responsibilities (Condition F)

The Directors are responsible for the preparation of the Annual Performance Report and for its fair presentation in accordance with the basis of preparation and accounting policies.

Further to the requirements of company law, the Directors are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by the Water Services Regulation Authority. This additionally requires the Directors to:

- a) Confirm that, in their opinion, the Company has sufficient financial and management resources for the next twelve months;
- b) Confirm that, in their opinion, the Company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the Company;
- c) Report to the Water Services Regulation Authority changes in the Company's activities which may be material in relation to the Company's ability to finance its regulated activities;
- d) Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length; and
- e) Keep proper accounting records which comply with Condition F and the Regulatory Accounting Guidelines

### f. Tax strategy

We are committed to managing our tax affairs in a responsible manner.

This means paying the right amount of tax at the right time in compliance with UK tax rules and acting in accordance with the values set out in our corporate responsibility framework.

References to 'tax' include taxes that we incur (corporation tax, business rates, employer's NIC, VAT and various environmental taxes) as well as taxes that we administer and collect on HMRC's behalf (PAYE and employee's NIC).

### Our approach to tax

Our approach to tax is overseen by the Severn Trent Plc Board and is governed by the following key principles:

- We will manage our tax affairs responsibly;
- We will not undertake aggressive tax planning or any planning not in support of business requirements;
- We will make use of widely claimed incentives that Government has chosen to make available to encourage investment; and
- We will maintain an open, transparent and collaborative relationship with HMRC consistent with maintaining our good working relationship.

The effective management of our tax affairs is in the best interests of customers as it helps to keep our bills as low as possible.

**Tax governance**  
Responsibility for tax governance sits with the Chief Financial Officer, with oversight from the Severn Trent Plc Board and Audit Committee and day-to-day support from a team of qualified in-house tax professionals.

In accordance with Group risk management procedures, tax risks are recorded and monitored throughout the year. If a material uncertainty is identified, external advice may be sought to ensure that our interpretation of the relevant UK tax rules is appropriate. We may also seek to resolve an uncertain tax position directly with HMRC before a tax return is filed, in accordance with HMRC's framework for co-operative compliance.

Any significant tax risk is reported to, and overseen by, the Audit Committee, who also receive tax status updates as part of the interim and year end financial reporting programmes.

**Relationship with HMRC**  
In maintaining a good working relationship with HMRC, we seek to ensure that HMRC are kept up to date with business developments, including any commercial transactions with potentially significant tax implications. Where queries arise, these are managed on the basis of full disclosure.

We will make representations to, and consult with, HMRC on issues that could adversely affect investment in UK infrastructure or our customers' bills.

**Non-UK operations**  
All of the Company's revenues and profits are generated in the UK and are subject to UK tax.

#### **Tax transparency**

We are supportive of measures aimed at enhancing tax transparency and are committed to providing information on our tax affairs in a clear and straightforward way that enhances our stakeholders' understanding and provides confidence that we are paying our fair share of tax.

#### **Scope**

This Tax Strategy covers the period ended 31 March 2019.

#### **2. Ring fencing certificate (condition K and P)**

Licence conditions K (disposals of land) and P (Ring fencing) require the Company, at all times, to ensure that if a special administrator were appointed to manage the regulated activities, that administrator would have sufficient control over the regulated business and assets to be able to do so. In addition to the statement set out above under licence condition F and the Regulatory Accounting Guidelines, the Company is required to confirm that it is in compliance with these conditions and make suitable sufficiency statements to that effect. This statement is set out to the right.

In accordance with the requirements of the Water Services Regulation Authority, our Board confirmed that, as at 31 March 2019:

- a) That in the opinion of the Directors, the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activity (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and
- b) That in the opinion of the Directors, the Appointee will for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.



**Liv Garfield**  
Chief Executive  
Hafren Dyfrdwy Cyfyngedig



**Mohammed Mehmet**  
Non-executive Director  
Hafren Dyfrdwy Cyfyngedig



**John Coghlan**  
Chairman  
Hafren Dyfrdwy Cyfyngedig

For and on behalf of the board  
9 July 2019

# Annual performance summary

# Summary

Our first nine months of operating as Hafren Dyfrdwy has been exciting, challenging and very, very busy. Thanks to the hard work of our teams, we hit the ground running and are now serving all customers in the Wrexham area, as well as those people living in Wales who were previously customers of Severn Trent. Our brand new company is squarely and solely focused on providing a great service to customers living in this beautiful part of Wales, from Wrexham and Bretton in the north to Llanidloes and Knighton in the south.

Above all else, our first year has been a real learning experience.

We've met lots of customers and listened closely to your concerns and opinions. And we carried out a huge amount of detailed research on performance, so that we can understand which aspects of your water and waste water services are doing well - and where we need to focus more attention.

What did we learn? Firstly, that you support our long term plans to improve services while keeping bills down. You want the taps to flow with an abundant supply of clean water. And those of you who have a waste water service from us want us to make sure that this is taken away quickly, efficiently and safely.

Secondly, you want more and better communication from us. Sometimes, that means something as basic as answering the phone when you call us - and we've worked hard to sort that out. At other times, it means helping you discover more about the work we're doing to help your communities, or offering you a range of ways to manage your account, including online options.

But it also means providing you with in-depth detail on our Company's performance.

## So how's our performance stacking up?

In this section we've summarised our first full year's performance – including accurate, clear and understandable information on how we've performed against our targets, and the financial rewards and penalties associated with that performance. Here's a quick summary of the main points:

1. Our waste water performance has been our standout success across the Powys area;
2. Hot weather during the summer put pressure on our supply, and this is reflected in our performance on drinking water quality, speed of response to visible leaks and supply interruptions; and
3. We successfully replaced one of the largest clean water reservoirs in the Sgryb y Pwll area of Wrexham, putting a temporary storage system in place so to help minimise the impact on customers while the work was being carried out.

## Customer Challenge Group View

We have discussed our performance with our independent customer challenge group. We will include its independent view of our performance in our customer summary of the APR published later this summer.

# Reporting our performance

The licence changes mean that we've had to realign targets previously agreed by Severn Trent Water and Dee Valley Water to the new company, Hafren Dyfrdwy.

To avoid making the reporting unnecessarily complex, and to make sure customers in Wrexham and Powys remain protected by the targets originally agreed with Ofwat, we have:

- For customers in Wrexham: We've provided an update for each of the 13 performance commitments originally agreed by Dee Valley Water. The targets reflect performance levels agreed for customers in Wrexham.
- For customers in Powys: We've provided an update for the 45 performance commitments agreed by Severn Trent Water. The targets reflect performance levels agreed for customers in Powys. To make our performance more understandable, we have grouped commitments into eight areas.

## Service now - Waste Water

## Service now - Water

## Resilience

## Serving our community

## Asset health

## Service now - Retail

## Environment

## Responsible, efficient investment

The groupings allow customers to understand performance both now and for future generations:



We'll also use this approach to report performance for 2019/20.

# Performance in Wrexham

Code	Description	Unit	Actual performance (with target in brackets)	Outperformance payment/ (Underperformance penalty)	
				2018/19	£m
A1	Discoloured water contacts	Number	1.02 (1.01)	-0.0011	
A2	Mean zonal compliance	Percentage	99.94 (100)	-0.0285	
A4	Delivery of the outcomes of the service reservoir water quality risk management schemes	Text	Milestone complete	NIL	
B1	Average duration of interruptions - 3 hours or longer (planned and unplanned interruptions)	Time	0.12 (0.2)	0.0089	
B2	Sustainable economic level of leakage	Number	107.8 (90.80)	-0.0397	
B3	Security of supply index	Score	100	Nil	
B4	Number of bursts	Number	185 (168)	NIL	
C1	Gross operational greenhouse gas emissions	Number	4,987 (10,487)	NIL	
D1	Customers' perception based on market research	Percentage	70 (improved)	NIL	
F1	Non-household service incentive mechanism	Score	83.9 (80)	NIL	
E1	Per capita consumption and water efficiency	Number	140.41 (128.37)	NIL	
E2	Service incentive mechanism	Score	78.4 (80)	NIL	

## A1 - Discoloured water contacts

The hot, dry summer created unprecedented demand for water, and despite our best efforts we narrowly missed our target for discoloured water contacts. In the past, high demand for water would have seen customers in the Wrexham area experience discoloured water - but new works commissioned in 2018 helped reduce that impact.

We're encouraging customers to take the opportunity to see the new Llwyn Onn works we've built and learn more about where their water comes from.

## A2 - Mean zonal compliance

Our performance dipped slightly to 99.94%. It was a challenging year as we replaced one of the largest clean water reservoirs in the Hafren Dyfrdwy region. Originally constructed in the 19th century, this reservoir serves people in the Sgny Pwll area of Wrexham. We put a temporary storage system in place to help minimise the impact on customers while the work was being carried out.

Looking forward, completing our programme of inspection and improvements at our service reservoirs will improve our ability to manage water quality risks.

## B1 - Average duration of interruptions

Within Wrexham we've had a really strong year on supply interruptions, coming in well ahead of our commitment to customers. We're working hard to make sure we can build on this achievement next year as we know that our customers value a consistent and reliable water supply.

## B2 – Sustainable level of leakage

Our customer research showed that this is a real issue for many of you - which is why we've committed to driving down leakage by 15% by 2025. And while we failed to reach our target this year, we've already put plans in place to improve our performance.

We worked hard to recover from the impact of the hot summer. Our focus was on identifying and fixing more leaks from pipe bursts, large and small. And the knock-on effect of this was that we also missed our target for reducing the number of burst mains (see below).

## B3 – Security of supply index

We maintained our performance of 100% security of supply, primarily due to the level of resource resilience available on the River Dee.

## B4 – Number of bursts

We have seen an increase in the number of bursts in the Wrexham region, partly caused by the hot, dry summer leading to movement in the soil conditions.

We know how disruptive bursts can be, to traffic as well as households, so we'll be improving communications in order to keep you informed and minimise any inconvenience.

We continue to move forward with our mains replacement programme to improve the underlying asset health of our network in Wrexham which will help minimise the risk of mains bursts occurring in the first place.

## C1 – Gross operational greenhouse gas emissions

We continue to see strong performance in this area as we met our greenhouse gas emissions target. Our use of green electricity and ongoing improvements in the efficiency of our operations, both in terms of electricity use and fuel/chemical use across our sites help keep our emissions as low as possible.

## D1 – Customers' perception based on market research

We recognise that performance on this measure has reduced. We've improved our research questionnaire to give us more insight and a better foundation for the future and we'll continue to listen to our customers and make it as easy as possible for them to talk to us. In fact we've been busy getting out into local towns and villages, making ourselves available to answer any questions customers might have on bills or anything else. We're actively encouraging customers to pop in and see us as we visit locations throughout the region in Dolly, our roadshow vehicle.

## E1 – Per capita consumption and water efficiency

This measure is designed to help us secure long term water supply. We'll continue to push our performance by offering free meter installation for customers who would like one and school

education programmes. While performance is below our target, we're still aiming to reach our goal by the end of the AMP.

## E2/F1 – Service incentive mechanism/Non-household service incentive mechanism

We've seen continued improvements in our billing scores following the migration to the new system and the issues previously caused by direct debit conversion. Critically this has helped reduce the number of stage 2 complaints we have received.

# Performance in Powys and Monmouthshire

## Service Now – Waste

Our waste water performance has been really positive; we've achieved all our targets earning an outperformance payment of £0.555 million. Our performance on internal sewer flooding is among the best in the industry. But there is no room for complacency. Customers quite rightly voice concerns that internal sewer flooding incidents are one of the worst things that can happen, so we will continue to aim for these to be as close to zero as possible.

Code	Description	Unit	Actual performance (with target in brackets)		Outperformance payment/ (Underperformance penalty) £m
			2018/19	£m	
SA1	Internal sewer flooding incidents	Number	4 [5]	0.0012	
SA2	External sewer flooding incidents	Number	29 [44]	0.0206	
SB1	Customers rating our services as good value for money	Percentage	NA NA	NIL	
SC2	The number of category 3 pollution incidents	Incidents	1 [5]	0.0021	
SC6	Serious pollution incidents	Incidents	0 [0]	NIL	
SC8	The number of category 4 pollution incidents	Incidents	5 [6]	NIL	

Our focus has been on cluster analysis and prevention of repeat incidents. Using data analytics we are able to better understand high risk areas in our network and proactively cleanse the system – preventing a problem before it occurs. We are committed to improving, and by continuing to work with fast food outlets we are reducing the amount of fats, oils, and greases that enter our sewers to reduce the risk of sewer flooding.

Our impact on the environment is closely regulated by Natural Resources Wales. We recorded six pollution events during the year, and while that is six too many it also means we beat our pollution target by 40%.

To improve visibility of our assets we are installing network monitors in pollution and flooding hotspots and installing flow meters on critical assets. This proactive approach to monitoring our network will help reduce the risk of future incidents. When an incident does occur we are also ensuring we drive root cause analysis and understand causal factors for each incident whilst embedding process improvements and lessons learned across our activities.

## Service Now – Water

Despite an incredibly hot summer that created unprecedented demand, we continued to keep the taps running but we have not delivered the levels of service our customers expect in this area incurring an overall underperformance penalty of £0.322 million that will be returned to our customers.

Code	Description	Unit	Actual performance (with target in brackets)		Outperformance payment/ (Underperformance penalty) £m
			2018/19	£m	
WA1	Drinking water quality complaints	Number	67 [38]	-0.0309	
WA2	Mean zonal compliance	Percentage	99.94% [100%]	-0.0100	
WB2	Leakage	ML/day	7.9 [5.50]	NIL	
WB3	Speed of response to visible leaks	Percentage	26% [100%]	-0.0077	
WB4	Number of minutes customers go without supply	Minutes	93.74 [7.1]	-0.2794	
WB7	Customers at risk of low pressure	Number	11 [21]	0.0047	
WC1	Customers rating our services as good value	Percentage	NA NA	0.0007	

Unfortunately several major interruptions in the Powys area meant that we missed our supply interruptions target. Throughout the summer we prioritised our people and resources on maintaining supplies through temporary restoration and 24/7 tankering, and adjusted our operating model to build on our experience. We understand that the loss of supply can be difficult for our customers, and have processes in place to ensure customers receive clear and accurate information through the use of our website, social media channels and automated text messaging system. We are confident that the improvements we have put in place will deliver a better level of service for our customers.

Customers have told us that leakage is a key priority for them, as it demonstrates that we are playing our part to ensure there is enough water to meet future demands. While we missed our headline leakage target, we did improve our position on underlying unaccounted for water by [0.13] ML/d. In normal circumstances, this could result in an outperformance payment (reward) but we do not believe this would be the right thing to do

Leakage movement over the last 12 months	
2017/18 outturn	7.37 ML/day
Unaccounted for water change	-0.13 ML/day
Data improvements	+0.65 ML/day
Methodology changes	0.0 ML/day
2018/19 outturn	7.89 ML/day
2018/19 target	5.50 ML/day

To continue improving our leakage performance we have increased our frontline resources to both find and fix additional burst pipes, redesigned our operating model which incentivised local ownership and identification of leaks, and focussed on fixing private supply pipe leakages which are responsible for around 25% of our total leakage volume.

We also missed our drinking water complaints and mean zonal compliance targets. This was despite stepping up activity, including proactively flushing distribution mains through the insourcing of our dedicated flushing team, focusing on high risk areas of the network. The miss on our complaints target was due to a number of taste and odour complaints, and lead detections. We have invested in installing temporary treatment processes to ensure that the bulk supply imports maintain the standards needed.

# Performance in Powys and Monmouthshire

## Service Now – Retail

Our customers tell us they want low bills, less sewer flooding and high quality water at the turn of a tap. Our upper quartile positioning in the UK Customer Service Index shows that we're making good progress here. We are disappointed by our SIM score though, the operational underperformance has led to an increase in complaints this year.

Code	Description	Unit	Actual performance (with target in brackets)	Outperformance payment/ (Underperformance penalty)	
				2018/19	£m
RA1	Customer satisfaction with their services (based on a survey)	Grading	Upper quartile (Upper quartile)	NIL	Non-financial
RA2	Customers' experience of dealing with us (based on Ofwat's SIM)	SIM Score	81.45 (Upper quartile)	Ofwat methodology	
RB2	Percentage of customers who do not pay (household bad debt divided by total household revenue)	Percentage	3.16% (2.7%)	NIL	Non-financial

We recognise that during the summer we focussed the resources of the business on protecting the supplies to customers and supporting those customers who were at risk of, or experiencing, a supply interruption. This was the right thing to do. It did, however, divert our critical resources from more day-to-day tasks which impacted on our wider service offering to our customers. It also indirectly led to an increase in second stage complaints as customers escalated their concerns.

But we know that we still need to do more to give customers the level of service they expect when they contact us. Our Customer First initiative has driven an increase in first time resolution on billing contacts combined with upskilling of more of our customer service staff to enable them to deal with more complex billing enquiries. This also includes a more 'case management' approach to customer contacts as we ensure our staff are aware of each individual customers' service history prior to the call so they can provide customised support.

Our use of technology has been a success. We have one of the highest self-serve rates through our digital channels and we're continuing to evolve the options to ensure customers can complete their journey without the need to call in. A real improvement has been seen through the use of our virtual leakage technician work, where customers can use video calls with our leakage experts so we can get eyes on the problem instantaneously and improve our diagnosis of the problem.

The Service Incentive Mechanism is being replaced by a measure known as C-MeX. This provides a wider view of customer experience of the services we offer. We're really excited about this as it incorporates all of the activities we do to enrich our customers' lives, such as our visitor experience sites and community work, alongside our operational activities, which we believe will provide a truer reflection of our relative performance.

## Asset Health

On the network we have seen a significant increase in the number of burst mains repaired as we have stepped up our active leakage repair programme. Increasing the level of find and fix is a key driver in reducing leakage, and as we start to reduce leakage further we need to fix more, smaller leaks to get the same level of benefit, as our network returns to a more stable state.

Code	Description	Unit	Actual performance (with target in brackets)	Outperformance payment/ (Underperformance penalty)	
				2018/19	£m
WA3	Asset stewardship – number of sites with coliform failures (WTWs)	Number	0 (0)	NIL	
WB6	Asset stewardship – mains bursts	Number	148 (less than 149)	NIL	
SA4	Asset stewardship – blockages	Number	252 (less than 213)	-0.081	
SC3	Asset stewardship – environmental performance	Percentage	97.69% (100%)	NIL	
SA3	Partnership working	Number of schemes	0 (NA)	NIL	
SC5	Sustainable sewage treatment	Number	0 (0)	NIL	

Unfortunately we have seen an increase in the number of blockages year on year. We know that driving down this number is key to changing the underlying health of our waste water network. Our Blockbuster campaign takes the lessons we have learned from sewer flooding, to ensure proactive cleansing is focussed on the highest risk areas. This, combined with a targeted education campaign, significantly reduces the number of repeat blockage incidents. And in a first for the industry we have been collaborating with other companies to issue the 'Safe to Flush' accreditation for disposable wipes.

Our environmental performance fell within the deadband range. This performance commitment is calculated based on four measures. Two we scored perfectly in meaning all our sites passed their numeric consents and are compliant with their abstraction permits.

# Performance in Powys and Monmouthshire

## Resilience

Our ability to cope with unexpected stresses and strains and remain capable of delivering service for the long term is fundamental to our business.

Code	Description	Unit	Actual performance	Outperformance payment/
			(with target in brackets)	(Underperformance penalty)
			2018/19	£m
WB5	Percentage of customers with resilient supplies	Percentage	27.5 (NA)	NIL
WB8	Restrictions on water use	Number	0 (0)	NIL

The last time we imposed a temporary use ban on any of our residential customers was over 20 years ago, back in 1996. Despite the driest summer on record leading to a significant increase in demand, we were able to balance the demands on the network without enforcing a temporary use ban. We do not expect to use temporary use bans going forward. This would meet our commitment to not implement one for the entire AMP.

We take a systems approach to resilience which considers our workforce and skillsets – training our workforce for the future and investing in the next generation through apprenticeships. Our corporate leadership also considers how the Company is resilient in its financial structure, our operational performance and the regulatory risks we face both today and for the future.

Our commitments focus on the resilience of our water resources and asset base to ensure we continue to meet the needs of our customers today and tomorrow.

## Serving Our Community

We're increasingly being seen as having a key role in the everyday lives of local communities. Education gives our customers a better appreciation of our, and their role in achieving societal and environmental goals. From a companywide perspective we significantly outperformed our target, however in the Powys area, we fell marginally short.

Code	Description	Unit	Actual performance	Outperformance payment/
			(with target in brackets)	(Underperformance penalty)
			2018/19	£m
WF1	Improved understanding of our services	Number	534 (605)	NIL Non-financial
SE1	through education			
RB1	Customers helped by a review of their tariff and water usage and/or supported by the Severn Trent Trust Fund	Number	291 (250)	NIL Non-financial

We know we've got an education programme that delivers quality messages directly to our customers and schools. This year we have taken important steps as we begin to transform our approach to align with the ambitions of our AMP7 commitment. Our schools programme continues to educate on three key messages; safe to flush, using water wisely, a healthy you and healthy environment.

We've complimented this by improving the education section of our website, made use of our social media platforms and provided tips for efficient water use. The nationwide refill campaign has proved a great success and we are looking to continue this rollout from the 1,700 refill stations already created throughout the wider Severn Trent Group region.

This year we have outperformed our target for helping our customers struggling to pay their bills through the range of support schemes offered. We've reviewed and improved our payment matching scheme to ensure it's providing customers with a solution that helps them manage their bills and become debt free.

We are proud of our achievements and expect to continue to maintain this level of support until the end of the AMP.

# Performance in Powys and Monmouthshire Environment

Our customers are placing an increasingly high value on the natural environment. We share this view. We're committed to protecting and improving our environment and so we're particularly delighted with our performance in this area.

Code	Description	Unit	Actual performance (with target in brackets)	Outperformance payment/ (Underperformance penalty)	
				2018/19	£m
WE1	Size of our carbon footprint - water	ktCO2e	1 (1)	NIL	
SD1	Size of our carbon footprint – waste	ktCO2e	1 (1)	NIL	
WA4	Number of successful catchment management schemes	Number	0 (0)	NIL	
SC1	Improvements in river water quality against WFD criteria - waste water	Number	0 (NA)	NIL	
WD1	Improvements in river water quality against WFD criteria - water	Number	0 (NA)	NIL	
WB1	Resource efficiency (distribution input per customer)	l/p/d	348 (216)	NIL Non-financial	
WD3 SC4	Biodiversity	Hectares	0 (NA)	NIL	
SA5	Statutory obligations (Section 101A schemes)	Number	0 (NA)	NIL Non-financial	
WD4	Sites with eel protection at intakes	Milestone	0 (NA)	NIL Non-financial	

We've held the Carbon Trust Standard since 2009 for successfully measuring, managing and reducing carbon emissions. Despite an increase in the overall volume of water service, we have maintained the overall energy used by our water assets year-on-year. This year we have taken an option to purchase additional green carbon credits to further promote the production of green energy within the UK, as part of our strategy to move towards carbon neutrality.

We are looking to do more to maximise the benefits to the environment. As part of this we have committed to the triple carbon pledge, see page 11.

# Regulatory accounts for the year ended 31 March 2019

# Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Hafren Dyfrdwy Cyfyngedig

## Report on the audit of the Regulatory Accounting Statements

### Opinion

We have audited certain sections of Hafren Dyfrdwy Cyfyngedig's ('the Company') Annual Performance Report for the year ended 31 March 2019 ('the Regulatory Accounting Statements') which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and waste water (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household waste water revenues by customer type (table 2H), the revenue analysis and wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K) and the related notes.

We have not audited the Outcome performance table (tables 3A to 3S), Table 1F (financial flows) and the additional regulatory information in tables 4A to 4W.

In our opinion, Hafren Dyfrdwy Cyfyngedig's Regulatory Accounting Statements within the Annual Performance Report have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.11, appendix 2), set out on pages 59-60.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)'), including ISA (UK) 800, and applicable law and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts'.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's ('FRC's') Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.11, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and has not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 46 to 70 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Regulatory Accounting Statements section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or
- the Directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

### Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement, we are required to report that fact.

We have nothing to report based on these responsibilities.

## Responsibilities of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the Directors are responsible for the preparation of the Regulatory Accounting Statements in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.11, appendix 2).

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Regulatory Accounting Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Regulatory Accounting Statements the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditors' responsibilities for the Audit of the Regulatory Accounting Statements

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Regulatory Accounting Statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on other legal and regulatory requirements

### Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

## Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ('Condition F'). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2019 on which we reported on 9 July 2019, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'Statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Deloitte LLP**

Birmingham, United Kingdom

12 July 2019

## 1A - Income statement

Year ended 31 March 2019

Line description	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£m	£m	£m	£m	£m
1A.1 Revenue	31.983	-0.013	-1.710	-1.723	30.260
1A.2 Operating costs	-34.571	-0.422	1.967	1.545	-33.026
1A.3 Other operating income	0.000	0.000	0.000	0.000	0.000
<b>1A.4 Operating profit</b>	<b>-2.588</b>	<b>-0.435</b>	<b>0.257</b>	<b>-0.178</b>	<b>-2.766</b>
1A.5 Other income	0.000	0.435	-0.021	0.414	0.414
1A.6 Interest income	1.700	-1.700	0.000	-1.700	0.000
1A.7 Interest expense	-26.972	-0.613	0.000	-0.613	-27.585
1A.8 Other interest expense	0.000	0.500	0.000	0.500	0.500
<b>1A.9 Profit before tax and fair value movements</b>	<b>-27.860</b>	<b>-1.813</b>	<b>0.236</b>	<b>-1.577</b>	<b>-29.437</b>
1A.10 Fair value gains/(losses) on financial instruments	0.000	0.000	0.000	0.000	0.000
<b>1A.11 Profit before tax</b>	<b>-27.860</b>	<b>-1.813</b>	<b>0.236</b>	<b>-1.577</b>	<b>-29.437</b>
1A.12 UK corporation tax	6.772	0.000	-0.045	-0.045	6.727
1A.13 Deferred tax	-1.148	0.300	0.000	0.300	-0.848
<b>1A.14 Profit for the year</b>	<b>-22.236</b>	<b>-1.513</b>	<b>0.191</b>	<b>-1.322</b>	<b>-23.558</b>
<b>1A.15 Dividends</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

A Tax analysis

1A.16 Current year	-6.627	0.000	0.045	0.045	-6.582
1A.17 Adjustments in respect of prior years	-0.145	0.000	0.000	0.000	-0.145
<b>1A.18 UK Corporation tax</b>	<b>-6.772</b>	<b>0.000</b>	<b>0.045</b>	<b>0.045</b>	<b>-6.727</b>

## B Analysis of non-appointed revenue Non-appointed

1A.19 Imported sludge	0.000
1A.20 Tankered waste	0.000
1A.21 Other non-appointed revenue	1.710
<b>1A.22 Revenue</b>	<b>1.710</b>

The differences between statutory and RAG definitions are outlined in the following table:

	Adjustments		Reclassifications			Total differences
	Capitalisation of interest and related depreciation	External electricity sales	Developer services & repair of damages recharges	Profit on fixed asset disposals, non-operating income and deferred credits	Pension scheme net interest costs	
	£m	£m	£m	£m	£m	£m
Revenue	–	-0.034	0.021	–	–	-0.013
Operating costs	–	0.034	-0.021	-0.435	–	-0.422
Other operating income	–	–	–	–	–	–
<b>Operating profit</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>-0.435</b>	<b>–</b>	<b>-0.435</b>
Other income	–	–	–	0.435	–	0.435
Interest income	–	–	–	–	-1.700	-1.700
Interest expense	-1.813	–	–	–	1.200	-0.613
Other interest expense	–	–	–	–	0.500	0.500
<b>Profit before tax and fair value movements</b>	<b>-1.813</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>-1.813</b>
Fair value losses on financial instruments	–	–	–	–	–	–
<b>Profit before tax</b>	<b>-1.813</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>-1.813</b>
UK corporation tax	–	–	–	–	–	–
Deferred tax	0.300	–	–	–	–	0.300
<b>Profit for the year</b>	<b>-1.513</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>-1.513</b>

# 1B - Statement of comprehensive income

Year ended 31 March 2019

Line description	Adjustments				
	Statutory	Differences between statutory and RAG definitions			Total appointed activities
		Non-appointed	Total adjustments		
	£m	£m	£m	£m	£m
1B.1 Profit for the year	-22.236	-1.513	0.191	-1.322	-23.558
1B.2 Actuarial gains/(losses) on post employment plans	0.332	0.000	0.000	0.000	0.332
1B.3 Other comprehensive income	0.000	0.000	0.000	0.000	0.000
<b>1B.4 Total Comprehensive income for the year</b>	<b>-21.904</b>	<b>-1.513</b>	<b>0.191</b>	<b>-1.322</b>	<b>-23.226</b>

The differences between statutory and RAG definitions are outlined in the following table:

Per Income Statement	Net actuarial difference on retirement benefit obligations	Deferred tax on movement on retirement benefit obligations	Deferred tax rate change	Total differences
£m	£m	£m	£m	£m
Profit for the year	-1.513	-	-	-1.513
Actuarial losses on retirement obligations	-	-	-	-
<b>Total</b>	<b>-1.513</b>	<b>-</b>	<b>-</b>	<b>-1.513</b>

# 1C - Statement of financial position

Year ended 31 March 2019

Line description	Statutory	Adjustments			
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
<b>A Non-current assets</b>					
1C.1 Fixed assets		192.369	-2.870	0.000	-2.870
1C.2 Intangible assets		8.772	0.000	0.000	0.000
1C.3 Investments - loans to group companies		0.000	9.684	0.000	9.684
1C.4 Investments - other		0.000	0.000	0.000	0.000
1C.5 Financial instruments		0.000	0.000	0.000	0.000
1C.6 Retirement benefit assets		18.644	0.000	0.000	18.644
<b>1C.7 Total non-current assets</b>	<b>219.785</b>	<b>6.814</b>	<b>0.000</b>	<b>6.814</b>	<b>226.599</b>
<b>B Current assets</b>					
1C.8 Inventories		0.522	0.000	0.000	0.522
1C.9 Trade and other receivables		31.077	-9.684	-2.243	-11.927
1C.10 Financial instruments		0.000	0.000	0.000	0.000
1C.11 Cash and cash equivalents		0.328	0.000	0.000	0.328
<b>1C.12 Total current assets</b>	<b>31.927</b>	<b>-9.684</b>	<b>-2.243</b>	<b>-11.927</b>	<b>20.000</b>
<b>C Current liabilities</b>					
1C.13 Trade and other payables		-17.994	0.613	0.266	0.879
1C.14 Capex creditor		0.000	-0.437	0.000	-0.437
1C.15 Borrowings		-0.612	0.000	0.000	-0.612
1C.16 Financial instruments		0.000	0.000	0.000	0.000
1C.17 Current tax liabilities		0.000	0.000	0.000	0.000
1C.18 Provisions		0.000	0.000	0.000	0.000
<b>1C.19 Total current liabilities</b>	<b>-18.606</b>	<b>0.176</b>	<b>0.266</b>	<b>0.442</b>	<b>-18.164</b>
<b>1C.20 Net current assets/(liabilities)</b>	<b>13.321</b>	<b>-9.508</b>	<b>-1.977</b>	<b>-11.485</b>	<b>1.836</b>
<b>D Non-current liabilities</b>					
1C.21 Trade and other payables		-11.837	11.837	0.000	11.837
1C.22 Borrowings		-49.158	0.000	0.000	-49.158
1C.23 Financial instruments		0.000	0.000	0.000	0.000
1C.24 Retirement benefit obligations		0.000	0.000	0.000	0.000
1C.25 Provisions		0.000	0.000	0.000	0.000
1C.26 Deferred income - grants and contributions		0.000	-11.930	0.000	-11.930
1C.27 Deferred income - adopted assets		0.000	-0.083	0.000	-0.083
1C.28 Preference share capital		0.000	0.000	0.000	0.000
1C.29 Deferred tax		-15.675	0.480	0.000	0.480
<b>1C.30 Total non-current liabilities</b>	<b>-76.670</b>	<b>0.304</b>	<b>0.000</b>	<b>0.304</b>	<b>-76.366</b>
<b>1C.31 Net assets</b>	<b>156.436</b>	<b>-2.390</b>	<b>-1.977</b>	<b>-4.367</b>	<b>152.069</b>
<b>E Equity</b>					
1C.32 Called up share capital		133.051	0.000	0.000	133.051
1C.33 Retained earnings and other reserves		23.385	-2.390	-1.977	-4.367
<b>1C.34 Total Equity</b>	<b>156.436</b>	<b>-2.390</b>	<b>-1.977</b>	<b>-4.367</b>	<b>152.069</b>

# 1D - Statement of cash flows

Year ended 31 March 2019

The differences between statutory and RAG definitions are outlined in the following table:

	Adjustments		Reclassifications			Total differences
	Capitalisation of interest	Capital creditor reclassification	Deferred income reclassification	Intercompany reclassification		
	£m	£m	£m	£m	£m	
<b>Non-current assets</b>						
Fixed assets	-2.870	-	-	-	-	-2.870
Intangible assets	-	-	-	-	-	-
Investments - loans to group companies	-	-	-	9.684	9.684	
Investments - other	-	-	-	-	-	-
Financial instruments	-	-	-	-	-	-
Retirement benefit assets	-	-	-	-	-	-
<b>Total non-current assets</b>	<b>-2.870</b>	<b>-</b>	<b>-</b>	<b>9.684</b>	<b>6.814</b>	
<b>Current assets</b>						
Inventories	-	-	-	-	-	-
Trade and other receivables	-	-	-	-9.684	-9.684	
Financial instruments	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
<b>Total current assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-9.684</b>	<b>-9.684</b>	
<b>Current liabilities</b>						
Trade and other payables	-	0.437	0.176	-	0.613	
Capex creditor	-	-0.437	-	-	-0.437	
Borrowings	-	-	-	-	-	-
Financial instruments	-	-	-	-	-	-
Current tax liabilities	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>-</b>	<b>-</b>	<b>0.176</b>	<b>-</b>	<b>0.176</b>	
<b>Net current assets/(liabilities)</b>	<b>-</b>	<b>-</b>	<b>0.176</b>	<b>-9.684</b>	<b>-9.508</b>	
<b>Non-current liabilities</b>						
Trade and other payables	-	-	11.837	-	11.837	
Borrowings	-	-	-	-	-	-
Financial instruments	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
Deferred income - grants and contributions	-	-	-11.930	-	-11.930	
Deferred income - adopted assets	-	-	-0.083	-	-0.083	
Preference share capital	-	-	-	-	-	-
Deferred tax	0.480	-	-	-	0.480	
<b>Total non-current liabilities</b>	<b>0.480</b>	<b>-</b>	<b>-0.176</b>	<b>-</b>	<b>0.304</b>	
<b>Net assets</b>	<b>-2.390</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-2.390</b>	
<b>Equity</b>						
Called up share capital	-	-	-	-	-	-
Retained earnings and other reserves	-2.390	-	-	-	-2.390	
<b>Total equity</b>	<b>-2.390</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-2.390</b>	

Line description	Statutory	Adjustments			
		Differences between statutory and RAG definitions	Non-appointed		
			Total adjustments	Total appointed	activities
<b>A Statement of cashflows</b>					
1D.1 Operating profit		-2.588	-0.435	0.257	-0.178
1D.2 Other income		0.000	0.236	-0.021	0.215
1D.3 Depreciation		6.736	0.000	0.000	6.736
1D.4 Amortisation - grants and contributions		-0.199	0.199	0.000	0.000
1D.5 Changes in working capital		-3.134	0.000	3.905	0.771
1D.6 Pension contributions		-0.339	0.000	0.000	-0.339
1D.7 Movement in provisions		0.798	0.000	0.000	0.798
1D.8 Profit on sale of fixed assets		0.000	0.000	0.000	0.000
<b>1D.9 Cash generated from operations</b>		<b>1.274</b>	<b>0.000</b>	<b>4.141</b>	<b>4.141</b>
1D.10 Net interest paid		-4.206	0.000	0.000	-4.206
1D.11 Tax paid		-0.648	0.000	0.265	0.265
<b>1D.12 Net cash generated from operating activities</b>		<b>-3.580</b>	<b>0.000</b>	<b>4.406</b>	<b>4.406</b>
<b>B Investing activities</b>					
1D.13 Capital expenditure		-15.598	0.000	0.000	-15.598
1D.14 Grants and contributions		0.764	0.000	0.000	0.764
1D.15 Disposal of fixed assets		0.000	0.000	0.000	0.000
1D.16 Other		-1.200	0.000	0.000	-1.200
<b>1D.17 Net cash used in investing activities</b>		<b>-16.034</b>	<b>0.000</b>	<b>0.000</b>	<b>-16.034</b>
<b>1D.18 Net cash generated before financing activities</b>		<b>-19.614</b>	<b>0.000</b>	<b>4.406</b>	<b>4.406</b>
<b>C Cashflows from financing activities</b>					
1D.19 Equity dividends paid		0.000	0.000	0.000	0.000
1D.20 Net loans received		18.900	0.000	0.000	18.900
1D.21 Cash inflow from equity financing		0.000	0.000	0.000	0.000
<b>1D.22 Net cash generated from financing activities</b>		<b>18.900</b>	<b>0.000</b>	<b>0.000</b>	<b>18.900</b>
<b>1D.23 Increase in net cash</b>		<b>-0.714</b>	<b>0.000</b>	<b>4.406</b>	<b>4.406</b>
					<b>3.692</b>

# 1E - Net debt analysis

Year ended 31 March 2019

The differences between statutory and RAG definitions are outlined in the following table:

	Non-operating income and deferred credits reclassification	Total differences
	£m	£m
<b>Statement of cashflows</b>		
Operating profit	-0.435	-0.435
Other income	0.236	0.236
Depreciation	-	-
Amortisation - grants and contributions	0.199	0.199
Changes in working capital	-	-
Pension contributions	-	-
Movement in provisions	-	-
Profit on sale of fixed assets	-	-
<b>Cash generated from operations</b>		
Net interest paid	-	-
Tax paid	-	-
<b>Net cash generated from operating activities</b>	<b>-</b>	<b>-</b>
<b>Investing activities</b>		
Capital expenditure	-	-
Grants and contributions	-	-
Disposal of fixed assets	-	-
Other	-	-
Net cash used in investing activities	-	-
<b>Net cash generated before financing activities</b>	<b>-</b>	<b>-</b>
<b>Cashflows from financing activities</b>		
Equity dividends paid	-	-
Net loans received	-	-
Cash outflow from equity financing	-	-
Net cash used in financing activities	-	-
<b>Decrease in net cash</b>	<b>-</b>	<b>-</b>

Line description	Interest rate risk profile			
	Fixed rate	Floating rate	Index-linked	Total
	£m	£m	£m	£m
1E.1 Borrowings (excluding preference shares)	0.107	26.802	22.861	49.770
1E.2 Preference share capital				0.000
1E.3 Total borrowings				49.770
1E.4 Cash				-0.328
1E.5 Short term deposits				0.000
1E.6 Net debt				49.442
1E.7 Gearing				66.48%
1E.8 Adjusted gearing				0.00%
1E.9 Full year equivalent nominal interest cost	0.004	0.528	1.542	2.074
1E.10 Full year equivalent cash interest payment	0.004	0.528	0.831	1.363
<b>A Indicative interest rates</b>				
1E.11 Indicative weighted average nominal interest rate	3.50%	2.00%	6.70%	4.20%
1E.12 Indicative weighted average cash interest rate	3.50%	2.00%	3.60%	2.70%
<b>1E.13 Weighted average years to maturity</b>	<b>0.00</b>	<b>0.00</b>	<b>13.51</b>	<b>5.97</b>
<b>Total</b>				
Current borrowings				0.612
Non-current borrowings				49.158
Total borrowings				49.770
Cash and cash equivalents				-0.328
<b>Net debt</b>	<b>49.442</b>			

The net debt analysis is reconciled to the net debt position below:

# 1F - Financial flows (Price Base -

Year ended 31 March 2019

Line description	12 Months ended 31 March 2019					
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity £m	Actual returns and actual regulatory equity

## A Operating expenditure

1F.1	Return on regulatory equity	6.53%	3.60%	6.53%	1.544	0.850	0.850
1F.2	Actual performance adjustment 2010-15	3.86%	2.13%	3.86%	0.913	0.503	0.503
1F.3	Adjusted Return on regulatory equity	10.39%	5.72%	10.39%	2.457	1.353	1.353
1F.4	Regulatory equity	23.652	23.652	13.025			

## B Financing

1F.5	Gearing	0.00%	3.48%	6.31%	0.000	0.822	0.822
1F.6	Variance in corporation tax	0.00%	10.11%	18.36%	0.000	2.391	2.391
1F.7	Group relief	0.00%	0.00%	0.00%	0.000	0.000	0.000
1F.8	Cost of debt	0.00%	-2.70%	-4.91%	0.000	-0.639	-0.639
1F.9	Hedging instruments	0.00%	0.00%	0.00%	0.000	0.000	0.000
<b>1F.10</b>	<b>Financing total</b>	<b>10.39%</b>	<b>16.60%</b>	<b>30.15%</b>	<b>2.457</b>	<b>3.927</b>	<b>3.927</b>

## C Operational performance

1F.11	Totex out/(under) performance	0.00%	-9.69%	-17.59%	0.000	-2.291	-2.291
1F.12	ODI out/(under) performance	0.00%	-1.81%	-3.29%	0.000	-0.429	-0.429
1F.13	Retail out/(under) performance	0.00%	-2.09%	-3.79%	0.000	-0.494	-0.494
1F.14	Other exceptional items	0.00%	0.00%	0.00%	0.000	0.000	0.000
<b>1F.15</b>	<b>Operational performance total</b>	<b>0.00%</b>	<b>-13.59%</b>	<b>-24.68%</b>	<b>0.000</b>	<b>-3.214</b>	<b>-3.214</b>

<b>1F.16</b>	<b>Total earnings</b>	<b>10.39%</b>	<b>3.02%</b>	<b>5.48%</b>	<b>2.457</b>	<b>0.713</b>	<b>0.713</b>
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<b>1F.17</b>	<b>RCV growth from RPI inflation</b>	<b>3.06%</b>	<b>3.06%</b>	<b>3.06%</b>	<b>0.723</b>	<b>0.723</b>	<b>0.398</b>
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<b>1F.18</b>	<b>Total shareholder return</b>	<b>13.45%</b>	<b>6.07%</b>	<b>8.53%</b>	<b>3.180</b>	<b>1.436</b>	<b>1.111</b>
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<b>1F.19</b>	<b>Net dividend</b>	<b>4.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.946</b>	<b>0.000</b>	<b>0.000</b>
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<b>1F.20</b>	<b>Retained value</b>	<b>9.45%</b>	<b>6.07%</b>	<b>8.53%</b>	<b>2.234</b>	<b>1.436</b>	<b>1.111</b>
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<b>D</b>	<b>Dividends reconciliation</b>						
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1F.21	Gross dividend	4.00%	0.00%	0.00%	0.946	0.000	0.000
1F.22	Interest received on intercompany loans	0.00%	0.00%	0.00%	0.000	0.000	0.000
1F.23	Net dividend	4.00%	0.00%	0.00%	0.946	0.000	0.000

# 2012-13 RPI Average)

Line description	Average 2015-19					
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity

6.53%	3.60%	6.53%	1.544	0.850	0.850
3.86%	2.13%	3.86%	0.913	0.503	0.503
10.39%	5.72%	10.39%	2.457	1.353	1.353
23.652	23.652	13.025			

9.22%	6.29%	9.22%	2.525	1.724	1.724
27.399	27.399	18.712			

9.22%	9.51%	13.93%	2.525	2.606	2.606

0.00%	0.88%	1.29%	0.000	0.241	0.241
0.00%	-0.36%	-0.52%	0.000	-0.098	-0.098
0.00%	0.50%	0.74%	0.000	0.138	0.138
0.00%	0.00%	0.00%	0.000	0.000	0.000
0.00%	1.03%	1.50%	0.000	0.281	0.281

9.22%	10.54%	15.43%	2.525	2.887	2.887
				</td	

# 1F - Financial flows

Year ended 31 March 2019

We are very supportive of Ofwat's financial flows measure. It provides much greater transparency on how returns are earned and outperformance is shared. The measure compares the financial flows between the actual company structure and the notional structure assumed in the FD.

Total shareholder returns calculated in the financial flows comprise:

- the return on regulatory equity ('RoRE') adjusted for 2010-15 actual performance;
- financing and operational performance; and
- the growth in the RCV.

We discuss the key components in detail below.

## Regulatory equity

As we have explained in the commentary to table 4H – Financial metrics, following the border variation, the FD, RCV and allowances that were previously determined for Dee Valley and Severn Trent Water have been reapportioned between Hafren Dyfrdwy and Severn Trent Water. This has resulted in higher allowances for wholesale totex and retail costs but a 25% lower RCV for Hafren Dyfrdwy than under Dee Valley. In addition, the reapportioned base return is also 0.7% higher due to the border variation.

The regulatory equity is the proportion of the RCV that is not financed by debt. Whilst, we have used the regulatory equity values published by Ofwat in the financial flows calculations, we have identified an issue with the regulatory equity value for 2018-19. A query has been raised, as the opening RCV agreed as part

of the NAV process, which is used to calculate the 2018-19 average RCV appears to be understated by £0.297 million (in 2012-13 prices). In the absence of an agreed position we have applied the published value to ensure the data can be clearly tracked back to Ofwat's publications.

## Financing

This component of financial flows covers performance on financing and corporation tax.

An equity injection was made by Severn Trent Water at year end to reduce the level of debt and compensate the lower RCV resulting from the border variation. Whilst average net debt has

reduced compared to the prior year, the lower RCV as a result of the border variation has resulted in average gearing increasing by 10.9%. The higher average actual gearing of 79.2% compared to Ofwat's FD assumption, results in a small benefit of £0.8 million on financing performance.

As explained in the commentary to table 4H – Financial metrics, our cost of debt is higher than the previous year. This is due to financing costs being calculated on average debt over the year, which means the benefits of our £34 million reduction in net debt (due to the equity injection at the end of the year) will not be realised until the following year.

For the reporting year, our actual current tax is £2.4 million (after adjusting for tax relief on exceptional finance costs of £21.9 million relating to the equity injection) lower than allowed in the FD. This is primarily due to the loss reported for the year as a result of the organisational changes which have been made for the border variation. There was no outperformance in the year relating to group relief.

## Operational performance

The operational performance component of financial flows covers performance on wholesale totex, retail costs and ODIs.

Our wholesale totex performance is explained in detail in table 4B – Wholesale totex analysis.

Cumulative totex outperformance from prior years has reduced in the current reporting year due to additional investment in the water treatment and distribution asset base, and improvements in technology and security that have been undertaken in the Company following the acquisition by Severn Trent in February 2017. Total totex is £2.3 million higher than allowed in the FD.

Performance on retail costs is explained further in the narrative to table 2C – Operating costs analysis (retail). As part of integrating Hafren Dyfrdwy into Severn Trent, a review of cost allocations has led to higher costs being allocated to retail compared to the FD.

This has resulted in total retail cost performance of £0.5 million higher than allowed in the FD.

As explained in the section on reporting on performance, our overall performance for the year has been positive in waste water ODIs, particularly in the Powys area. However, the hot weather during the summer put pressure on some of our water network measures which has resulted in an overall net penalty of £0.4 million.

## Total shareholder returns

Our overall performance over the AMP, has generated on average £1.2 million per year of returns for shareholders, including the base return of £1.7 million. The growth in the RCV from inflation (£0.5 million) results in total shareholder returns of £3.4 million over the AMP to date. This is equivalent to 17.9%.

We have not paid out any dividends during the year.

# Current tax reconciliation

Year ended 31 March 2019

The current tax credit after prior year adjustments for the year ended 31 March 2019 is higher than the standard rate of corporation tax in the UK.

The differences to the standard rate of corporation tax and the reconciliation to the current tax charge allowed in price limits are outlined in the below table:

	Actual £m	FD £m	Variance £m
Profit / (Loss) on ordinary activities before tax	-29.437	2.456	-31.893
Tax at the standard rate of corporation tax in the UK 19%	-5.593	0.467	-6.060
Tax effect of expenditure not deductible in determining taxable profits	0.142	-0.179	0.321
Capital allowances in excess of depreciation	-1.286	-0.021	-1.265
Other temporary differences	0.155	-0.038	0.193
Impact of change in tax rate	-	0.012	-0.012
Current tax (credit) / charge before prior year adjustments	-6.582	0.241	-6.823
Prior year adjustment	-0.145	-	-0.145
<b>Current tax (credit)/ charge after prior year adjustments</b>	<b>-6.727</b>	<b>0.241</b>	<b>-6.968</b>

The current tax credit for the appointed business is higher than the total tax charge allowed in price limits due to the net impact of the following:

- Profit before tax reflects a year of organisational change. The licence change in the year involved the transfer of Severn Trent's customers and assets in Powys and Monmouthshire to our Welsh licence with the previous Dee Valley customers and assets in Chester transferred to Severn Trent's English licence.
- The Final Determination profit before tax for both companies has been reallocated on the basis of the RCV for Wholesale and been reallocated on the basis of the change in the customer numbers for Retail.
- Expenditure that is not deductible for tax purposes has increased from the level assumed within the FD tax charge.
- There is a notional gearing alignment included within the FD.
- The prior year adjustment within the appointed business of £0.1 million reflects the agreement of prior years tax matters with HMRC.

Factors that will impact future tax charges will include:

- Planned reductions in corporation tax rates; and
- Any changes in tax legislation or practice not reflected in the FD.

# Notes to the Annual Performance Report

Year ended 31 March 2019

## 1. Regulatory reporting

The regulatory accounts as reported on pages 41 to 70 should be read in conjunction with the financial review set out in the Hafren Dyfrdwy Cyfyngedig Annual Report and Accounts 2019 to aid understanding of the performance of the business.

### a) Differences in recognition and measurement between statutory and regulatory financial accounts

Borrowing costs where directly related to the construction of an asset are capitalised in the statutory accounts. These amounts are not capitalised in the regulatory financial reporting statements in accordance with the RAGs.

### b) Differences in presentation between statutory and regulatory financial accounts

Certain items which are netted off against operating costs within the statutory accounts are grossed up and shown as revenue for regulatory reporting. This includes developer contributions for administration costs incurred in relation to new connections and recharges for costs of repair from damages. Other items such as income from renewable energy incentives are shown as revenue in the statutory accounts and negative operating costs for regulatory reporting.

### c) Difference in presentation of specific items required to be separately disclosed in the regulatory financial statements

Profit or loss on disposal of fixed assets and non-operating income are included in operating costs in the statutory accounts but are shown as separate line items in the regulatory financial statements. In addition, interest income and costs relating to defined benefit pension schemes are included in finance income or cost respectively in the statutory accounts but are shown as other interest expense in the regulatory accounts.

The capex creditor and deferred income from grants and contributions and adopted assets included within trade and other payables in the statutory accounts are shown as separate items in the regulatory accounts.

Intra-group loans have been reclassified from Trade and other receivables to Investments.

### d) Price control segments

The regulatory accounts have been prepared in accordance with RAG 2.07 'Guideline for classification of costs across the price controls'.

The section 2 data tables have been prepared in accordance with our Accounting Separation Methodology Statement which can be found at [hdcymru.co.uk](http://hdcymru.co.uk). Our methodology statement explains the basis for allocation of operating and capital expenditure and has been updated for changes to the requirements in the year. Wherever possible, direct costs and assets have been directly attributed to price controls. Where this is not possible, appropriate cost allocations have been applied as described in the methodology. Material changes to the allocation approach compared to the previous year are documented in the methodology statement.

## 2. Accounting policies

### a) Basis of preparation

The regulatory financial statements are separate from the statutory financial statements of the Company. They have been prepared on a going concern basis as set out in the Strategic report of the Hafren Dyfrdwy Cyfyngedig Annual Report and Accounts 2019 on page 31.

The regulatory financial statements have been prepared in accordance with Condition F of the Instruments of Appointment of the Water and Sewerage Undertakers and the Regulatory Accounting Guidelines as issued by the WSRA.

### b) Revenue recognition

Turnover represents income receivable from regulated water and waste water activities, excluding value added tax.

The Company has adopted IFRS 15 'Revenue from Contracts with Customers' during the year. There have been no changes to the recognition of revenue as a result, see note 1bii) to the Hafren Dyfrdwy financial statements for further information.

Turnover includes an estimate of the amount of mains water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information. There have been no changes in methodology in the year.

The Water Industry Act 2014, Chapter 1 A 'Licensing of Water Suppliers' describes the duties imposed on a water and sewerage undertaker and the licence conditions involved. Regulated activities are consequently those activities that are necessary in order for the appointee to fulfil the functions and duties of a water and sewerage undertaker.

Turnover is not recognised in respect of unoccupied properties. Properties are classified as unoccupied when:

- The company is informed that a customer has left a property and it is not expected to be reoccupied immediately;
- New properties are connected but are not occupied;
- Properties are disconnected following a customer's request; or
- The identity of the customer is unknown.

The following activities are undertaken to ensure properties classified as unoccupied are in fact not occupied:

- Where the Company is informed that the customer has left a property and the property is expected to be occupied by someone else, a welcome letter is sent to the property encouraging the occupier to contact the Company.
- If there is no response to the welcome letter within two months a void letter is sent to the property explaining that we have classified the property as empty and may schedule the property for disconnection.

- Meter readings are taken for metered unoccupied properties; where consumption is recorded, a letter is sent to the property.

- Inspections are organised throughout the year by geographical area.

Non-appointed income primarily relates to waste water billing activities on behalf of United Utilities and Welsh Water customers.

### c) Bad debts

Provisions are charged to operating costs to reflect the Company's assessment of the risk of non-recoverability of debtors. In the prior year this was calculated based on the age of the debtor balance and the Company's previous collection experience for balances of that age. In the current year, the company has adopted IFRS 9 'Financial Instruments' and the provision has now been recognised based on the lifetime expected credit losses for receivables.

In the current financial year the Company has adopted IFRS 9 which replaces the provisions of IAS 39 and in accordance with the transitional provisions has restated the opening balance. For further details please see note 1b) ii) to the Financial Statements of the Annual Report and Accounts.

Write-offs in relation to court or debt recovery costs are not included in the bad debt provision.

Debt can only be written off if it is a legitimate charge against the debtor (if it is considered that part or all of the debt is incorrect or unsubstantiated, then such elements are dealt with through the issue of a credit note) and if one of the following criteria is met:

- the customer does not have any assets or has insufficient assets on which to levy execution;
- the customer is bankrupt and no dividend has been, or is likely to be, received;
- the customer has died without leaving an estate or has left an insufficient estate on which to levy execution and the Company has been unable to prove its case in court; or
- all available economic options for collection of the debt have been pursued or that debt recovery procedures have proved to be ineffective or uneconomic to continue.

Uneconomic circumstances are those where, following the application of debt recovery procedures:

- the customer could not be traced without incurring an unreasonable degree of expenditure; or
- the company has an insufficiently sound case to justify further expenditure on debt recovery procedures; or
- the likelihood of recovering the debt is so small in particular circumstances that further expenses on debt recovery cannot be justified.

The above write-off rules apply primarily to customers to whom the company has ceased to provide a service. Only in exceptional circumstances is debt relating to continuing customers considered for write-off.

### e) Current cost accounting

Although there is no longer a requirement to produce full current cost financial statements, the requirement to disclose summary current cost financial results has been retained in the Wholesale current cost financial performance table.

The capital maintenance charge has been calculated using current cost depreciation values in the current cost fixed asset register which is indexed annually and adjusted for additions. Infrastructure renewals expenditure for below ground assets is included in operating

#### d) Other accounting policies

All other accounting policies applied to the regulatory financial reporting accounts are set out in pages 70 to 75 of the Hafren Dyfrdwy Cyfyngedig Annual Report and Accounts 2019, including the capitalisation policy which is outlined within the property, plant and equipment accounting policy note. Full details of the capitalisation policy are outlined in the Accounting Separation Methodology Statement.

## 2A - Segmental income statement

Year ended 31 March 2019

## 2B - Totex analysis (wholesale)

Year ended 31 March 2019

Line description	Water Resources	Water Network+	Waste water Network+	Sludge	Total
	£m	£m	£m	£m	£m
<b>A Operating expenditure</b>					
2B.1 Power	0.235	1.971	0.270	0.001	2.477
2B.2 Income treated as negative expenditure	-0.035	0.000	0.000	0.000	-0.035
2B.3 Abstraction charges/discharge consents	0.603	0.001	0.206	0.000	0.810
2B.4 Bulk supply/bulk discharge	0.239	1.955	0.020	0.004	2.218
2B.5 Other operating expenditure - renewals expensed in year (infrastructure)	0.044	3.778	0.090	0.000	3.912
2B.6 Other operating expenditure - renewals expensed in year (non-infrastructure)	0.001	0.025	0.019	0.000	0.045
2B.7 Other operating expenditure - excluding renewals	0.705	8.216	1.390	0.395	10.706
2B.8 Local authority and cumulo rates	0.264	1.041	0.229	0.000	1.534
<b>2B.9 Total operating expenditure (excluding third party services)</b>	<b>2.056</b>	<b>16.987</b>	<b>2.224</b>	<b>0.400</b>	<b>21.667</b>
2B.10 Third party services	1.701	0.240	0.007	0.002	1.950
<b>2B.11 Total operating expenditure</b>	<b>3.757</b>	<b>17.227</b>	<b>2.231</b>	<b>0.402</b>	<b>23.617</b>
<b>B Capital Expenditure</b>					
2B.12 Maintaining the long term capability of the assets - infrastructure	0.000	0.000	0.000	0.000	0.000
2B.13 Maintaining the long term capability of the assets - non- infrastructure	0.197	9.024	0.386	0.000	9.607
2B.14 Other capital expenditure - infrastructure	2.909	55.127	11.189	0.000	69.225
2B.15 Other capital expenditure - non-infrastructure	2.052	8.412	29.994	0.000	40.458
2B.16 Infrastructure network reinforcement	0.000	0.001	0.002	0.000	0.003
<b>2B.17 Total gross capital expenditure (excluding third party services)*</b>	<b>5.158</b>	<b>72.564</b>	<b>41.571</b>	<b>0.000</b>	<b>119.293</b>
2B.18 Third party services	0.000	0.000	0.000	0.000	0.000
<b>2B.19 Total gross capital expenditure</b>	<b>5.158</b>	<b>72.564</b>	<b>41.571</b>	<b>0.000</b>	<b>119.293</b>
<b>C Grants and contributions</b>					
2B.20 Grants and contributions	-0.012	-0.620	-0.132	0.000	-0.764
<b>2B.21 Totex</b>	<b>8.903</b>	<b>89.171</b>	<b>43.670</b>	<b>0.402</b>	<b>142.146</b>
<b>D Cash Expenditure</b>					
2B.22 Pension deficit recovery payments	0.044	0.262	0.000	0.000	0.306
2B.23 Other cash items	0.000	0.000	0.000	0.000	0.000
<b>E Total</b>					
<b>2B.24 Totex including cash items</b>	<b>8.947</b>	<b>89.433</b>	<b>43.670</b>	<b>0.402</b>	<b>142.452</b>

\* Capital expenditure includes the transfer of £107.2 million of water and waste assets from Severn Trent Water to Hafren Dyfrdwy.

## 2C - Operating costs analysis (retail)

Year ended 31 March 2019

Line description	Household	Non-household	Total
	£m	£m	£m
<b>Operating expenditure</b>			
2C.1 Customer services	0.671	0.036	0.707
2C.2 Debt management	0.230	0.023	0.253
2C.3 Doubtful debts	0.541	0.176	0.717
2C.4 Meter reading	0.118	0.016	0.134
2C.5 Services to developers	0.029	0.029	0.058
2C.6 Other operating expenditure	0.775	0.058	0.833
<b>2C.7 Total operating expenditure (excluding third party services)</b>	<b>2.335</b>	<b>0.338</b>	<b>2.673</b>
2C.8 Third party services operating expenditure	0.000	0.000	0.000
<b>2C.9 Total operating expenditure</b>	<b>2.335</b>	<b>0.338</b>	<b>2.673</b>
2C.10 Depreciation - tangible fixed assets	0.159	0.001	0.160
2C.11 Amortisation - intangible fixed assets	0.336	0.080	0.416
<b>2C.12 Total operating costs</b>	<b>2.830</b>	<b>0.419</b>	<b>3.249</b>
2C.13 Debt written off	0.779	0.058	0.837
<b>Operating Cost Analysis (Retail) Commentary vs FD (HD)</b>			
Customer services costs. A review of bad debt provisioning has also led to an increase in Doubtful debt costs compared to the FD.			
In 2018/19, the High Court issued a judgment in relation to a gender equality case in Guaranteed Minimum Pension rights that has an impact on the Group's defined benefit pension liabilities. Independent advice from the Group's actuaries has been obtained to determine the amount of the additional liability and a provision made in this year's financial statements. The retail share of this charge is £0.038 million. Whilst the table above includes the charge, we have adjusted the retail operating costs in the RoRE calculation so that the variance to FD excludes the impact of the charge.			
Retail operating expenditure excluding depreciation totals £2.673 million for the period; £2.335 million (87%) relates to Household customers. This is £0.173 million lower than the Final Determination (FD) of £2.508 million and is primarily driven by customer services.			
This year has seen the integration of Hafren Dyfrdwy into Severn Trent and led to a review of cost allocations to better reflect activity. The review has resulted in a higher cost allocated to debt management, as well as re-allocating general and support costs to Other operating expenditure which were previously recognised within			

## 2D - Historic cost analysis of fixed assets

Year ended 31 March 2019

Line description	Wholesale			Retail			Total
	Water Resources	Water Network+	Waste water Network+	Sludge	Household	Non-Household	
	£m	£m	£m	£m	£m	£m	£m
<b>A Cost</b>							
2D.1 At 1 April 2018	8.025	149.409	0.000	0.000	1.566	0.000	159.000
2D.2 Disposals	-1.022	-47.363	0.000	0.000	-0.003	0.000	-48.388
2D.3 Additions	3.193	72.916	41.572	0.000	0.000	0.030	117.711
2D.4 Adjustments	0.229	0.062	0.000	0.000	-0.554	0.000	-0.263
2D.5 Assets adopted at nil cost	0.000	0.000	0.126	0.000	0.000	0.000	0.126
2D.6 At 31 March 2019	10.425	175.024	41.698	0.000	1.009	0.030	228.186
<b>B Depreciation</b>							
2D.7 At 1 April 2018	-1.261	-47.408	0.000	0.000	-0.958	0.000	-49.627
2D.8 Disposals	0.261	16.680	0.000	0.000	0.002	0.000	16.943
2D.9 Adjustments	0.000	-0.452	0.000	0.000	0.452	0.000	0.000
2D.10 Charge for the year	-0.226	-4.460	-1.157	0.000	-0.159	-0.001	-6.003
2D.11 At 31 March 2019	-1.226	-35.640	-1.157	0.000	-0.663	-0.001	-38.687
2D.12 Net book amount at 31 March 2019	9.199	139.384	40.541	0.000	0.346	0.029	189.499
2D.13 Net book amount at 1 April 2018	6.764	102.001	0.000	0.000	0.608	0.000	109.373
<b>C Depreciation charge for year</b>							
2D.14 Principal services	-0.082	-4.371	-1.146	0.000	-0.159	-0.001	-5.759
2D.15 Third party services	-0.144	-0.089	-0.011	0.000	0.000	0.000	-0.244
<b>2D.16 Total</b>	<b>-0.226</b>	<b>-4.460</b>	<b>-1.157</b>	<b>0.000</b>	<b>-0.159</b>	<b>-0.001</b>	<b>-6.003</b>

## 2E - Analysis of capital contributions & land sales (wholesale)

Year ended 31 March 2019

Line description	Fully recognised in income statement	Current year		Total
		Capitalised and amortised [in income statement]	Fully netted off capex	
	£m	£m	£m	£m
<b>A Grants and contributions - water</b>				
2E.1 Connection charges	0.000	0.367	0.000	0.367
2E.2 Infrastructure charge receipts	0.000	0.089	0.000	0.089
2E.3 Requisitioned mains	0.000	0.012	0.000	0.012
2E.4 Other contributions [price control]	0.000	0.000	0.000	0.000
2E.5 Diversions	0.000	0.070	0.000	0.070
2E.6 Other contributions [non-price control]	0.000	0.094	0.000	0.094
<b>2E.7 Total</b>	<b>0.000</b>	<b>0.632</b>	<b>0.000</b>	<b>0.632</b>
2E.8 Value of adopted assets		0.000		0.000
<b>B Grants and contributions - waste water</b>				
2E.9 Infrastructure charge receipts	0.000	0.045	0.000	0.045
2E.10 Requisitioned sewers	0.000	0.000	0.000	0.000
2E.11 Other contributions [price control]	0.000	0.000	0.000	0.000
2E.12 Diversions	0.000	0.000	0.000	0.000
2E.13 Other contributions [non-price control]	0.000	0.087	0.000	0.087
<b>2E.14 Total</b>	<b>0.000</b>	<b>0.132</b>	<b>0.000</b>	<b>0.132</b>
2E.15 Value of adopted assets		0.126		0.126
<b>C Movements in capitalised grants and contributions</b>				
2E.16 Brought forward		11.322	0.000	11.322
2E.17 Capitalised in year		0.632	0.132	0.764
2E.18 Amortisation [in income statement]		-0.152	-0.004	-0.156
2E.19 Carried forward		11.802	0.128	11.930
<b>D Land sales</b>				
2E.20 Proceeds from disposals of protected land		0.000	0.000	0.000

## 2F - Household revenues by customer type

Year ended 31 March 2019

Line description	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average household retail revenue per customer
	£m	£m	£m	000s	£
2F.1 Unmeasured water only customer	6.057	0.804	6.861	31.675	25.38
2F.2 Unmeasured waste water only customer	0.085	0.007	0.092	1.061	6.60
2F.3 Unmeasured water and waste water customer	1.678	0.269	1.947	9.061	29.69
2F.4 Measured water only customer	5.273	1.613	6.886	44.423	36.31
2F.5 Measured waste water only customer	0.105	0.015	0.120	1.408	10.65
2F.6 Measured water and waste water customer	0.888	0.289	1.177	7.318	39.49
<b>2F.7 Total</b>	<b>14.086</b>	<b>2.997</b>	<b>17.083</b>	<b>94.946</b>	<b>31.57</b>

## 2G - Non-household water revenues by customer type

Year ended 31 March 2019

Line description	Wholesale charges revenue	Retail revenue	Total revenue	Number of connections	Average non-household retail revenue per connection
	£m	£m	£m	000s	£
<b>A Non-Default tariffs</b>					
<b>2G.1 Total non-default tariffs</b>			<b>0.000</b>		<b>0</b>
<b>B Default tariffs</b>					
2G.2 Unmeasured (Powys only)	0.029	0.003	0.032	0.086	35
2G.3 Measured 0-5 ML/a (Powys only)	1.269	0.148	1.417	2.486	60
2G.4 Measured 5 to 50 ML (Powys only)	0.286	0.012	0.298	0.018	667
2G.5 Tariff Band 01: Unmeasured (areas excluding Powys)	0.069	0.001	0.070	0.295	3
2G.6 Tariff Band 02: Measured less than 50ML (areas excluding Powys)	3.800	0.229	4.029	4.133	55
2G.7 Tariff Band 03: Untreated measured less than 50ML (areas excluding Powys)	0.084	0.002	0.086	0.012	167
2G.8 Measured 50 ML and over (all areas)	1.835	0.011	1.846	0.014	786
<b>2G.21 Total default tariffs</b>	<b>7.372</b>	<b>0.406</b>	<b>7.778</b>	<b>7.044</b>	<b>58</b>
<b>2G.22 Total</b>	<b>7.372</b>	<b>0.406</b>	<b>7.778</b>	<b>7.044</b>	<b>58</b>

C Revenue per customer	Number of customers	Average non-household retail revenue per customer
	000s	£
<b>2G.23 Total</b>	<b>14.321</b>	<b>28</b>

## 2H - Non-household waste water revenues by customer type

Year ended 31 March 2019

Line description	Wholesale charges revenue	Retail revenue	Total revenue	Number of connections	Average non-household retail revenue per connection
	£m	£m	£m	000s	£
<b>A Non-Default tariffs</b>					
<b>2G.1 Total non-default tariffs</b>			<b>0.000</b>		<b>0</b>
<b>B Default tariffs</b>					
2G.2 Unmeasured (Powys only)	0.041	0.005	0.046	0.094	53
2G.3 Measured 0-5 ML/a (Powys only)	0.515	0.054	0.569	1.032	52
2G.4 5 to 50 ML (all areas)	0.149	0.003	0.152	0.006	500
2G.5 50 ML and over (all areas)	0.000	0.000	0.000	0.000	0
<b>2G.6 Total default tariffs</b>	<b>0.705</b>	<b>0.062</b>	<b>0.767</b>	<b>1.132</b>	<b>55</b>
<b>2G.7 Total</b>	<b>0.705</b>	<b>0.062</b>	<b>0.767</b>	<b>1.132</b>	<b>55</b>
<b>C Revenue per customer</b>					
<b>2G.8 Total</b>					
				<b>1.132</b>	<b>55</b>

# 2I - Revenue analysis and wholesale control reconciliation

Year ended 31 March 2019

Line description	Household £m	Non-household £m	Total £m
<b>A Wholesale charge - water</b>			
2I.1 Unmeasured	6.878	0.098	6.976
2I.2 Measured	5.843	7.274	13.117
2I.3 Third party revenue	0.000	0.000	0.000
2I.4 Total	12.721	7.372	20.093
<b>B Wholesale charge - waste water</b>			
2I.5 Unmeasured	0.942	0.041	0.983
2I.6 Measured	0.423	0.664	1.087
2I.7 Third party revenue	0.000	0.000	0.000
2I.8 Total	1.365	0.705	2.070
<b>2I.9 Wholesale Total</b>	<b>14.086</b>	<b>8.077</b>	<b>22.163</b>
<b>C Retail revenue</b>			
2I.10 Unmeasured	1.080	0.009	1.089
2I.11 Measured	1.917	0.459	2.376
2I.12 Other third party revenue	0.000	0.034	0.034
<b>2I.13 Retail total</b>	<b>2.997</b>	<b>0.502</b>	<b>3.499</b>
<b>D Third party revenue - non-price control</b>			
2I.14 Bulk Supplies - water			0.437
2I.15 Bulk Supplies - waste water			0.027
2I.16 Other third party revenue			4.044
<b>E Principal services - non-price control</b>			
2I.17 Other appointed revenue			0.090
<b>2I.18 Total appointed revenue</b>			<b>30.260</b>
	Water £m	Waste water £m	Total £m
2I.19 Wholesale revenue governed by price control	20.093	2.070	22.163
2I.20 Grants and contributions	0.468	0.045	0.513
<b>2I.21 Total revenue governed by wholesale price control</b>	<b>20.561</b>	<b>2.115</b>	<b>22.676</b>
2I.22 Amount assumed in wholesale determination	20.076	2.548	22.624
2I.23 Adjustment for in-period ODI revenue	-0.013	0.082	0.069
2I.24 Adjustment for WRFIM	-0.042	-0.018	-0.060
<b>2I.25 Total assumed revenue</b>	<b>20.021</b>	<b>2.612</b>	<b>22.633</b>
<b>2I.26 Difference</b>	<b>0.540</b>	<b>-0.497</b>	<b>0.043</b>

# 2I - Revenue analysis and wholesale control reconciliation

Year ended 31 March 2019

## Difference between allowed and actual revenue under the wholesale control

Wholesale revenue for 2018/19 of £22.7 million is in line with the amount assumed in the Wholesale Price Control.

## Wholesale Water

Wholesale Water revenue of £20.6 million is £0.3 million (2.7%) higher than the Wholesale Price Control. This is due to higher core tariff revenue and new connections charges than the Wholesale Price Control, partly offset by lower s146 infrastructure charges.

## Wholesale Waste

Wholesale Waste revenue of £2.1 million is £0.5 million (19%) lower than the Wholesale Price Control. This is mainly due to waste customers billed on our behalf by Welsh Water being incorrectly classified as HD customers rather than STW customers in our tariff setting process. Some customers within the national boundary of England fall within Welsh Water's water supply area and Severn Trent's sewerage area. This has a net zero impact at group level.

We recognise that this is a large difference when measured as a percentage, because of the size of the waste water control compared to the water service. The data issue did not cause any price disturbance in 2018-19 because charges were not re-set. The shortfall will not affect 2019-20 because the data had been cleansed by the time we calculated charges for this financial year. Since we are due to submit updated PR14 reconciliation models within the PR19 process, there is an opportunity to take these revenue variances into account within the Final Determination and ensure that our waste water customers continue to enjoy stable prices.

# 2J - Infrastructure network reinforcement costs

Year ended 31 March 2019

Line description	Network reinforcement capex £m	On site/site specific capex (memo only) £m
<b>A Wholesale water network+ [treated water distribution]</b>		
2J.1 Distribution and trunk mains	0.001	0.304
2J.2 Pumping and storage facilities	0.000	0.000
2J.3 Other	0.000	0.000
<b>2J.4 Total</b>	<b>0.001</b>	<b>0.304</b>
<b>B Wholesale waste water network+ [sewage collection]</b>		
2J.5 Foul and combined systems	0.002	0.002
2J.6 Surface water only systems	0.000	0.000
2J.7 Pumping and storage facilities	0.000	0.000
2J.8 Other	0.000	0.000
<b>2J.9 Total</b>	<b>0.002</b>	<b>0.002</b>

# 2K- Infrastructure charges reconciliation

Year ended 31 March 2019

Line description	Water	Waste water	Total
	£m	£m	£m
<b>A Impact of infrastructure charge discounts</b>			
2K.1 Infrastructure charges	0.089	0.045	0.134
2K.2 Discounts applied to infrastructure charges	0.002	0.003	0.005
<b>2K.3 Gross infrastructure charges</b>	<b>0.091</b>	<b>0.048</b>	<b>0.139</b>
<b>B Comparison of revenue and costs</b>			
2K.4 Variance brought forward	0.000	0.000	0.000
2K.5 Revenue	0.091	0.048	0.139
2K.6 Costs	-0.001	-0.002	-0.003
2K.7 Variance carried forward	0.090	0.046	0.136

For 2018/19, infrastructure charges are based on the Licence Condition C industry capped limit and not related to costs, therefore costs and revenue cannot be reconciled.

# Additional regulatory information

# 3A - Outcome Performance Table

Year ended 31 March 2019

Row	Unique ID	Performance commitment	Unit	Unit description
1	PR14HDDWSW_A1	A1: Discoloured water contacts	nr	No. per 1,000 population
2	PR14HDDWSW_A2	A2: Mean zonal compliance (MzC)	%	Mean zonal compliance (%)
3	PR14HDDWSW_A3	A3: Delivery of the outcomes of the Legacy water treatment works (south west Wrexham) major scheme	text	Pass/fail [until completion]
4	PR14HDDWSW_A4	A4: Delivery of the outcomes of the service reservoir water quality risk management schemes	text	Pass/fail [for each scheme]
5	PR14HDDWSW_B1	B1: Average duration of interruptions - 3 hours or longer [planned and unplanned interruptions]	time	Hours / property / year
6	PR14HDDWSW_B2	B2: Sustainable economic level of leakage	nr	Litres per property per day (l/prop/day)
7	PR14HDDWSW_B3	B3: Security of supply index (SOSI)	score	Security of Supply Index (SOSI)
8	PR14HDDWSW_B4	B4: Number of bursts	nr	No. of burst mains per year
9	PR14HDDWSW_C1	C1: Gross operational greenhouse gas emissions	nr	tCO2e
10	PR14HDDWSW_D1	D1: Customers' perception based on market research	%	% customer satisfaction
11	PR14HDDNHR_F1	F1: Non-household Service incentive mechanism (SIM)	score	Service incentive mechanism (SIM) score
12	PR14HDDHHR_E1	E1: Per capita consumption and water efficiency	nr	Litres per capita per day
13	PR14HDDHHR_E2	E2: Service incentive mechanism (SIM)	score	Service incentive mechanism (SIM) score
14	PR14HDDWSW_W-A1	W-A1: Number of complaints about drinking water quality	nr	No. of water quality complaints
15	PR14HDDWSW_W-A2	W-A2: Compliance with drinking water quality standards	%	Mean zonal compliance (%)
16	PR14HDDWSW_W-A3	W-A3: Asset stewardship - number of sites with coliform failures (WWTWs)	nr	No. of sites with coliform failures per year
17	PR14HDDWSW_W-B1	W-B1: Resource efficiency [distribution input per customer] - amount of water taken out of the environment	nr	Litres per person per day (l/p/d)
18	PR14HDDWSW_W-B2	W-B2: Leakage levels	nr	Megalitres per day (ML/d)
19	PR14HDDWSW_W-B3	W-B3: Speed of response in repairing leaks [% fixed within 24 hours]	%	% visible leaks fixed within 24 hours
20	PR14HDDWSW_W-B4	W-B4: Number of minutes customers go without supply each year [interruptions to supply > 3 hours]	time	Minutes / property / year
21	PR14HDDWSW_W-B5	W-B5: % of customers with resilient supplies [those that benefit from a second source of supply]	%	% customers with 2nd supply source
22	PR14HDDWSW_W-B6	W-B6: Asset stewardship - mains bursts	nr	No. of burst mains per year
23	PR14HDDWSW_W-B7	W-B7: Customers at risk of low pressure	nr	No. customers at risk of low pressure
24	PR14HDDWSW_W-B8	W-B8: Restrictions on water use	nr	No. water restrictions in five-year period
25	PR14HDDWSW_W-C1	W-C1: Customers rating our services as good value for money [based on tracker survey]	%	% customer satisfaction
26	PR14HDDWSW_W-D2	W-D2: Asset stewardship - environmental compliance	%	% environmental compliance
27	PR14HDDWSW_W-E1	W-E1: Size of our carbon footprint	nr	ktCO2e
28	PR14HDDWSW_W-F1	W-F1: Improved understanding of our services through education	nr	No. of people - education programme
29	PR14HDDWSWW_S-A1	S-A1: Number of internal sewer flooding incidents	nr	No. of internal sewer flooding incidents
30	PR14HDDWSWW_S-A2	S-A2: Number of external sewer flooding incidents	nr	No. of external sewer flooding incidents
31	PR14HDDWSWW_S-A3	S-A3: Partnership working	nr	No. of partnership working projects
32	PR14HDDWSWW_S-A4	S-A4: Asset stewardship - blockages	nr	No. of sewer blockages per year
33	PR14HDDWSWW_S-A5	S-A5: Statutory obligations [Section 101A schemes]	nr	No. of connectable properties, identified as polluting or likely to pollute, associated with new Section 101A schemes
34	PR14HDDWSWW_S-B1	S-B1: Customers rating our services as good value for money [based on tracker survey]	%	% customer satisfaction
35	PR14HDDWSWW_S-C2	S-C2: The number of category 3 pollution incidents	nr	No. of pollution incidents (cat 3)
36	PR14HDDWSWW_S-C3	S-C3: Asset stewardship - environmental compliance [basket of measures]	%	% compliance with WwTW regulations
37	PR14HDDWSWW_S-C5	S-C5: Sustainable sewage treatment	nr	No. of WwTWs avoiding investment
38	PR14HDDWSWW_S-C6	S-C6: Serious pollution incidents	nr	No. of pollution incidents (cats 1 and 2)
39	PR14HDDWSWW_S-C7	S-C7: Overall environmental performance [basket of environmental measures]	nr	No. of environmental targets met
40	PR14HDDWSWW_S-C8	S-C8: The number of category 4 pollution incidents	nr	No. of pollution incidents (cat 4)
41	PR14HDDWSWW_S-D1	S-D1: Size of our carbon footprint	nr	ktCO2e
42	PR14HDDWSWW_S-E1	S-E1: Improved understanding of our services through education	nr	No. of people - education programme
43	PR14HDDHHR_R-A1	R-A1: Customer satisfaction with their service [based on a survey]	text	Customer satisfaction ranking
44	PR14HDDHHR_R-A2	R-A2: Customers' experience of dealing with us [based on Ofwat's SIM]	text	Service incentive mechanism (SIM) score ranking
45	PR14HDDHHR_R-B1	R-B1: Customers helped by a review of their tariff & water usage &/or supported by SVT social fund	nr	No. of customers engaged with on debt
46	PR14HDDHHR_R-B2	R-B2: Percentage of customers who do not pay [household bad debt divided by total household revenue]	%	% of customers who do not pay

Decimal places	2018-19 performance level - actual	2018-19 PCL met?	2018-19 outperformance payment or underperformance payment - in-period ODIs (indicator)	2018-19 outperformance payment or underperformance payment - in-period ODIs [£m, to 4 dp]	2018-19 outperformance payment or underperformance payment - in-period ODIs payable at the end of AMP6 (indicator)	2018-19 outperformance payment or underperformance payment - in-period ODIs payable at the end of AMP6 [£m, to 4 dp]	31 March 2020 forecast - total AMP6	31 March 2020 forecast - total AMP6
2	1.02	No					Underperformance penalty	-0.0011
2	99.94	No					Underperformance penalty	-0.0285
na	NA							
na	Milestone	Yes					-	
2	0.12	Yes					Outperformance payment	0.0089
1	107.8	No					Underperformance penalty	-0.0397
0	100	Yes						
0	185	No					Underperformance penalty deadband	0.0000
0	4987	Yes						
na	70%	No						
1	83.9	Yes						
2	140.41	No						
1	78.4	No						
0	67	No	Underperformance penalty	-0.0309				
3	99.940	No	Underperformance penalty	-0.0100				
0	0	Yes						
0	348	No						
0	8	No	Underperformance penalty deadband					
0	26%	No	Underperformance penalty	-0.0077				
2	93.74	No	Underperformance penalty	-0.2794				
1	27.5%	-						
0	148	Yes						
0	11	Yes	Outperformance payment	0.0047				
0	0	Yes						
0	NA	Yes	Outperformance payment	0.0007				
0	97.69%	No						
3	1	Yes						
0	534	No						
0	4	Yes	Outperformance payment	0.0012				
0	29	Yes	Outperformance payment	0.0206				
0	0	Yes						
0	252	No					Underperformance payment	-0.0810
0	0	-						
0	NA	Yes	Outperformance payment					
0	1	Yes	Outperformance payment	0.0021				
2	97.69%	No					Underperformance penalty deadband	
0	0	Yes					-	
0	0	Yes						
0	NA	Yes	Outperformance payment	0.0106				
0	5	Yes						
3	1	Yes	Outperformance payment	0.0000				
0	534	No						
na	Upper Quartile	Yes						
na	81.45							
0	291	Yes						
2	3.16%	No						

## 3B - Sub-measures performance table

Year ended 31 March 2019

Row	Unique ID	PC/sub-measure ID	PC/sub-measure	2017-18 performance level - actual	2018-19 performance level - actual	2018-19 PCL met?
1	PR14HDDWSWW_S-C3	00	S-C3: Asset stewardship - environmental compliance (basket of measures)	-	97.69	No
2	PR14HDDWSWW_S-C3	01	% of sewage treatment works passing their numeric consents	-	98.57	No
3	PR14HDDWSWW_S-C3	02	% of actions raised from EA regulatory site audits (actions raised as a % of total site visits)	-	96.84	No
4	PR14HDDWSWW_S-C3	03	% of sites that do not exceed their 90%ile flow on sewage treatment works or maximum daily flow on water treatment works	-	95.41	No
5	PR14HDDWSWW_S-C3	04	% of sites compliant with their abstraction permits	-	99.96	No

## 3C - AIM Table

Nil return.

We do not have any active AIM sites, therefore this table is deliberately blank.

# 3D - SIM Table

Line description	Score Number
<b>A Qualitative performance</b>	
3D.1 1st survey score	4.19
3D.2 2nd survey score	3.95
3D.3 3rd survey score	4.15
3D.4 4th survey score	4.20
3D.5 Qualitative SIM score (out of 75)	59.02
3D.6 Total contact score	112.03
3D.7 Quantitative SIM score (out of 25)	19.40
3D.8 Total annual SIM score (out of 100)	78.41

## 4A - Non-financial information

Year ended 31 March 2019

Line description	Units	DPs	Current year			
			Unmeasured	Measured		
<b>Retail</b>						
<b>A Household</b>						
4A.1 Number of void households	000s	3	2.048	2.116		
4A.2 Per capita consumption (excluding supply pipe leakage) l/h/d	l/h/d	2	155.42	130.77		
<b>Wholesale</b>						
<b>B Volume (ML/d)</b>						
4A.3 Bulk supply export	ML/d	3	0.633	0.078		
4A.4 Bulk supply import	ML/d	3	0.090	0.068		
4A.5 Distribution input	ML/d	3	61.584			

# 4B - Wholesale totex analysis

Year ended 31 March 2019

In the past year, we have completed the variation to our region by moving the English region previously served by Dee Valley Water into Severn Trent Water and the Welsh areas previously part of Severn Trent Water into Hafren Dyfrdwy. The PR14 final determination (FD)

allowances have been adjusted by Ofwat to reflect this change and are set out in the variation to our appointment ('revised FD').

Table 4B compares our total wholesale expenditure ('totex') in the current year and AMP to date to the allowed totex in the revised

FD. A number of items are excluded from the totex menu and appear as reconciling items in table 4B. As in the prior year reconciling items include third party costs and pension deficit recovery payments. In addition, 'Other rule book' adjustments have been made as outlined below.

## Other 'Rule book' adjustments in 2018/19

Line description	Water	Waste water	Total		
				£m	£m
Exceptional pension costs	0.362	-	0.362		
Fixed asset transfers from Severn Trent Water	66.127		107.269		
Bulk supply costs from Severn Trent Water to remove	2.151	0.024	2.175		
Third party costs for bulk supply to Severn Trent Water to move back to base totex	-0.262	-0.010	-0.272		
<b>Total adjustment</b>	<b>68.378</b>	<b>41.156</b>	<b>109.534</b>		

- The company recorded exceptional pension costs of £0.4 million arising from the High Court judgment in the Lloyds bank case relating to Guaranteed Minimum Pension rights. This is removed from actual totex to compare to the allowed totex.

- On 1 July, following the boundary alignment, £107.2 million of water and waste water assets were transferred to Hafren Dyfrdwy from Severn Trent Water. The value of this transfer is included within the actual totex figure and is therefore removed to compare to allowed totex.

- Third party costs are not included in menu totex and, as noted above, are included as a standard reconciling item between actual and allowed totex. Following

the boundary alignment on 1 July, this includes bulk supplies between Hafren Dyfrdwy and Severn Trent Water. The revised FD was not adjusted for bulk supplies and so these costs should still be included in totex to be comparable. This has led to an adjustment of £0.3 million.

## Comparison to allowed totex

Total cumulative expenditure in 2012/13 prices is lower than allowed in the FD by £2.7 million. This has reduced by £5.2 million since the prior year when the cumulative variance was £7.9 million lower. The movement is driven by activity in water services

In water services the reduction in the cumulative totex outperformance is attributable to

the additional activity undertaken in the Company following acquisition by Severn Trent Water in February 2017. This activity has covered investment in the water treatment and distribution asset base, and improvements in technology and security. There is no timing adjustment in the current year.

There were no waste water activities in the Company prior to the boundary alignment which came into effect on 1 July 2018. Adjusted actual totex was £1.7 million lower than the revised FD in the year. This is largely a function of the assumptions used in the FD split as part of the licence variation.

Looking forward, we expect the additional activity and investment to continue as we ensure the asset base is fit to meet the challenges of AMP7.

Totex in £m at 12/13 prices

	Service	Cumulative to	Cumulative to		
		17/18	18/19	Water	Waste water
Adjusted actual totex		Water	59.284	83.254	
		Waste water	0	2.511	
FD menu allowance		Water	66.439	84.278	
		Waste water	0	4.169	
Total variance		Water	-7.155	-1.024	
		Waste water	0	-1.658	
		<b>Total</b>	<b>-7.155</b>	<b>-2.682</b>	

# 4B - Wholesale totex analysis

Year ended 31 March 2019

Line description	Current year		Cumulative 2015-20	
	Water	Waste water	Water	Waste water
<b>A Actual totex</b>				
4B.1 Actual totex	98.380	44.072	163.992	44.072
<b>B Items excluded from the menu</b>				
4B.2 Third party costs	-1.941	-0.009	-1.959	-0.009
4B.3 Pension deficit recovery payments	-0.306	0.000	-1.595	0.000
4B.4 Other 'Rule book' adjustments	-68.378	-41.156	-68.378	-41.156
4B.5 Total items excluded from the menu	-70.625	-41.165	-71.932	-41.165
<b>C Transition expenditure</b>				
4B.6 Transition expenditure	0.000	0.000	0.544	0.000
<b>D Adjusted Actual totex</b>				
4B.7 Adjusted Actual totex	27.755	2.907	92.604	2.907
4B.8 Adjusted Actual totex base year prices	23.970	2.511	83.254	2.511
<b>E Allowed totex</b>				
4B.9 Allowed totex based on final menu choice - base year prices	17.839	4.169	84.278	4.169

# 4C - Forecast impact of performance on RCV

Year ended 31 March 2019

Line description	Water		Waste water	
	£m	£m	£m	£m
4C.1 Cumulative totex over/underspend so far in the price control period				
4C.2 Customer share of cumulative totex over/underspend	0.595	0.978		
4C.3 RCV element of customer share of cumulative totex over/underspend	-1.494	-0.976		
4C.4 Adjustment for ODI rewards or penalties	0.000	0.000		
4C.5 RCV determined at FD at 31 March	73.470	0.905		
4C.6 Projected 'shadow' RCV	71.976	-0.071		

# 4D -Wholesale totex analysis (water)

Year ended 31 March 2019

Line description	Water resources			Network+			Total
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	
	£m	£m	£m	£m	£m	£m	£m
<b>A Operating expenditure</b>							
4D.1 Power	0.000	0.235	0.523	0.000	0.132	1.316	2.206
4D.2 Income treated as negative expenditure	0.000	-0.035	0.000	0.000	0.000	0.000	-0.035
4D.3 Abstraction charges/discharge consents	0.603	0.000	0.000	0.000	0.001	0.000	0.604
4D.4 Bulk supply	0.000	0.239	0.119	0.000	0.430	1.406	2.194
4D.5 Other operating expenditure - renewals expensed in year (infrastructure)	0.000	0.044	0.000	0.000	0.000	3.778	3.822
4D.6 Other operating expenditure - renewals expensed in year (non-infrastructure)	0.000	0.001	0.001	0.000	0.015	0.009	0.026
4D.7 Other operating expenditure - excluding renewals	0.000	0.705	0.263	0.015	4.210	3.728	8.921
4D.8 Local authority and cumulo rates	0.000	0.264	0.168	0.026	0.126	0.721	1.305
<b>4D.9 Total operating expenditure (excluding third party services)</b>	<b>0.603</b>	<b>1.453</b>	<b>1.074</b>	<b>0.041</b>	<b>4.914</b>	<b>10.958</b>	<b>19.043</b>
4D.10 Third party services	0.012	1.689	0.018	0.000	0.102	0.120	1.941
<b>4D.11 Total operating expenditure</b>	<b>0.615</b>	<b>3.142</b>	<b>1.092</b>	<b>0.041</b>	<b>5.016</b>	<b>11.078</b>	<b>20.984</b>
<b>B Capital Expenditure</b>							
4D.12 Maintaining the long term capability of the assets - infra	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4D.13 Maintaining the long term capability of the assets - non-infra	0.000	0.197	0.000	0.019	5.458	3.547	9.221
4D.14 Other capital expenditure - infra	0.000	2.909	0.000	0.000	0.000	55.127	58.036
4D.15 Other capital expenditure - non-infra	0.000	2.052	0.000	0.000	4.001	4.411	10.464
4D.16 Infrastructure network reinforcement	0.000	0.000	0.000	0.000	0.000	0.001	0.001
<b>4D.17 Total gross capital expenditure (excluding third party services)</b>	<b>0.000</b>	<b>5.158</b>	<b>0.000</b>	<b>0.019</b>	<b>9.459</b>	<b>63.086</b>	<b>77.722</b>
4D.18 Third party services	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>4D.19 Total gross capital expenditure</b>	<b>0.000</b>	<b>5.158</b>	<b>0.000</b>	<b>0.019</b>	<b>9.459</b>	<b>63.086</b>	<b>77.722</b>
<b>C Grants and contributions</b>							
4D.20 Grants and contributions	0.000	-0.012	0.000	-0.001	-0.024	-0.595	-0.632
<b>4D.21 Totex</b>	<b>0.615</b>	<b>8.288</b>	<b>1.092</b>	<b>0.059</b>	<b>14.451</b>	<b>73.569</b>	<b>98.074</b>
<b>D Cash Expenditure</b>							
4D.22 Pension deficit recovery payments	0.000	0.044	0.010	0.000	0.224	0.028	0.306
4D.23 Other cash items	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>4D.24 Totex including cash items</b>	<b>0.615</b>	<b>8.332</b>	<b>1.102</b>	<b>0.059</b>	<b>14.675</b>	<b>73.597</b>	<b>98.380</b>
<b>E Unit cost information (operating expenditure)</b>							
4D.25 Licensed volume available	ML	37953.000					
4D.25 Volume abstracted	ML	21054.280					
4D.25 Volume transported	ML	21054.280					
4D.25 Average volume stored	ML	44795.000					
4D.25 Distribution input volume	ML		22668.504				
4D.25 Distribution input volume	ML			22469.656			
4D.26 Unit cost	£/ML	16.204	149.233	51.866	0.915	221.276	493.020
4D.27 Population	000s	206.672	206.672	206.672	206.672	206.672	
4D.28 Unit cost	£/pop	2.976	15.203	5.284	0.198	24.270	53.602

Capital expenditure includes the transfer of £66.1 million of water assets from Severn Trent Water to Hafren Dyfrdwy.

# 4E -Wholesale totex analysis (waste water)

Year ended 31 March 2019

Line description	Network+ Sewage collection			Network + Sewage treatment			Sludge
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor	Sludge transport	
	£m	£m	£m	£m	£m	£m	£m
<b>A Operating expenditure</b>							
4E.1 Power				0.066	0.012	0.008	0.184
4E.2 Income treated as negative expenditure	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4E.3 Discharge consents				0.025	0.005	0.003	0.173
4E.4 Bulk discharge				0.007	0.001	0.001	0.001
4E.5 Other operating expenditure - renewals expensed in year (infrastructure)				0.072	0.009	0.009	0.000
4E.6 Other operating expenditure - renewals expensed in year (non-infrastructure)				0.014	0.003	0.002	0.000
4E.7 Other operating expenditure - excluding renewals				0.234	0.044	0.028	1.084
4E.8 Local authority rates and cumulo rates				0.001	0.000	0.000	0.000
<b>4E.9 Total operating expenditure (excluding third party services)</b>	<b>0.419</b>	<b>0.074</b>	<b>0.051</b>	<b>1.680</b>	<b>0.000</b>	<b>0.090</b>	<b>0.308</b>
4E.10 Third party services				0.003	0.000	0.004	0.000
<b>4E.11 Total operating expenditure</b>	<b>0.422</b>	<b>0.074</b>	<b>0.051</b>	<b>1.684</b>	<b>0.000</b>	<b>0.090</b>	<b>0.310</b>
							<b>0.002</b>
							<b>2.624</b>
<b>B Capital Expenditure</b>							
4E.12 Maintaining the long term capability of the assets - infra	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4E.13 Maintaining the long term capability of the assets - non-infra		0.129	0.016	0.016	0.222	0.003	0.000
4E.14 Other capital expenditure - infra		8.556	1.593	1.040	0.000	0.000	0.000
4E.15 Other capital expenditure - non-infra		1.464	0.272	0.178	28.080	0.000	0.000
4E.16 Infrastructure network reinforcement		0.002	0.000	0.000	0.000	0.000	0.000
<b>4E.17 Total gross capital expenditure (excluding third party services)</b>	<b>10.151</b>	<b>1.881</b>	<b>1.234</b>	<b>28.302</b>	<b>0.003</b>	<b>0.000</b>	<b>0.000</b>
4E.18 Third party services		0.000	0.000	0.000	0.000	0.000	0.000
<b>4E.19 Total gross capital expenditure</b>	<b>10.151</b>	<b>1.881</b>	<b>1.234</b>	<b>28.302</b>	<b>0.003</b>	<b>0.000</b>	<b>0.000</b>
							<b>41.571</b>
<b>C Grants and contributions</b>							
4E.20 Grants and contributions		-0.053	-0.007	-0.007	-0.064	-0.001	0.000
<b>4E.21 Totex</b>	<b>10.520</b>	<b>1.948</b>	<b>1.278</b>	<b>29.922</b>	<b>0.002</b>	<b>0.090</b>	<b>0.310</b>
							<b>0.002</b>
							<b>44.072</b>
<b>D Cash Expenditure</b>							
4E.22 Pension deficit recovery payments		0.000	0.000	0.000	0.000	0.000	0.000
4E.23 Other cash items		0.000	0.000	0.000	0.000	0.000	0.000
<b>4E.24 Totex including cash items</b>	<b>10.520</b>	<b>1.948</b>	<b>1.278</b>	<b>29.922</b>	<b>0.002</b>	<b>0.090</b>	<b>0.310</b>
							<b>0.002</b>

# 4F - Operating cost analysis (household retail)

Year ended 31 March 2019

Line description	Household unmeasured			Household measured			Total		
	Water only	Waste water only	Water and waste water	Water only	Waste water only	Water and waste water			
	£m	£m	£m	£m	£m	£m	£m		
<b>A Operating expenditure</b>									
4F.1 Customer services	0.211	0.006	0.049	0.266	0.350	0.009	0.046	0.405	0.671
4F.2 Debt management	0.105	0.003	0.030	0.138	0.077	0.002	0.013	0.092	0.230
4F.3 Doubtful debts	0.126	0.002	0.154	0.282	0.121	0.003	0.135	0.259	0.541
4F.4 Meter reading				0.106	0.002	0.010	0.118	0.118	
4F.5 Other operating expenditure	0.269	0.006	0.053	0.328	0.396	0.008	0.043	0.447	0.775
<b>4F.6 Total operating expenditure excluding third party services</b>	<b>0.711</b>	<b>0.017</b>	<b>0.286</b>	<b>1.014</b>	<b>1.050</b>	<b>0.024</b>	<b>0.247</b>	<b>1.321</b>	<b>2.335</b>
4F.7 Third party services operating expenditure	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
<b>4F.8 Total operating expenditure</b>	<b>0.711</b>	<b>0.017</b>	<b>0.286</b>	<b>1.014</b>	<b>1.050</b>	<b>0.024</b>	<b>0.247</b>	<b>1.321</b>	<b>2.335</b>
4F.9 Depreciation - tangible fixed assets (on assets existing at 31 March 2015)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
4F.10 Depreciation - tangible fixed assets (on assets acquired since 1 April 2015)	0.053	0.002	0.015	0.070	0.075	0.002	0.012	0.089	0.159
4F.11 Amortisation - intangible fixed assets (on assets existing at 31 March 2015)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
4F.12 Amortisation - intangible fixed assets (on assets acquired since 1 April 2015)	0.112	0.004	0.032	0.148	0.157	0.005	0.026	0.188	0.336
<b>4F.13 Total operating costs</b>	<b>0.876</b>	<b>0.023</b>	<b>0.333</b>	<b>1.232</b>	<b>1.282</b>	<b>0.031</b>	<b>0.285</b>	<b>1.598</b>	<b>2.830</b>
4F.14 Capital expenditure	0.875	0.002	0.002	0.879	1.397	0.002	0.002	1.401	2.280
<b>B Demand-side efficiency and customer-side leaks analysis - Household</b>									
4F.15 Demand-side water efficiency - gross expenditure								0.000	
Demand-side water efficiency - expenditure funded by wholesale								0.000	
4F.17 Demand-side water efficiency - net retail expenditure								0.000	
4F.18 Customer-side leak repairs - gross expenditure								2.895	
Customer-side leak repairs - expenditure funded by wholesale								0.000	
4F.20 Customer-side leak repairs - net retail expenditure								2.895	

# 4G - Wholesale current cost financial performance

Year ended 31 March 2019

Line description	Water	Waste water	Total
	£m	£m	£m
4G.1 Revenue	24.659	2.098	26.757
4G.2 Operating expenditure	-20.984	-2.633	-23.617
4G.3 Capital maintenance charges	-8.962	-1.341	-10.303
4G.4 Other operating income	0.000	0.000	0.000
4G.5 Current cost operating profit	-5.287	-1.876	-7.163
4G.6 Other income	0.380	0.034	0.414
4G.7 Interest income	0.000	0.000	0.000
4G.8 Interest expense	-27.249	-0.336	-27.585
4G.9 Other interest expense	0.494	0.006	0.500
4G.10 Current cost profit before tax and fair value movements	-31.662	-2.172	-33.834
4G.11 Fair value gains/(losses) on financial instruments	0.000	0.000	0.000
4G.12 Current cost profit before tax	-31.662	-2.172	-33.834

# 4H - Financial metrics

As at 31 March 2019

Line description	Units	Current year	AMP to date
<b>A Financial indicators</b>			
4H.1 Net debt	£m	49.442	
4H.2 Regulated equity	£m	24.028	
4H.3 Regulated gearing	%	66.48%	
4H.4 Post tax return on regulated equity	%	-80.36%	
4H.5 RoRE (return on regulated equity)	%	-6.49%	5.34%
4H.6 Dividend yield	%	0.00%	
4H.7 Retail profit margin - Household	%	0.98%	
4H.8 Retail profit margin - Non household	%	0.97%	
4H.9 Credit rating	Text	n/a	
4H.10 Return on RCV	%	0.05%	
4H.11 Dividend cover	dec	0.00	
4H.12 Funds from operations (FFO)	£m	0.055	
4H.13 Interest cover (cash)	dec	1.01	
4H.14 Adjusted interest cover (cash)	dec	-55.84	
4H.15 FFO/Debt	dec	0.00	
4H.16 Effective tax rate	%	22.36%	
4H.17 RCF	£m	0.055	
4H.18 RCF/capex	dec	0.00	
<b>B Revenue and earnings</b>			
4H.19 Revenue (actual)	£m	25.662	
4H.20 EBITDA (actual)	£m	-0.628	
<b>C Movement in RoRE</b>			
4H.21 Base return	%	6.53%	6.01%
4H.22 Totex out/(under) performance	%	-7.56%	0.19%
4H.23 Retail cost out/(under) performance	%	-1.69%	0.33%
4H.24 ODI out/(under) performance	%	-1.81%	-0.42%
4H.25 Financing out/(under) performance	%	-1.96%	-0.77%
4H.26 Other factors	%	0.00%	0.00%
4H.27 Regulatory return for the year	%	-6.49%	5.34%
<b>D Borrowings</b>			
4H.28 Proportion of borrowings which are fixed rate	%	0.21%	
4H.29 Proportion of borrowings which are floating rate	%	53.85%	
4H.30 Proportion of borrowings which are index linked	%	45.93%	
4H.31 Proportion of borrowings due within 1 year or less	%	54.22%	
4H.32 Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.00%	
4H.33 Proportion of borrowings due in more than 2 years but no more than 5 years	%	0.00%	
4H.34 Proportion of borrowings due in more than 5 years but no more than 20 years	%	45.78%	
4H.35 Proportion of borrowings due in more than 20 years	%	0.00%	

## Return on Regulatory Equity ('RoRE')

Following the border variation, we have had to reapportion the FD RCV and allowances that were previously determined for Dee Valley and Severn Trent Water, to Hafren Dyfrdwy. This has resulted in higher allowances for wholesale totex and retail costs but a 25% lower RCV than under Dee Valley. As a consequence, small movements in performance compared to Dee Valley will therefore have a much larger impact on RoRE as seen with the current year's negative RoRE of 6.56%. We discuss the key components of RoRE below.

We also note that whilst Hafren Dyfrdwy has had an equity injection to reduce net debt, this was at the end of the year. Given that financing costs are based on average debt, the benefits from the greater equity will not be observed in RoRE until the following year.

### Base return

Reapportioning the base return for the border variation has increased the base return by 0.7% due to the higher apportioned FD allowances coupled with the lower RCV.

## Totex performance

As explained in table 4B – Wholesale totex analysis, cumulative totex outperformance from prior years has reduced in the current reporting year due to the additional activity that has been undertaken in the company following the acquisition by Severn Trent in February 2017. The activity has included investment in the water treatment and distribution asset base, and improvements in technology and security. There is no timing adjustment in the current year. Total totex performance is £2.2 million higher than allowed in the FD.

### Retail cost performance

As part of integrating Hafren Dyfrdwy into Severn Trent, a review of cost allocations has led to higher costs being allocated to retail compared to the FD. This has resulted in total retail cost performance £0.5 million higher than allowed in the FD.

### ODI performance

Overall our performance for the year has been positive in waste water ODIs, particularly in the Powys area. However, the hot weather during the summer put pressure on a number of our water network measures which has resulted in an overall net penalty of £0.4 million.

## Financing performance

An equity injection was made by Severn Trent Water at year end to reduce net debt and compensate for the lower RCV resulting from the border variation. Whilst net debt has reduced by £34 million, financing costs which are based on average debt over the year have resulted in a higher nominal cost of debt compared to the previous year.

### RCV run off performance

We note that the guidance no longer requires the RCV run off to be reported as a component of RoRE. We have therefore excluded the impact of the RCV run off from the RoRE, which results in RoRE improving by 0.4% over the AMP.

# 4I - Financial derivatives

Year ended 31 March 2019

This table is not required as Hafren Dyfrdwy do not have any financial derivatives.

## 4J - Atypical expenditure by business unit - Wholesale water

Year ended 31 March 2019

Line description	Water resources			Network+			Total
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	
	£m	£m	£m	£m	£m	£m	£m
<b>A Operating expenditure [excl. atypicals]</b>							
4J.1 Power	0.000	0.235	0.523	0.000	0.132	1.316	2.206
4J.2 Income treated as negative expenditure	0.000	-0.035	0.000	0.000	0.000	0.000	-0.035
4J.3 Abstraction charges/ discharge consents	0.603	0.000	0.000	0.000	0.001	0.000	0.604
4J.4 Bulk supply	0.000	0.239	0.119	0.000	0.430	1.406	2.194
<b>Other operating expenditure</b>							
4J.5 - Renewals expensed in year [infrastructure]	0.000	0.044	0.000	0.000	0.000	3.778	3.822
4J.6 - Renewals expensed in year [non-infrastructure]	0.000	0.001	0.001	0.000	0.015	0.009	0.026
4J.7 - Other operating expenditure excluding renewals	0.000	0.665	0.253	0.015	4.005	3.622	8.560
4J.8 Local authority and cumulo rates	0.000	0.264	0.168	0.026	0.126	0.721	1.305
<b>4J.9 Total operating expenditure (excluding third party services)</b>	<b>0.603</b>	<b>1.413</b>	<b>1.064</b>	<b>0.041</b>	<b>4.709</b>	<b>10.852</b>	<b>18.682</b>
4J.10 Third party services	0.012	1.689	0.018	0.000	0.102	0.120	1.941
<b>4J.11 Total operating expenditure</b>	<b>0.615</b>	<b>3.102</b>	<b>1.082</b>	<b>0.041</b>	<b>4.811</b>	<b>10.972</b>	<b>20.623</b>
<b>B Capital expenditure [excl. atypicals]</b>							
4J.12 Maintaining the long term capability of the assets - infra	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4J.13 Maintaining the long term capability of the assets - non-infra	0.000	0.197	0.000	0.019	5.458	3.547	9.221
4J.14 Other capital expenditure - infra	0.000	0.002	0.000	0.000	0.000	1.113	1.115
4J.15 Other capital expenditure - non-infra	0.000	0.089	0.000	0.000	0.181	0.988	1.258
4J.16 Infrastructure network reinforcement	0.000	0.000	0.000	0.000	0.000	0.001	0.001
<b>4J.17 Total gross capital expenditure (excluding third party services)</b>	<b>0.000</b>	<b>0.288</b>	<b>0.000</b>	<b>0.019</b>	<b>5.639</b>	<b>5.649</b>	<b>11.595</b>
4J.18 Third party services	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>4J.19 Total gross capital expenditure</b>	<b>0.000</b>	<b>0.288</b>	<b>0.000</b>	<b>0.019</b>	<b>5.639</b>	<b>5.649</b>	<b>11.595</b>
4J.20 Grants and contributions	0.000	-0.012	0.000	-0.001	-0.024	-0.595	-0.632
<b>4J.21 Totex</b>	<b>0.615</b>	<b>3.378</b>	<b>1.082</b>	<b>0.059</b>	<b>10.426</b>	<b>16.026</b>	<b>31.586</b>
<b>C Cash expenditure [excl. atypicals]</b>							
4J.22 Pension deficit recovery payments	0.000	0.044	0.010	0.000	0.224	0.028	0.306
4J.23 Other cash items	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>4J.24 Totex including cash items</b>	<b>0.615</b>	<b>3.422</b>	<b>1.092</b>	<b>0.059</b>	<b>10.650</b>	<b>16.054</b>	<b>31.892</b>
<b>D Atypical expenditure</b>							
4J.25 Guaranteed Minimum Pension [GMP] equalisation costs	0.000	0.040	0.010	0.000	0.205	0.106	0.361
4J.26 England & Wales boundary alignment transfer of assets	0.000	4.870	0.000	0.000	3.820	57.437	66.127
4J.27 Item 3							0.000
4J.28 Item 4							0.000
4J.29 Item 5							0.000
4J.30 Item 6							0.000
4J.31 Item 7							0.000
4J.32 Item 8							0.000
4J.33 Item 9							0.000
4J.34 Item 10							0.000
<b>4J.35 Total atypical expenditure</b>	<b>0.000</b>	<b>4.910</b>	<b>0.010</b>	<b>0.000</b>	<b>4.025</b>	<b>57.543</b>	<b>66.488</b>
<b>E Total expenditure</b>							
<b>4J.36 Total expenditure</b>	<b>0.615</b>	<b>8.332</b>	<b>1.102</b>	<b>0.059</b>	<b>14.675</b>	<b>73.597</b>	<b>98.380</b>

# 4K - Atypical expenditure by business unit - Wholesale waste water

Year ended 31 March 2019

## 4L - Enhancement expenditure by purpose - Wholesale water

As at 31 March 2019

Line description	Water resources			Expenditure in
	Abstraction licences	Raw water abstraction	Raw water transport	
	£m	£m	£m	£m
<b>A Enhancement expenditure by purpose</b>				
4L.1 NEP - Making ecological improvements at abstractions (Habitats Directive, SSSI, NERC, BAPs)	0.000	0.000	0.000	
4L.2 NEP - Eels Regulations (measures at intakes)	0.000	0.000	0.000	
4L.3 NEP - Invasive Non Native Species	0.000	0.000	0.000	
4L.4 Addressing low pressure	0.000	0.000	0.000	
4L.5 Improving taste / odour / colour	0.000	0.000	0.000	
4L.6 Meeting lead standards	0.000	0.000	0.000	
4L.7 Supply side enhancements to the supply/demand balance (dry year critical / peak conditions)	0.000	0.000	0.000	
4L.8 Supply side enhancements to the supply/demand balance (dry year annual average conditions)	0.000	0.000	0.000	
4L.9 Demand side enhancements to the supply/demand balance (dry year critical / peak conditions)	0.000	0.000	0.000	
4L.10 Demand side enhancements to the supply/demand balance (dry year annual average conditions)	0.000	0.000	0.000	
4L.11 New developments	0.000	0.000	0.000	
4L.12 New connections element of new development (CPs, meters)	0.000	0.000	0.000	
4L.13 Investment to address raw water deterioration (THM, nitrates, Crypto, pesticides, others)	0.000	0.000	0.000	
4L.14 Resilience	0.000	0.051	0.000	
4L.15 SEMD	0.000	0.022	0.000	
4L.16 NEP - Drinking Water Protected Areas (schemes)	0.000	0.000	0.000	
4L.17 NEP - Water Framework Directive measure	0.000	0.000	0.000	
4L.18 NEP - Investigations	0.000	0.000	0.000	
4L.19 Improvements to river flows	0.000	0.000	0.000	
4L.20 Metering (excluding cost of providing metering to new service connections) - meters requested by optants	0.000	0.000	0.000	
4L.21 Metering (excluding cost of providing metering to new service connections)- meters introduced by companies	0.000	0.000	0.000	
4L.22 Metering (excluding cost of providing metering to new service connections) - other	0.000	0.000	0.000	
4L.23 Reservoir Safety	0.000	0.018	0.000	
4L.24 Severn Trent Water asset transfers	0.000	4.870	0.000	
<b>4L.38 Total enhancement capital expenditure</b>	<b>0.000</b>	<b>4.961</b>	<b>0.000</b>	

report year	Cumulative expenditure on schemes completed in the report year											
	Network+			Water resources				Network+				
	Raw water storage	Water treatment	Treated water distribution	Total	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.143	0.143	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.023	0.023	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.124	0.124	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.293	0.293	0.000	0.000	0.000	0.000	0.000	0.000	0.293	0.293
	0.000	0.000	0.651	0.651	0.000	0.000	0.000	0.000	0.000	0.000	0.651	0.651
	0.000	0.060	0.003	0.063	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.071	0.750	0.872	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.050	0.050	0.122	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.065	0.065	0.000	0.000	0.000	0.000	0.000	0.000	0.065	0.065
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	3.820	57.437	66.127	0.000	4.870	0.000	0.000	3.820	57.437	66.127	
	0.000	4.001	59.539	68.501	0.000	4.870	0.000	0.000	3.820	58.446	67.136	

## 4M - Enhancement expenditure by purpose - Wholesale waste water

As at 31 March 2019

Line description		Network+Sewage Collection			Expenditure in	
		Foul	Surface water drainage	Highway drainage	Network+Sewage Treatment	Sludge liquor treatment
		£m	£m	£m	£m	£m
<b>A</b>	<b>Enhancement capital expenditure by purpose</b>					
4M.1	First time sewerage [s101A]	0.000	0.000	0.000	0.000	0.000
4M.2	Sludge enhancement (quality)	0.000	0.000	0.000	0.000	0.000
4M.3	Sludge enhancement (growth)	0.000	0.000	0.000	0.000	0.000
4M.4	NEP - Conservation drivers	0.000	0.000	0.000	0.000	0.000
4M.5	NEP - Eels Regulations (measures at outfalls)	0.000	0.000	0.000	0.000	0.000
4M.6	NEP - Event Duration Monitoring at intermittent discharges	0.000	0.000	0.000	0.000	0.000
4M.7	NEP - Flow monitoring at sewage treatment works	0.000	0.000	0.000	0.000	0.000
4M.8	NEP - Monitoring of pass forward flows at CSOs	0.000	0.000	0.000	0.000	0.000
4M.9	NEP - Schemes to increase flow to full treatment	0.000	0.000	0.000	0.000	0.000
4M.10	NEP - Schemes to increase storm tank capacity	0.000	0.000	0.000	0.000	0.000
4M.11	NEP - Storage schemes to reduce spill frequency at CSOs, storm tanks, etc	0.000	0.000	0.000	0.000	0.000
4M.12	NEP - Chemicals monitoring/ investigations/ options appraisals	0.000	0.000	0.000	0.000	0.000
4M.13	NEP - National phosphorus removal technology investigations	0.000	0.000	0.000	0.000	0.000
4M.14	NEP - Groundwater schemes	0.000	0.000	0.000	0.000	0.000
4M.15	NEP - Investigations	0.000	0.000	0.000	0.000	0.000
4M.16	NEP - Nutrients (N removal)	0.000	0.000	0.000	0.000	0.000
4M.17	NEP - Nutrients (P removal at activated sludge STWs)	0.000	0.000	0.000	0.000	0.000
4M.18	NEP - Nutrients (P removal at filter bed STWs)	0.000	0.000	0.000	0.000	0.000
4M.19	NEP - Reduction of sanitary parameters	0.000	0.000	0.000	0.000	0.000
4M.20	NEP - UV disinfection (or similar)	0.000	0.000	0.000	0.000	0.000
4M.21	NEP - Discharge relocation	0.000	0.000	0.000	0.000	0.000
4M.22	NEP - Flow 1 schemes	0.000	0.000	0.000	0.000	0.000
4M.23	Odour	0.000	0.000	0.000	0.000	0.000
4M.24	New development and growth	0.001	0.000	0.000	0.000	0.000
4M.25	Growth at sewage treatment works (excluding sludge treatment)	0.000	0.000	0.000	0.001	0.000
4M.26	Resilience	0.000	0.000	0.000	0.000	0.000
4M.27	SEMD	0.000	0.000	0.000	0.000	0.000
4M.28	Reduce flooding risk for properties	0.000	0.000	0.000	0.000	0.000
4M.29	Transferred private sewers and pumping stations	0.000	0.000	0.000	0.000	0.000
4M.30	Pollution control strategy (ESL)	0.033	0.004	0.004	0.000	0.000
4M.31	Improvements to existing permit compliance	0.000	0.000	0.000	0.000	0.000
4M.32	Severn Trent Water asset transfers	9.988	1.861	1.214	28.079	0.000
<b>4M.45</b>	<b>Total enhancement capital expenditure</b>	<b>10.022</b>	<b>1.865</b>	<b>1.218</b>	<b>28.080</b>	<b>0.000</b>

# 4N - Operating expenditure - Sewage treatment - Wholesale waste water

Year ended 31 March 2019

Line description	Network+ £000
<b>A Costs of STWs in size bands 1 to 5</b>	
4N.1 Direct costs of STWs in size band 1	269.112
4N.2 Direct costs of STWs in size band 2	193.517
4N.3 Direct costs of STWs in size band 3	242.112
4N.4 Direct costs of STWs in size band 4	92.639
4N.5 Direct costs of STWs in size band 5	208.464
4N.6 General & support costs of STWs in size bands 1 to 5	446.156
<b>4N.7 Functional expenditure of STWs in size bands 1 to 5</b>	<b>1452.000</b>
<b>B Costs of STWs in size band 6</b>	
4N.8 Service charges for STWs in size band 6	0.000
4N.9 Estimated terminal pumping costs size band 6 works	0.000
4N.10 Other direct costs of STWs in size band 6	0.000
4N.11 Direct costs of STWs in size band 6	0.000
4N.12 General & support costs of STWs in size band 6	0.000
4N.13 Functional expenditure of STWs in size band 6	0.000
<b>4N.14 Total Functional expenditure for Sewage treatment</b>	<b>1452.000</b>

# 40 - Large sewage treatment works - waste water

Year ended 31 March 2019

This table is not required as Hafren Dyfrdwy do not have any sewage treatment works which fall under the large sewage treatment works category.

# 4P - Non-financial data for WR, WT and WD

Year ended 31 March 2019

Line	Line description	Units	Current year
<b>A</b>	<b>Water resources</b>		
4P.1	Proportion of distribution input derived from impounding reservoirs	Propn 0 to 1	0.027
4P.2	Proportion of distribution input derived from pumped storage reservoirs	Propn 0 to 1	0.601
4P.3	Proportion of distribution input derived from river abstractions	Propn 0 to 1	0.022
4P.4	Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.350
4P.5	Proportion of distribution input derived from artificial recharge (AR) water supply schemes	Propn 0 to 1	0.000
4P.6	Proportion of distribution input derived from aquifer storage and recovery (ASR) water supply schemes	Propn 0 to 1	0.000
4P.7	Proportion of distribution input derived from saline abstractions	Propn 0 to 1	0.000
4P.8	Proportion of distribution input derived from water reuse schemes	Propn 0 to 1	0.000
4P.9	Number of impounding reservoirs	nr	3
4P.10	Number of pumped storage reservoirs	nr	1
4P.11	Number of river abstractions	nr	0
4P.12	Number of groundwater works excluding managed aquifer recharge (MAR) water supply schemes	nr	3
4P.13	Number of artificial recharge (AR) water supply schemes	nr	0
4P.14	Number of aquifer storage and recovery (ASR) water supply schemes	nr	0
4P.15	Number of saline abstraction schemes	nr	0
4P.16	Total number of sources	nr	7
4P.17	Number of reuse schemes	nr	0
4P.18	Total number of water reservoirs	nr	11
4P.19	Total capacity of water reservoirs	ML	111557
4P.20	Total number of intake and source pumping stations	nr	7
4P.21	Total number of raw water transport stations	nr	0
4P.22	Total capacity of intake and source pumping stations	kW	1970
4P.23	Total capacity of raw water transfer pumping stations	kW	0
4P.24	Total length of raw water abstraction mains and other conveyors	km	4.53
4P.25	Average pumping head – raw water abstraction	m.hd	4.79
4P.26	Average pumping head – raw water transport	m.hd	55.71
4P.27	Total length of raw and pre-treated (non-potable) water transport mains	km	67.37
4P.28	Water resources capacity (measured using water resources yield)	ML/d	76.75
<b>B</b>	<b>Water treatment</b>		
4P.29	Total water treated at all SW simple disinfection works	ML/d	0.00
4P.30	Total water treated at all SW1 works	ML/d	0.00
4P.31	Total water treated at all SW2 works	ML/d	0.00
4P.32	Total water treated at all SW3 works	ML/d	1.96
4P.33	Total water treated at all SW4 works	ML/d	37.61
4P.34	Total water treated at all SW5 works	ML/d	0.00
4P.35	Total water treated at all SW6 works	ML/d	0.00
4P.36	Total water treated at all GW simple disinfection works	ML/d	0.00
4P.37	Total water treated at all GW1 works	ML/d	0.00
4P.38	Total water treated at all GW2 works	ML/d	0.00
4P.39	Total water treated at all GW3 works	ML/d	0.76
4P.40	Total water treated at all GW4 works	ML/d	2.25
4P.41	Total water treated at all GW5 works	ML/d	16.12
4P.42	Total water treated at all GW6 works	ML/d	0.00
4P.43	Total water treated at more than one type of works	ML/d	0.00
4P.44	Total number of SW simple disinfection works	nr	0
4P.45	Total number of SW1 works	nr	0
4P.46	Total number of SW2 works	nr	0
4P.47	Total number of SW3 works	nr	1
4P.48	Total number of SW4 works	nr	1
4P.49	Total number of SW5 works	nr	0

4P.50	Total number of SW6 works	nr	0
4P.51	Total number of GW simple disinfection works	nr	0
4P.52	Total number of GW1 works	nr	0
4P.53	Total number of GW2 works	nr	0
4P.54	Total number of GW3 works	nr	1
4P.55	Total number of GW4 works	nr	1
4P.56	Total number of GW5 works	nr	1
4P.57	Total number of GW6 works	nr	0
4P.58	Number of treatment works requiring remedial action because of raw water deterioration	nr	0
4P.59	Zonal population receiving water treated with orthophosphate	000	192,561
4P.60	Average pumping head – water treatment	m.hd	7.64
<b>C</b>	<b>Water distribution</b>		
4P.61	Total length of potable mains as at 31 March	km	2606.1
4P.62	Total length of potable mains relined	km	0.0
4P.63	Total length of potable mains renewed	km	16.3
4P.64	Total length of new potable mains	km	1.5
4P.65	Total length of potable water mains (<=320mm)	km	2513.9
4P.66	Total length of potable water mains >320mm - <=450mm	km	77.1
4P.67	Total length of potable water mains >450mm - <=610mm	km	14.4
4P.68	Total length of potable water mains > 610mm	km	0.7
4P.69	Capacity of booster pumping stations	kW	5632
4P.70	Capacity of service reservoirs	ML	71
4P.71	Capacity of water towers	ML	0
4P.72	Distribution input	ML/d	61.05
4P.73	Water delivered (non-potable)	ML/d	0.69
4P.74	Water delivered (potable)	ML/d	48.68
4P.75	Water delivered (billed measured residential)	ML/d	15.21
4P.76	Water delivered (billed measured business)	ML/d	14.83
4P.77	Total leakage	ML/d	15.27
4P.78	Distribution losses	ML/d	12.15
4P.79	Water taken unbilled	ML/d	1.03
4P.80	Number of lead communication pipes	nr	24195
4P.81	Number of galvanised iron communication pipes	nr	4638
4P.82	Number of other communication pipes	nr	76141
4P.83	Number of booster pumping stations	nr	95
4P.84	Total number of service reservoirs	nr	86
4P.85	Number of water towers	nr	0
4P.86	Total length of potable mains laid or structurally refurbished pre-1880	km	21.7
4P.87	Total length of potable mains laid or structurally refurbished between 1881 and 1900	km	76.0
4P.88	Total length of potable mains laid or structurally refurbished between 1901 and 1920	km	169.8
4P.89	Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	333.1
4P.90	Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	508.8
4P.91	Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	669.1
4P.92	Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	792.9
4P.93	Total length of potable mains laid or structurally refurbished post 2001	km	456.3
4P.94	Average pumping head – treated water distribution	m.hd	120.71

# 4P - Non-financial data for WR, WT and WD (continued)

Year ended 31 March 2019

D Band Disclosure [nr]	
4P.95	WTWs in size band 1
	Nr 2
4P.96	WTWs in size band 2
	Nr 1
4P.97	WTWs in size band 3
	Nr 0
4P.98	WTWs in size band 4
	Nr 0
4P.99	WTWs in size band 5
	Nr 1
4P.100	WTWs in size band 6
	Nr 1
4P.101	WTWs in size band 7
	Nr 0
4P.102	WTWs in size band 8
	Nr 0
E Band Disclosure (%)	
4P.103	Proportion of Total DI band 1
	% 4.6%
4P.104	Proportion of Total DI band 2
	% 3.8%
4P.105	Proportion of Total DI band 3
	% 0.0%
4P.106	Proportion of Total DI band 4
	% 0.0%
4P.107	Proportion of Total DI band 5
	% 27.5%
4P.108	Proportion of Total DI band 6
	% 64.1%
4P.109	Proportion of Total DI band 7
	% 0.0%
4P.110	Proportion of Total DI band 8
	% 0.0%

# 4Q - Non-financial data - Properties, population and other

Year ended 31 March 2019

Line description	Units	Current year
<b>A Properties and population</b>		
4Q.1 Residential properties billed for measured water (external meter)	000	39.314
4Q.2 Residential properties billed for measured water (not external meter)	000	12.373
4Q.3 Business properties billed measured water	000	6.612
4Q.4 Residential properties billed for unmeasured water	000	40.815
4Q.5 Business properties billed unmeasured water	000	0.371
4Q.6 Total business connected properties at year end	000s	8.356
4Q.7 Total residential connected properties at year end	000s	96.618
4Q.8 Total connected properties at year end	000	104.974
4Q.9 Number of residential meters renewed	000	1.592
4Q.10 Number of business meters renewed	000s	0.003
4Q.11 Number of meters installed at request of optants	000	0.657
4Q.12 Number of selective meters installed	000	0.000
4Q.13 Total number of new business connections	000	0.020
4Q.14 Total number of new residential connections	000	0.292
4Q.15 Total population served	000	206.672
4Q.16 Number of business meters (billed properties)	000	6.612
4Q.17 Number of residential meters (billed properties)	000	51.685
4Q.18 Company area	km2	2856
<b>B Other</b>		
4Q.19 Number of lead communication pipes replaced for water quality	nr	1
4Q.20 Total supply side enhancements to the supply demand balance (dry year critical / peak conditions)	ML/d	0.00
4Q.21 Total supply side enhancements to the supply demand balance (dry year annual average conditions)	ML/d	0.00
4Q.22 Total demand side enhancements to the supply demand balance (dry year critical / peak conditions)	ML/d	-0.33
4Q.23 Total demand side enhancements to the supply demand balance (dry year annual average conditions)	ML/d	-0.33
4Q.24 Energy consumption - network plus	MWh	16780
4Q.25 Energy consumption - water resources	MWh	6246
4Q.26 Energy consumption - wholesale	MWh	23026
4Q.27 Mean Zonal Compliance	%	99.94%
4Q.28 Compliance Risk Index	nr	0.5
4Q.28 Event Risk Index	nr	0.1
4Q.30 Volume of Leakage above or below the sustainable economic Level	ML/d	1.073

# 4R - Non-financial data - Waste water network and sludge

Year ended 31 March 2019

Line	Item description	Unit	Current year
<b>A Waste water network</b>			
4R.1	Connectable properties served by s101A schemes completed in the report year	nr	0
4R.2	Number of s101A schemes completed in the report year	Nr	0
4R.3	Total pumping station capacity	kW	769
4R.4	Number of network pumping stations	nr	92
4R.5	Total number of sewer blockages	nr	252
4R.6	Total number of gravity sewer collapses	nr	3
4R.7	Total number of sewer rising main bursts / collapses	nr	0
4R.8	Number of combined sewer overflows	nr	54
4R.9	Number of emergency overflows	nr	7
4R.10	Number of settled storm overflows	nr	7
4R.11	Sewer age profile (constructed post 2001)	km	42
4R.12	Volume of trade effluent	ML/d	60.89
4R.13	Volume of waste water receiving treatment at sewage treatment works	ML/yr	2789.62
4R.14	Length of gravity sewers rehabilitated	km	0
4R.15	Length of rising mains replaced or structurally refurbished	km	0
4R.16	Length of foul (only) public sewers	km	127
4R.17	Length of surface water (only) public sewers	km	51
4R.18	Length of combined public sewers	km	88
4R.19	Length of rising mains	km	38
4R.20	Length of other waste water network pipework	Km	2
4R.21	Total length of "legacy" public sewers as at 31 March	Km	305
4R.22	Length of formerly private sewers and lateral drains (s105A sewers)	km	196

# 4R - Non-financial data - Waste water network and sludge (continued)

Year ended 31 March 2019

Line	Item description	Unit	Current year
<b>B Sludge</b>			
4R.23	Total sewage sludge produced, treated by incumbents	ttds/ year	0.0
4R.24	Total sewage sludge produced, treated by 3rd party sludge service provider	ttds/ year	0.4
4R.25	Total sewage sludge produced	ttds/ year	0.4
4R.26	Total sewage sludge produced from non-appointed liquid waste treatment	ttds/ year	0
4R.27	Percentage of sludge produced and treated at a site of STW and STC co-location	%	0.00%
4R.28	Total sewage sludge disposed by incumbents	ttds/ year	0.0
4R.29	Total sewage sludge disposed by 3rd party sludge service provider	ttds/ year	0.0
4R.30	Total sewage sludge disposed	ttds/ year	0.0
4R.31	Total measure of intersiting 'work' done by pipeline	ttds*km/ year	0
4R.32	Total measure of intersiting 'work' done by tanker	ttds*km/ year	29
4R.33	Total measure of intersiting 'work' done by truck	ttds*km/ year	0
4R.34	Total measure of intersiting 'work' done (all forms of transportation)	ttds*km/ year	29
4R.35	Total measure of intersiting 'work' done by tanker (by volume transported)	m3*km/ year	740730
4R.36	Total measure of 'work' done in sludge disposal operations by pipeline	ttds*km/ year	0
4R.37	Total measure of 'work' done in sludge disposal operations by tanker	ttds*km/ year	0
4R.38	Total measure of 'work' done in sludge disposal operations by truck	ttds*km/ year	0
4R.39	Total measure of 'work' done in sludge disposal operations (all forms of transportation)	ttds*km/ year	0
4R.40	Total measure of 'work' done by tanker in sludge disposal operations (by volume transported)	m3*km/ year	0
4R.41	Chemical P sludge as percentage of sludge produced at STWs	%	8.66%

# 4S - Non-financial data - Sewage Treatment

Year ended 31 March 2019

Line description	Unit	Treatment categories										Phosphorus										
		Primary	Secondary		Tertiary			Total		<=0.5mg/l		>0.5 to <=1mg/l		Phosphorus		BOD <sub>5</sub>		Ammonia		Phosphorus		
			Activated Sludge	Biological	A1	A2	B1	B2														
<b>A</b>	<b>Load received at sewage treatment works in 2017-18</b>																					
4S.1	Load received by STWs in size band 1	kg BOD <sub>5</sub> /day	3	0	58	0	0	88	0	148	0	0										
4S.2	Load received by STWs in size band 2	kg BOD <sub>5</sub> /day	0	60	60	0	0	164	0	283	0	0										
4S.3	Load received by STWs in size band 3	kg BOD <sub>5</sub> /day	0	71	317	0	0	192	0	580	0	0										
4S.4	Load received by STWs in size band 4	kg BOD <sub>5</sub> /day	0	0	0	204	0	0	167	371	0	0	167									
4S.5	Load received by STWs in size band 5	kg BOD <sub>5</sub> /day	0	686	0	0	0	691	0	1377	0	0										
4S.6	Load received by STWs above size band 5	kg BOD <sub>5</sub> /day	0	0	0	0	0	0	0	0	0	0										
<b>4S.7</b>	<b>Total load received</b>	<b>kg BOD<sub>5</sub>/day</b>	<b>3</b>	<b>816</b>	<b>434</b>	<b>204</b>	<b>0</b>	<b>1134</b>	<b>167</b>	<b>2758</b>	<b>0</b>	<b>0</b>	<b>167</b>									
4S.8	Load received from trade effluent customers at treatment works	kg BOD <sub>5</sub> /day											378									

<b>B</b>	<b>Number of sewage treatment works at 31 March 2018</b>																				
4S.9	STWs in size band 1	nr	1	0	12	0	0	9	0	22	0	0									
4S.10	STWs in size band 2	nr	0	2	3	0	0	8	0	13	0	0									
4S.11	STWs in size band 3	nr	0	1	6	0	0	4	0	11	0	0									
4S.12	STWs in size band 4	nr	0	0	0	1	0	0	1	2	0	0	1								
4S.13	STWs in size band 5	nr	0	1	0	0	0	1	0	2	0	0									
4S.14	STWs above size band 5	nr	0	0	0	0	0	0	0	0	0	0									
<b>4S.15</b>	<b>Total number of works</b>	<b>nr</b>	<b>1</b>	<b>4</b>	<b>21</b>	<b>1</b>	<b>0</b>	<b>22</b>	<b>1</b>	<b>50</b>	<b>0</b>	<b>1</b>									

Line description	Unit	Current year	
<b>C Population equivalent</b>			
4S.16	Current population equivalent served by STWs	000	45.753
4S.17	Current population equivalent served by discharge relocation schemes	000s	0.000
4S.18	Current population equivalent served by filter bed STWs with tightened/new P consents	000s	0.000
4S.19	Current population equivalent served by activated sludge STWs with tightened/new P consents	000s	0.000
4S.20	Current population equivalent served by groundwater protection schemes	000s	0.000
4S.21	Current population equivalent served by STWs with a Flow1 driver scheme	000s	0.000
4S.22	Current population equivalent served by STWs with tightened/new N consents	000s	0.000
4S.23	Current population equivalent served by STWs with tightened/new sanitary parameter consents	000s	0.000
4S.24	Current population equivalent served by STWs with tightened/new UV consents	000s	0.000
4S.25	Population equivalent treatment capacity enhancement	000s	0.000

Treatment works consents														
Phosphorus			BOD <sub>5</sub>			Ammonia								
>1mg/l	No permit	Total	<=7mg/l	>7 to <=10mg/l	>10 to <=20mg/l	>20mg/l	No permit	Total	<=1mg/l	>1 to <=3mg/l	>3 to >10mg/l	>10mg/l	No permit	Total
0	148	148	0	0	33	76	38	148	0	0	33	13	101	148
0	283	283	0	30	90	163	0	283	0	0	102	82	99	283
0	580	580	0	0	102	478	0	580	0	0	340	97	142	580
0	204	371	0	0	0	371	0	371	0	0	371	0	0	371
0	1377	1377	0	0	0	1377	0	1377	0	0	691	686	0	1377
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>0</b>	<b>2591</b>	<b>2758</b>	<b>0</b>	<b>30</b>	<b>225</b>	<b>2465</b>	<b>38</b>	<b>2758</b>	<b>0</b>	<b>0</b>	<b>1538</b>	<b>878</b>	<b>342</b>	<b>2758</b>

# 4T - Non-financial data - Sludge Treatment

Year ended 31 March 2019

Line	Item description	by Incumbent	by 3rd party sludge service providers
		%	%
<b>A</b>	<b>Sludge treatment process</b>		
4T.1	% Sludge - untreated	0.0%	0.0%
4T.2	% Sludge treatment process - raw sludge liming	0.0%	0.0%
4T.3	% Sludge treatment process - conventional AD	0.0%	100.0%
4T.4	% Sludge treatment process- advanced AD	0.0%	0.0%
4T.5	% Sludge treatment process - incineration of raw sludge	0.0%	0.0%
4T.6	% Sludge treatment process - incineration of digested sludge	0.0%	0.0%
4T.7	% Sludge treatment process - phyto-conditioning/composting	0.0%	0.0%
4T.8	% Sludge treatment process - other (specify)	0.0%	0.0%
<b>4T.9</b>	<b>% Sludge treatment process - Total</b>	<b>0.0%</b>	<b>100.0%</b>
<b>B</b>	<b>[Un-incinerated] sludge disposal route</b>		
4T.10	% Sludge disposal route - landfill, raw	0.0%	0.0%
4T.11	% Sludge disposal route - landfill, partly treated	0.0%	0.0%
4T.12	% Sludge disposal route - land restoration/reclamation	0.0%	0.0%
4T.13	% Sludge disposal route - sludge recycled to farmland	0.0%	100.0%
4T.14	% Sludge disposal route - other (specify)	0.0%	0.0%
<b>4T.15</b>	<b>% Sludge disposal route - Total</b>	<b>0.0%</b>	<b>100.0%</b>

# 4U - Non-financial data - Properties, population and other

Year ended 31 March 2019

Line	Item description	Unit	Current year
<b>A</b>	<b>Properties and population</b>		
4U.1	Residential properties connected during the year	000	0.071
4U.2	Business properties connected during the year	000	0.003
4U.3	Residential properties billed unmeasured sewage	000	10.189
4U.4	Residential properties billed measured sewage	000	7.665
4U.5	Residential properties billed for sewage	000	17.854
4U.6	Business properties billed unmeasured sewage	000	0.214
4U.7	Business properties billed measured sewage	000	1.068
4U.8	Business properties billed for sewage	000	1.282
4U.9	Void properties	000	1.935
<b>4U.10</b>	<b>Total number of properties</b>	<b>000s</b>	<b>21.071</b>
4U.11	Resident population	000	39.447
4U.12	Non-resident population	000	0.219
<b>B</b>	<b>Other</b>		
4U.13	Energy consumption - network plus	MWh	2472.975
4U.14	Energy consumption - sludge	MWh	739.703
4U.15	Energy consumption - wholesale	MWh	3212.679
4U.16	Population resident in National Parks, SSSIs and Areas of Outstanding Natural Beauty (AONBs)	000s	0.019
4U.17	Total sewerage catchment area	km2	15
4U.18	Designated bathing waters	nr	0
4U.19	Number of intermittent discharge sites with event duration monitoring	nr	3
4U.20	Number of monitors for flow monitoring at STWs	Nr	0
4U.21	Number of odour related complaints	nr	1
4U.22	Volume of storage provided at CSOs, storm tanks, etc to meet spill frequency objectives	m3	0
<b>4U.23</b>	<b>Total volume of network storage</b>	<b>m3</b>	<b>124825</b>

# 4V - Operating costs analysis - water resources

Year ended 31 March 2019

# 4W Operating cost analysis - sludge transport, treatment and disposal

Year ended 31 March 2019

Year ended 31 March 2019

# 4W Operating cost analysis - sludge transport, treatment and disposal (cont.)

Year ended 31 March 2019

C	Sludge disposal route	Landfill, raw	Landfill, partly treated	Land restoration/reclamation	Sludge recycled to farmland	Other	Total
4W.27	Power	£m	0.000	0.000	0.000	0.000	0.000
4W.28	Income treated as negative expenditure	£m	0.000	0.000	0.000	0.000	0.000
4W.29	Discharge consents	£m	0.000	0.000	0.000	0.000	0.000
4W.30	Bulk supply	£m	0.000	0.000	0.002	0.000	0.000
	Other operating expenditure						
4W.31	- Renewals expensed in year (Infrastructure)	£m	0.000	0.000	0.000	0.000	0.000
4W.32	- Renewals expensed in year (Non-Infrastructure)	£m	0.000	0.000	0.000	0.000	0.000
4W.33	Other direct operating expenditure	£m	0.000	0.000	0.000	0.000	0.000
4W.34	Other indirect operating expenditure	£m	0.000	0.000	0.000	0.000	0.000
<b>4W.35</b>	<b>Total functional expenditure</b>	<b>£m</b>	<b>0.000</b>	<b>0.000</b>	<b>0.002</b>	<b>0.000</b>	<b>0.002</b>
4W.36	Local authority and Cumulo rates	£m	0.000	0.000	0.000	0.000	0.000
<b>4W.37</b>	<b>Total operating expenditure (excluding third party services)</b>	<b>£m</b>	<b>0.000</b>	<b>0.000</b>	<b>0.002</b>	<b>0.000</b>	<b>0.002</b>
4W.38	Depreciation	£m	0.000	0.000	0.000	0.000	0.000
<b>4W.39</b>	<b>Total operating costs (excluding third party services)</b>	<b>£m</b>	<b>0.000</b>	<b>0.000</b>	<b>0.002</b>	<b>0.000</b>	<b>0.002</b>

Other expenditure - Wholesale waste water		Unit	Network plus sewage collection	Network plus sewage treatment	Sludge	Total
Line	Item description					
<b>D</b> Opex analysis						
4W.40	Employment costs - directly allocated	£m	0.050	0.562	0.000	0.612
4W.41	Employment costs - indirectly allocated	£m	0.003	0.012	0.000	0.015
4W.42	Number FTEs - directly allocated	Nr	1	12	0	13
4W.43	Number FTEs - indirectly allocated	Nr	0	1	0	1
4W.44	Costs associated with Traffic Management Act	£m	0.000	0.000	0.000	0.000
4W.45	Costs associated with Industrial Emissions Directive	£m	0.000	0.000	0.000	0.000
<b>E</b> Service charges						
4W.46	Canal & River Trust service charges and discharge consents	£m	0.000	0.000	0.000	0.000
4W.47	Environment Agency service charges / discharge consents	£m	0.033	0.173	0.000	0.206
4W.48	Other service charges / permits	£m	0.000	0.000	0.000	0.000

# Supplementary disclosures

Year ended 31 March 2019

## a) Borrowings and intercompany lending

Amounts paid to associated companies in the year and related payable balances at the year end are outlined below:

	Amounts paid £m	Interest rate %	Payable balance £m
Severn Trent Water Limited	23.056	3.635%	22.861
Severn Trent Water Limited	22.839	LIBOR + 1.500%	26.206

Amounts received from associated companies in the year and related receivable balances at the year end are outlined below:

	Amounts received £m	Interest rate %	Receivable balance £m
Severn Trent Water Limited	41.350	3.635%	-

## b) Transfer of assets/liabilities, omissions, waivers, guarantees

b) Following the England and Wales boundary alignment on 1 July 2018, assets with a net book value of £107.269 million were transferred from Severn Trent Water Limited to Hafren Dyfrdwy Cyfyngedig and assets with a net book value of £31.142 million were transferred from Hafren Dyfrdwy Cyfyngedig to Severn Trent Water Limited during the year.

In addition, legacy net customer debt of £1.461 million was transferred from Severn Trent Water Limited to Hafren Dyfrdwy Cyfyngedig and £8.440 million of net customer debt was transferred from Hafren Dyfrdwy Cyfyngedig to Severn Trent Water Limited.

On 28 March 2019 a de-gearing exercise was implemented to bring gearing in line with Ofwat's notional capital structure for AMP 7 and to reduce finance costs to a more sustainable level. 132,810,685 Ordinary shares of £1 each at par were issued in exchange for:

- Repayment of £76,861,364 of an inter-company loan with Severn Trent Water Limited at par; and
- Repayment of £34,000,000 of an index-linked loan from Severn Trent Water Limited together with a premium on redemption of £21,949,321.

### c) Supply of services

Services supplied by the appointee to associated companies are outlined below.

Service	Company	Turnover of associate in the period £m	Terms of supply	Value £m
Bulk water supplies	Severn Trent Water Limited	1,673.108	Tariff	0.406
Bulk waste water supplies	Severn Trent Water Limited	1,673.108	Tariff	0.027
Water operational services	Severn Trent Water Limited	1,673.108	Cost	0.809
Records management	Severn Trent Data Portal Limited	0.925	Market tested	0.006
				<b>1.248</b>

Services received by the appointee from associated companies are outlined below.

Service	Company	Turnover of associate in the period £m	Terms of supply	Value £m
Pass through of management charges	Severn Trent Plc	–	Cost	0.232
Pass through of management charges	Severn Trent Water Limited	1,673.108	Cost	2.432
Retail support services	Severn Trent Water Limited	1,673.108	Cost	0.721
Wholesale support services	Severn Trent Water Limited	1,673.108	Cost	1.068
Bulk water supplies	Severn Trent Water Limited	1,673.108	Tariff	2.151
Bulk waste water supplies	Severn Trent Water Limited	1,673.108	Tariff	0.024
Water operational services	Severn Trent Water Limited	1,673.108	Cost	1.802
Waste water operational services	Severn Trent Water Limited	1,673.108	Cost	0.557
Treatment of imported sludge	Severn Trent Water Limited	1,673.108	Cost	0.217
Tankering fleet services	Severn Trent Water Limited	1,673.108	Cost	0.089
				<b>9.293</b>

### d) Service provided to the non appointed business.

Service	Basis of recharge	Value of recharge £m
Other water companies billing activities	Direct and indirect costs	1.950
Rental income	Direct and indirect costs	0.016
		<b>1.966</b>

### e) Group relief charges for tax losses

Charges are made between UK entities for the receipt of tax losses within the Severn Trent Group at the prevailing corporation tax rate in the period (FY19 - 19%).

Company	Turnover of associate in the period £m	Terms of supply	Value £m
Hafren Dyfrdwy Cyfyngedig	1,673.108	Cost	(6.583)

# Hafren Dyfrdwy Cyfyngedig Assurance Summary 2018/19

## 1. About this document

The quality of the regulatory information we publish is important because it helps to give our customers and other stakeholders confidence that we're being open and honest about where we're delivering on our commitments to them, but also where we're not. To help to secure this confidence, we use assurance to thoroughly test information we publish in a manner that is independent and verifiable. Our Board oversees this process through our robust governance and assurance framework.

### Ofwat's Company Monitoring Framework

On an annual basis, Ofwat assesses the level of trust it has in the information we produce and publish against three categories:

- **Self-assured** – indicating a high level of trust. Companies who are self-assured have greater levels of freedom to dictate their own assurance plans for the reporting year.
- **Targeted** – indicating a sufficient level of trust, however Ofwat dictates some areas that must receive assurance. Targeted companies must also publish, and consult on, an annual statement of risks, strengths and weaknesses and an accompanying assurance plan.
- **Prescribed** – indicating that Ofwat has concerns with the information provided and dictates what information should be assured by the company as well as the requirement to publish an annual statement of risks, strengths and weaknesses and an accompanying assurance plan.

This process is known as the Company Monitoring Framework ('CMF'). Under the CMF, we publish assurance and compliance documents throughout the year as shown in Fig: 1 below. By doing this, we make sure that our regulatory publications can be trusted by our customers and our stakeholders.

### What is assurance?

We perform 'assurance' to check that the information we provide is robust, accurate and complete. Examples of assurance may include checking that a spreadsheet has no formula errors, that a customer call has been recorded accurately on our systems or consulting with our customer challenge group on our plans for vulnerable customers. You can read more about the levels of assurance we apply in section 3.0.

### What is the Company Monitoring Framework?

Ofwat's company monitoring framework (published in June 2015) set out its expectations for how it will oversee information that we, and the 16 other largest water companies, provide to our customers.

For more information please visit Ofwat's website - [ofwat.gov.uk](http://ofwat.gov.uk)

## Understanding your views

In November 2018, we published our Statement of risks, strengths and weaknesses and our draft Assurance plan for consultation. In addition to publishing this document on our website, we proactively contacted our key stakeholders to let them know we wanted to hear their views. We considered the feedback received and wider industry trends to produce our final Assurance plan published in February 2019. This document summarises the outcome of the assurance we have undertaken for the 2018/19 regulatory reporting year and considers requirements for 2019/20 onwards. Its main focus is the data assurance undertaken for our Annual Performance Report ('APR'), but also considers the outcome of our assurance activities more broadly.

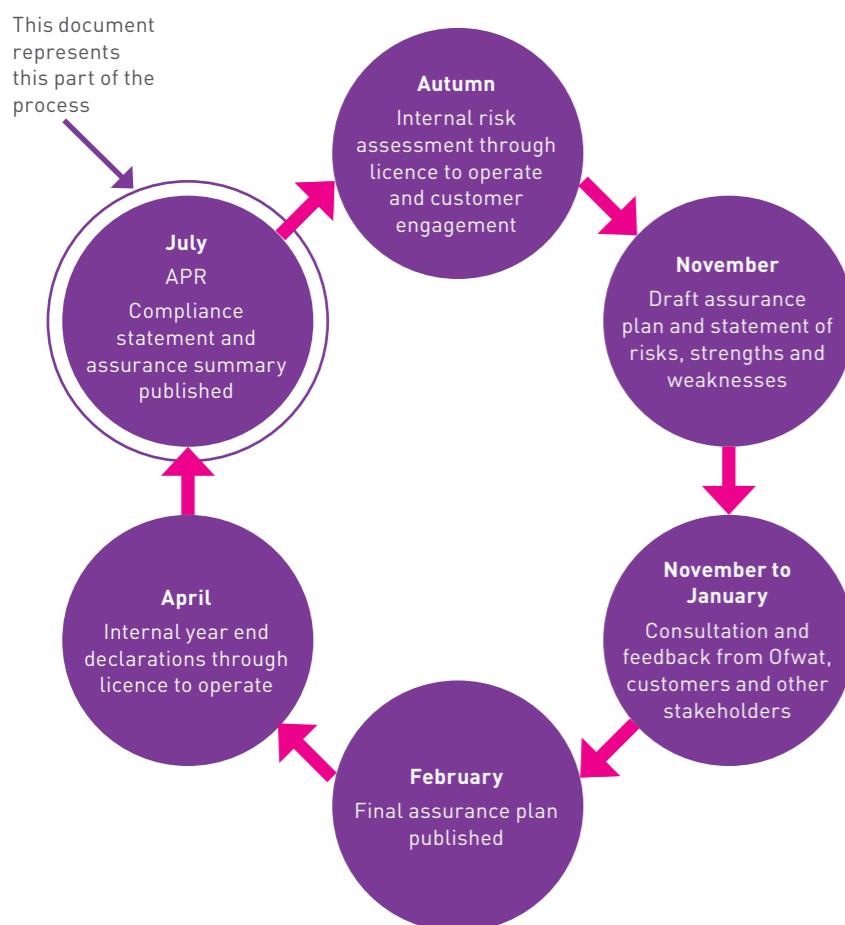
This document contains the following information:

- A glossary to ensure you can understand any abbreviations used in this document.
- Information on our governance and assurance framework, which covers our Board arrangements and the different levels of assurance we apply.
- An overview of our internal compliance assessment framework – licence to operate which helps us determine our greatest areas of risk.
- Details of the customer and stakeholder engagement we undertook to produce our final Assurance plan.
- Details and outcomes of the assurance undertaken for our APR.

### Changes this year

In July 2018, we aligned the boundaries of the two largest regulated water companies within the Severn Trent Plc group – Severn Trent Water and Dee Valley Water – to match the boundary between England and Wales. Severn Trent Water now serves customers in England, while our new company - Hafren Dyfrdwy - serves customers in Wales. This realignment has necessitated a change in how we report performance data and how we operate to ensure we fairly protect the interests of customers of both companies. Our assurance of the APR reflects this change as two technical auditors reviewed our data during this report year. Alongside our established auditor Black & Veatch - for the Wrexham area - Jacobs also reviewed customer Outcome Delivery Incentive ('ODI') data in respect of the Powys area, which reports against legacy Severn Trent Water performance commitments ('PCs').

**Fig 1: The Company Monitoring Framework cycle**



- Outcomes of assurance on other areas that we committed to reviewing in our final Assurance plan.

We recommend that this document is read in conjunction with our Board, governance and compliance section on page 12 of the APR, which includes our formal regulatory statements and our departures from compliance for this regulatory reporting year.

To help to explain all the terms in this document, we've included the table below.

Term	Definition
AIM	Abstraction Incentive Mechanism - AIM encourages water companies to reduce the environmental impact of abstracting water at environmentally sensitive sites when water is scarce.
AMP	Asset Management Period – this refers to Ofwat's 5 year planning period. For example, we are currently in AMP6. AMP7 will start in 2020.
APR	Annual Performance Report – includes information about whether we've achieved our PCs in a given year, and our financial performance – based on the accounting conventions in Ofwat's regulatory accounting guidelines.
ARA	Annual Report and Accounts – includes our annual financial statements based on International Financial Reporting Standards.
Assurance	A process that challenges the validity of our data and methodology.
CCG	Our Customer Challenge Group ('CCG'); includes independent experts, CCWater, our regulators including Natural Resources Wales and regional stakeholders.
CCWater	Consumer Council for Water – the statutory consumer representative body for the water industry.
Group compliance & assurance	Our internal team that monitors compliance with our statutory and regulatory duties in our appointed business.
ERM	Enterprise Risk Management – our system of identifying and managing risks within Severn Trent Plc.
HD	Hafren Dyfrdwy Cyfyngedig – the regulated water company within Severn Trent Plc whose area of appointment covers North-East and mid-Wales.
Internal Audit	Reporting directly to the Severn Trent Plc Audit Committee, the Internal Audit team provides independent assessment of the effectiveness of our processes, controls and risk mitigation strategies.
K Factor	K Factor is the price limit that companies can increase or decrease prices charged to customers. This is reviewed and determined by Ofwat.
MOSL	The market operator for England's competitive non-household market. A small number of our large user customers in Wales are eligible to change their retailer in the competitive market.
NAV	New appointments and variations - Companies which provide a water and/or waste water to customers in an area which was previously provided by an incumbent provider.
ODI	Outcome Delivery Incentives are individual performance measures, which have a financial reward or penalty attached to them. They are a sub component of our PCs (below).
Ofwat	The Water Services Regulation Authority – the statutory economic regulator for the water industry.
Performance Commitment	The level of performance we've committed to deliver either annually or during the five-year period covered by business plans.
PDT	Process Description Template – Internal documents which describe the process by which data is produced for many of regulatory publications. These documents include step by step guides for obtaining data from company systems, controls, risks and assumptions.
PR19	Price Review 2019 - Every five years we publish our proposals for the next five year period. Ofwat reviews this and decides whether our plans are suitable in a determination process.
RACI	Responsible, Accountable, Consulted, Informed – a RACI details who is responsible for managing a duty or obligation, who is accountable and who should be consulted or informed of any changes.
RAG	Regulatory Accounting Guidelines – Every year Ofwat publishes guidance on how companies should complete their financial and non-financial tables for the ARA and APR.
RoRE	Return on Regulatory Equity – an indicator of the return generated by our regulated business.
SLA	Service Level Agreement – we have timescales and minimum levels of performance in place both internally and with our contractors.
STW/SVT	Severn Trent Water Limited – the regulated water company within Severn Trent Plc whose area of appointment covers the Midlands. SVE is often used by our auditors to denote when the subject matter concerns STW post boundary realignment.
ST Plc	Severn Trent Plc – the parent company and ultimate controller of Severn Trent Water and Hafren Dyfrdwy.
Third Party Auditor	An independent audit company or organisation that performs audit or assurance services.

# 3. Our governance and assurance framework

Assurance alone isn't infallible, and we believe that ensuring the balanced reporting that our customers and stakeholders can have confidence in, starts with the values of our company, our people and our behaviours.

Our Board is responsible for establishing Hafren Dyfrdwy's purpose, vision and strategy, and satisfying itself that its culture is aligned. Our Code of conduct, 'Doing the Right Thing', 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 the Company operates, 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 of conduct through consideration of mandatory training completion rates by all subsidiary companies including Hafren Dyfrdwy. Additional detail can be found in the Severn Trent Plc ARA on the Severn Trent Plc website.

Every day our people have to make choices about what they do and how they do it. Most of the time it is clear what the right thing to do is, whether it is about doing what's safe, doing the right thing for customers, doing what is right ethically and indeed what is right legally. But sometimes it's not so clear, so 'Doing the Right Thing', details the five values we work by, to help guide our people through those grey areas when there are no hard rules in place:

1. We put our customers first.
2. We are passionate about what we do.
3. We act with integrity.
4. We protect our environment.
5. We're inspired to create an awesome company.

These values apply to how we report information just as much as any other area of what we do.

## A continuously evolving assurance approach

The assurance processes we use come from best practice identified across many organisations and industries ensuring that managers, senior managers and Directors are responsible for delivering high quality data through robust processes and methodologies in particular, we have benefited from becoming a member of the Severn Trent Group who have shared its learnings and assurance processes. For example, we introduced 'licence to operate' to Hafren Dyfrdwy in the last regulatory reporting year. Licence to operate has been operating in Severn Trent for over four years and ensures we understand our compliance with all of our statutory and regulatory obligations. More information on licence to operate can be found in section 4.

The Severn Trent Plc Board monitors compliance with the Code of conduct through consideration of mandatory training completion rates by all subsidiary companies including Hafren Dyfrdwy. Additional detail can be found in the Severn Trent Plc ARA on the Severn Trent Plc website.

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Our framework is underpinned by four main principles (as shown in Fig 2 below) which, while providing consistency and clarity for our people, allow the flexibility for our assurance processes to build and evolve with our Company and the environment we operate in. For example:

- A risk based approach to assurance i.e. targeting areas of greatest importance with three lines of assurance on the areas that matter most or are high risk. This approach ensures that our assurance programme maintains value for money while also giving confidence to our customers and stakeholders that the information they value is trustworthy.
- Implementing a twice yearly assurance process for the areas of greatest risk to ensure that any potential areas of non-compliance are noted at the mid-year point. This gives us the opportunity to rectify the issues before year end.
- Standardised process description templates to document each of our processes, providing us with an auditable methodology for producing our data.

Every day our people have to make choices about what they do and how they do it. Most of the time it is clear what the right thing to do is, whether it is about doing what's safe, doing the right thing for customers, doing what is right ethically and indeed what is right legally. But sometimes it's not so clear, so 'Doing the Right Thing', details the five values we work by, to help guide our people through those grey areas when there are no hard rules in place:

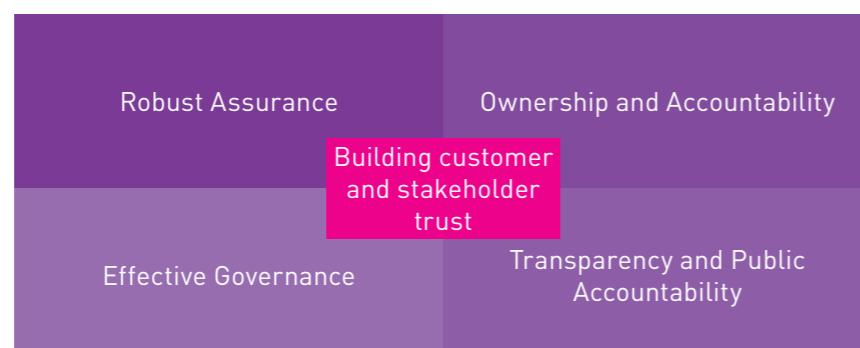


Fig 2: Our assurance principles

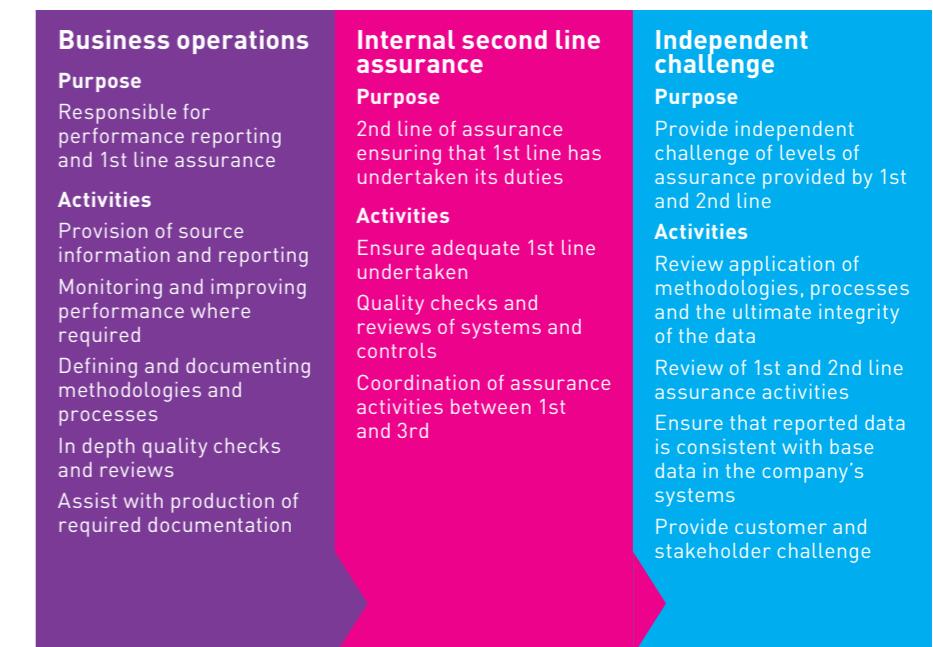
## 3.1 Robust assurance

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. Fig 3 below details the three lines and the typical activities that each level is responsible for.

First line activities are embedded within the teams that are responsible for reporting the performance so that colleagues with the right expertise are conducting in depth quality checks at the time the data is produced.

Second line activities are then conducted by a separate team that does not report into the same senior manager as the first line to ensure a level of independent checking is conducted. For elements of our APR, second line functions are embedded within the same directorate as the performance reporting. This ensures that we maintain a strong level of expertise and understanding of the source data.

Fig 3: Our Levels of Assurance



Third line activities are conducted by a number of different providers depending on the specialisation required. Generally the expertise can be divided into the following categories:

- **Black & Veatch** – typically review non-financial operational performance processes and data.
- **Jacobs** – reviewing cost allocation activities, financial reporting processes and non-financial operational performance processes and data in respect of Powys.
- **Deloitte** – our financial data auditor.
- **Internal Audit** – internal control reviews, data audits and other ad-hoc audits.
- **Engineering/technical** – where assurance requires an expert engineering / water industry technical background.
- **Regulatory** – where challenge is required around the methodology used and assumptions against our regulatory requirements.
- **Data integrity and consistency** – understanding the flow of data from source through to our final publications ensuring no data transposition errors are made.
- **Financial** – used for areas requiring specific financial expertise, such as pensions.
- **Model integrity** – where a complex financial model is used and requires specialist external expertise to test and challenge.

### 3.2 Ownership and accountability

We have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided through our 'licence to operate' process, which every year assigns ownership of all of our statutory and legal obligations in our appointed business to managers, senior managers and Directors. These managers are responsible for ensuring compliance with our duties and raising potential risks or issues of non-compliance. Any areas that are noted as non-compliant are disclosed by the Board as departures in its annual Risk and compliance statement following review, scrutiny and remedial action by our senior leadership team and our Severn Trent Plc's Disclosure and Audit Committees.

Section 4 includes more information on our licence to operate process.

### 3.3 Effective governance

Hafren Dyfrdwy was created on 1 July 2018 and has its own Board, which is supported by existing Severn Trent Plc governance arrangements. To ensure a level of independence between Severn Trent Plc and Hafren Dyfrdwy's Board members, in April 2018 we appointed three new Non-Executive Directors to specifically look at our Welsh business and provide independent challenge. We continue to adhere to the principles set out in Ofwat's 'updated assessment of monopoly water companies' governance arrangements' published in June 2015. Additional challenge is provided by the CCG who challenge us to evidence how the voice of the customer has been considered in our decision making processes.

The Hafren Dyfrdwy Board is supported by the Severn Trent Plc governance framework, which is

set out in Fig 4. The Governance Framework comprises the Board, Executive Committee and their respective Committees.

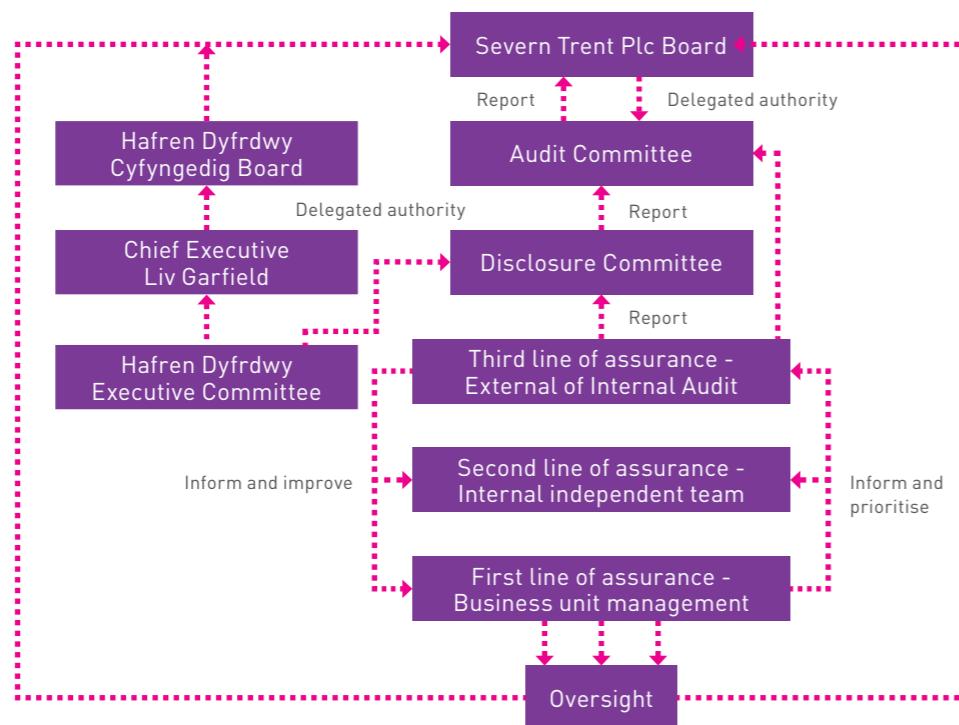
In line with the 2016 UK Corporate Governance Code, the Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling its roles and responsibilities, focusing on its specific activities, reporting to the Board on decisions and actions taken, and making any necessary recommendations to the Board in line with its 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 was 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 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 have a well-established, rigorous and robust assurance and performance reporting framework. Our assurance plan for the financial year, 2018/19, continued the high standard processes we developed and implemented in prior years, for reporting our PCs in our ARA and APR.

Fig 4 shows how our assurance framework interacts with our governance arrangements to ensure that all levels of the business have oversight of our assurance processes.

**Fig 4: Our governance arrangements**



We operate an ERM system for identifying, assessing and managing our significant risks – including risks to our corporate objectives, core processes, key dependencies, stakeholder expectations and legal and regulatory obligations. A number of risk management systems feed our ERM process including water quality risks, and health and safety. Significant risks feed into our Company risk profile and are reported to our Executive Committee and to our Audit Committee and Board at least every half year.

### 3.4 Transparency and public accountability

As a public service we want to be transparent about how we balance the needs of our customers, our strategic plans as a business and a fair return for our investors. 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 reasonable and sustainable and linked to the delivery of outcomes to customers; we avoid complex offshore financial vehicles; we publicly report on our performance, and hold ourselves to account where we do not meet our commitments.

Each year we evolve and update our reporting to make sure that it not only complies with our regulatory obligations but also responds to our customers' and stakeholders' feedback. We have simplified the customer version of our APR and included our comparative performance against other companies to make our overall performance more transparent for our customers. We also publish our company structure on our website, which shows how the companies including Hafren Dyfrdwy and other associated companies are connected under the Severn Trent umbrella. In addition we already include details on Executive pay and how Severn Trent Plc pays dividend payments in the Severn Trent Plc ARA, and have improved the way we display this information in our APR.

# 4. Our internal assessment – licence to operate

We use the wealth of expertise within the business to assess all of our statutory and regulatory obligations relating to provision of water and waste water. We call this assessment 'licence to operate' and it has been operating in Hafren Dyfrdwy, and previously Dee Valley Water, for two years.

## 4.1 The process

Since joining the Severn Trent group we implemented, and continued to embed, the licence to operate process within Hafren Dyfrdwy. We have continuously reviewed the process to improve it by using tools such as SharePoint to track the assessments and approvals from all levels of management. We monitor over 400 obligations including those specific to a business now operating wholly in Wales. Licence to operate is a two stage process that operates through the mid and year-end of the annual regulatory cycle. We describe the process in more detail in our Statement of risks, strengths and weaknesses and final Assurance plan, which can be found on our website.

### 4.1.2 Year-end declarations

Prior to publication of our annual regulatory reporting we ask our responsible managers to declare whether they have been compliant or non-compliant with their obligations. If they have been non-compliant, we ask them to complete a 'departures' form, which details what issue has occurred during the reporting year, the action taken, and what will be done to prevent it in future.

All departures are then reviewed by the accountable senior manager and Director who will assess the level of materiality. Some departures, while representing an instance of non-compliance with process may not be material or, for example, it may be within the stated confidence of the measure.

All departure assessments are tracked on the departures form to ensure that we maintain a visible audit trail of all areas of potential non-compliance.

Departures that are assessed to have a material impact are included in our Board annual Risk and Compliance Statement, which is published in July within our APR. This document is reviewed and scrutinised by the Severn Trent Plc Disclosure Committee and Audit Committee before it is endorsed by our Board prior to publication, ensuring that all levels of the business are made aware of any significant risks or issues.

## 4.2 2018/19 risk assessment outcome

In this year's assessment, the following areas were noted as either a high or medium-high risk, or our internal group compliance and assurance team has decided to include the area. This may include areas that may not necessarily score high on our internal risk assessment at present, but that we know are subject to, or could be subject to, regulatory change or emphasis:

- Performance commitments** – in recognition of the potential impact our PCs have on our customers, the environment and market confidence, our customer ODIs continue to feature in our assurance plans as part of the APR. Customer ODIs remain a high priority for our customers and other stakeholders because:

- i) our PCs reflect the areas of service that our customers have told us are most important to them – we have an obligation to accurately report if we're meeting our commitments; and
- ii) our investors can make decisions as to whether to invest in our company based on the

performance data we provide – we have a duty to all interested parties to accurately report how we are performing.

- Reservoir resilience** – our highest risk in our ERM risk management system and highlighted in our PR19 plan. There are some inherent risks with our reservoirs. In the short term, we have carried out detailed risk assessments and as a result we have increased the inspection regime carried out by trained reservoir engineers and improved the emergency plans in place. However, to ensure we address this longer term we have carried out additional inspections and developed a business case that sets out the required interventions to ensure these assets remain compliant with all relevant legislation and to ensure they are safe and serviceable. This risk is monitored through our ERM and licence to operate systems.

- Charges** – We are conscious that this may be a sensitive area for our customers in part due to the recent creation of Hafren Dyfrdwy. We want to be transparent with customers about how charges are calculated and be clear that any change in price is not a direct result of this. We will engage with CCWater and our CCG to help alleviate customer concerns.

- Water Quality obligations** – Due to existing processes that are in place, we believe we are compliant with our obligations under the Water Quality (Water Supply) Regulations and the Water Industry Act. All of our managers are competency checked and trained, whether they are new or existing in role as part of a three year programme, however, due to staff changes in the teams that carry out these

duties we want to ensure that all of our managers have an up-to-date understanding of what their responsibilities are. Our regulatory performance team are conducting an internal review to ensure an appropriate RACI is in place.

- Licence condition L (Asset management)** – Following creation of Hafren Dyfrdwy, we want to ensure that we have confidence in our programme to maintain our underground assets. Following integration of the two companies we have merged our programmes of work to ensure visibility of outputs and control frameworks.

- Boundary realignment** – Following the creation of Hafren Dyfrdwy on 1 July 2018, our regulatory reporting has now been split according to the new boundaries specified in the licence. We have asked all lines of assurance (including third line) to consider how the boundary realignment has impacted regulatory reporting and whether performance has been allocated to the correct entity.

- Cost allocation** – Cost allocation activities within our finance team are part of our established third line assurance annual processes, the following factors have meant that we wanted to place additional emphasis on this area for 2018/19:

- i) Boundary realignment and the creation of Hafren Dyfrdwy meaning that we wanted to ensure costs are allocated correctly between our businesses; and
- ii) Ofwat's licence simplification consultation that embedded RAG 5.07 into our licence as of January 2019.

- Drought plan** – The Water Act (2003) made it a statutory requirement for water companies to produce and maintain a drought plan. We update these plans every five years. Our Drought plan sets out how we will manage our resources and supply system in dry years, to maintain our service to our customers.

- Governance of regulatory and statutory duties** – As noted above, we want to ensure we can demonstrate that we have good governance arrangements in place in order for us to meet our regulatory and statutory obligations. During PR19, Black & Veatch reviewed our governance arrangements and our processes for meeting these obligations to ensure these were appropriate.

- K factor and ODI model** – Ofwat noted in its 'in period ODI draft determination' that it had found a small number of errors and inconsistencies in the spreadsheets we provided, which were used to calculate our reward / penalty for performance on our ODIs. We acknowledged that these errors had been missed by our two lines of assurance. This year this submission was superseded by the PR19 process, which had its own assurance processes as described below in section 7.

- PR19 future reporting** – As part of our PR19 business plan we proposed a suite of PCs for the next five year period (2020-2025), a number of which require new reporting processes to be developed. As such, we want to ensure we can report our data accurately before the next AMP starts. Last year we asked our regulatory technical auditor to review our plans in advance to check that we had suitable action plans in place to address any areas where we would potentially

be unable to report the new measures. This year we're using the same process that we use for our PC data in 'shadow' i.e. half year and full year audits to ensure we get a snapshot of risk areas prior to year-end.

- Water Resource Management Plan** – Our draft Water resource management plan was published in January 2018 and was open to consultation with all our customers and other stakeholders. This year we will be publishing the final plan that requires a signed Board Assurance statement to be published alongside it. Given the complexity and strategic importance of managing our water resources, we wanted to make sure that our Statement of response and final publication was subject to third line review.

We used these areas as part of our customer engagement described in section 5 and published them as part of our November consultation document to understand whether our customers and stakeholders believed we were targeting the right areas. The outcome of assurance for these areas are covered in sections 6 and 7.

# 5. Customer and stakeholder engagement

To understand which areas matter most to our customers and stakeholders, we used our regular engagement methods and also bespoke research specifically designed to inform this plan. We also put this plan out for consultation in November 2018.

## 5.1 Customer engagement

Prior to publishing our draft Assurance plan in November we undertook customer focus groups to understand what areas mattered most to them by using the results from our internal assessment described in section 4 above. Further details on the engagement we undertook can be found in our final risk and assurance plan on our website. In summary customers largely agreed with our internal assessment and helped us to prioritise in particular our charges and PCs as areas of keen interest to them.

## 5.2 Stakeholder engagement

As well as listening to our customers, we wanted to take on board feedback from other stakeholders.

### 5.2.1 Ofwat – 2018 CMF Assessment

While Ofwat noted improvement in our position from 2017 (with no serious concerns noted in the assessment) we have remained in the 'prescribed' category. We will continue to work with our customers and stakeholders to address the themes noted in Ofwat's assessment:

1. Data Quality. Ofwat noted there were some instances where regulatory submissions (APR, PR19 and the draft WRMP) included either data that was incorrect or incomplete. For example, there were differences between our submitted excel tables and the final APR publication. To prevent this from reoccurring, we have reviewed our change control process.

2. Data commentary and explanation of variance. Another common theme was that sometimes we failed to adequately explain variances in our data or provided no commentary resulting in Ofwat requesting clarification from us through the formal query process e.g. our Accounting separation methodology did not provide enough detail around our cost allocation of water resources and raw water distribution price controls. To address both this concern and the one above, we reviewed the APR and PR19 queries we received in 2018 and made changes to our assurance process to mitigate these risks.

3. Long-term viability statement. Ofwat were concerned our long term viability statement did not include enough detail around the impacts of our principal risks. We have reviewed our disclosure in the viability statement in light of other companies in the sector with the objective of drawing on best practice whilst reflecting the particular circumstances of Hafren Dyfrdwy.

4. Meeting the requirements of IN18/07. Last year Ofwat asked all companies to provide a performance statement, setting out how the company is delivering for the stakeholders that rely on its services and how its aspirations have been shaped in the APR. While we did publish this statement within our customer summary on our website, we acknowledge that we did not include it within the APR itself. We have included this in this year's APR on page 8.

### 5.2.2 Customer Challenge Group

Our Customer Challenge Group ('CCG') represents the voice of our customers following extensive engagement during the development of our business plan. While we received no specific comment from our CCG following publication of the consultation, moving forward we will look at the role the CCG will play in the next AMP to ensure we continue to hear their views.

Prior to the publication of our final APR we shared our performance with the CCG for review and comment.

## 5.2.3 Other stakeholders

Following publication of the consultation, we sent out notices to nearly 100 stakeholders including Natural Resources Wales, CCWater, local environmental groups and local councils to ask them for their views. While we received no direct feedback on our assurance plan for Hafren Dyfrdwy, we have incorporated wider feedback into our final assurance plan:

- Expanding the scope of licence to operate – when licence to operate was implemented, we made a decision to only cover the most material regulatory and statutory obligations, using the risk based approach as described in section 4 above. Given the amount of regulatory and legislative change that has occurred, the next AMP gives us an opportunity to review what is currently included and whether the scope should be expanded further. We will also look at potential technical solutions to ensure that the risk assessment process does not become overly burdensome.
- Customer Engagement - we are committed to engaging with our customers throughout the AMP using a range of survey types through our existing tools; Pipe Up (Qualtrics SMS Surveys), Qualtrics Research Campaign Surveys (SMS and Email based), Qualaroo (website surveys), and our quarterly customer tracker. We will continue to use customer focus groups and other bespoke survey methods on an ad-hoc basis to consult on specific issues where required. Our future goal is survey through the customer's channel of choice to help us achieve the best response rate from a broad range of people.

# 6. Assurance of our Annual Performance Report

In this section we explain how the data included in our APR has been assured, and the outcome of that assurance.

## 6.1 Governance

We have an established assurance and reporting framework, which incorporates Ofwat's APR requirements and the RAGs. Across the business we assign accountable and responsible managers for all reporting lines in our APR. These managers review and approve the process documentation and data as part of our first line assurance and prior to third line assurance. Following third line audits, all individuals within the approval process sign off the data and commentary, culminating in the relevant Director who will approve

both the data and commentary. Subsequently the APR is reviewed by Severn Trent Plc Disclosure Committee who are accountable for ensuring that all year end publications comply with applicable disclosure requirements. The Audit Committee, who has delegated authority from our Board, then reviews to ensure the adequacy of the year end assurance process prior to our Board reviewing and approving the final submission.

In addition to these existing governance arrangements, we enhanced the process this year by creating a year end programme steering group and programme board, which was incorporated into our governance framework as set out in Fig 5 below. This gave the Boards of Hafren Dyfrdwy, and

Severn Trent Plc greater oversight of year end reporting with regular updates noting progress against key milestones and the ability to escalate key risks and issues as required.

## 6.2 Assurance

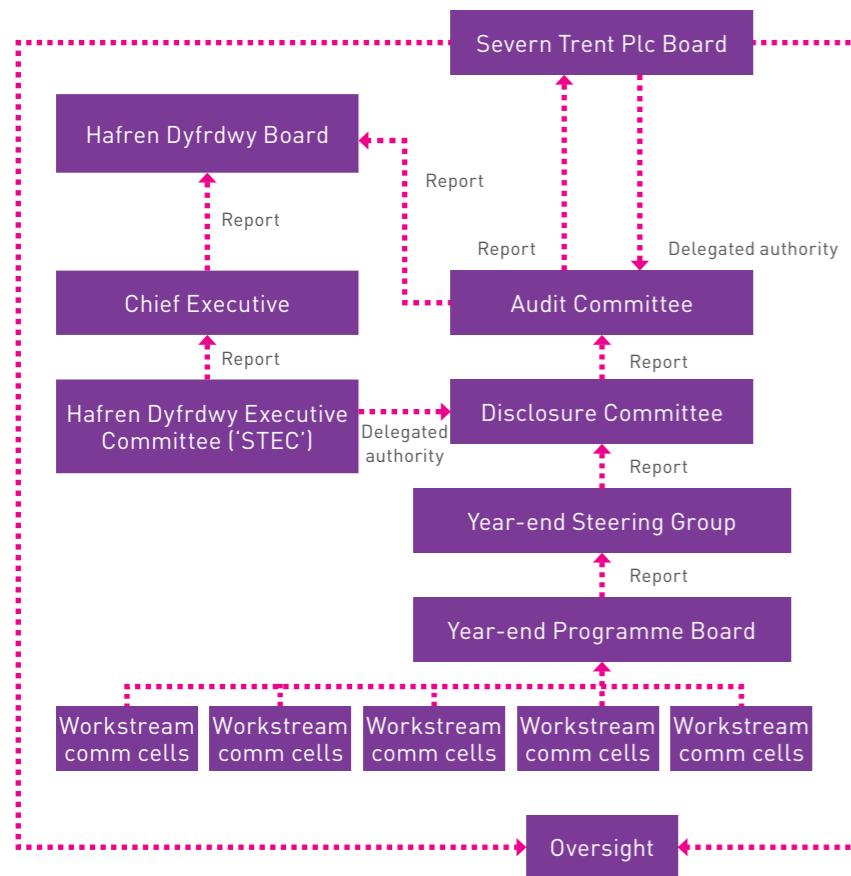
The APR comprises the four sections outlined by Ofwat in RAG 4.08 – Guideline for the table definitions in the Annual Performance Report:

1. Regulatory financial reporting.
2. Price review and other segmental reporting.
3. Performance summary.
4. Additional regulatory information (includes cost assessment information).

Our existing assurance framework as detailed in section 3.1 above was used for the APR i.e. a risk based approach whereby we targeted our most critical areas with our three lines of assurance model. We used a number of third line assurance providers aligned with their areas of expertise.

We summarise below the assurance undertaken and the outcome by our assurance providers. We have also included letters of assurance from our technical assurers, Jacobs and Black & Veatch on page 22 and page 23 of the APR respectively. Deloitte provide an audit opinion on the Regulatory Accounting Statements, which is set out in full on page 42.

**Fig 5. Our year end governance arrangements**



**Fig 6: Sections 1-3 assurance**

Assurer	APR Section	Methodology and Process	Data
Deloitte	Section 1	✓	✓
	Section 2	✗	✓
Jacobs	Section 1 (Financial flows)	✓	✗
	Section 2	✓	✗
	Section 3 (Powys Only)	✓	✓
Black & Veatch	Section 3 (Wrexham Only)	✓	✓

**Fig 7. Section 4 assurance**

Table	Methodology and Process	Data
4A	Jacobs	Jacobs
4B	Internal Audit	Internal Audit
4C	Internal Audit	Internal Audit
4D	Internal Audit (upstream services cost driver calculations)	Internal Audit
4D	Jacobs (Volumetric information submission)	Jacobs
4E	Internal Audit	Internal Audit
4F	Internal Audit	Internal Audit
4G	Internal Audit	Internal Audit
4H	Internal Audit	Internal Audit
4I	Internal Audit	Internal Audit
4J	Internal Audit	Internal Audit
4K	Internal Audit	Internal Audit
4L	Internal Audit	Internal Audit
4M	Internal Audit	Internal Audit
4N	Internal Audit	Internal Audit
4O	Jacobs (Non-financial data)	Jacobs
4O	Internal Audit	Internal Audit
4P	Jacobs	Jacobs
4Q	Jacobs	Jacobs
4R	Jacobs	Jacobs
4S	Jacobs	Jacobs
4T	Jacobs	Jacobs
4U	Jacobs	Jacobs
4V	Internal Audit	Internal Audit
4W	Internal Audit	Internal Audit

## 6.2.1 Deloitte Scope

Deloitte provided assurance procedures over sections 1 and 2 of the APR. These sections provide a baseline level of historical cost financial information and is aligned to our price controls (and associated regulatory performance commitments and incentives) set out in Ofwat's 2014 Final Determination. Deloitte audits the following tables within section 1 of the APR:

- Regulatory financial reporting tables comprising the income statement (table 1A).
- Statement of comprehensive income (table 1B).
- Statement of financial position (table 1C).
- Statement of cash flows (table 1D),
- Net debt analysis (table 1E).

The following tables in section 2 are also audited by Deloitte:

- Regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A).
- Totex analysis for wholesale water and waste water (table 2B).
- Operating cost analysis for retail (table 2C).
- Historical cost analysis of fixed assets for wholesale and retail (table 2D).
- Analysis of capital contributions and land sales for wholesale (table 2E).
- Household water revenues by customer type (table 2F).
- Non-household water revenues by customer type (table 2G).
- Non-household waste water revenues by customer type (table 2H).

- Revenue analysis & wholesale control reconciliation (table 2I).
- Infrastructure network reinforcement costs (table 2J).
- Infrastructure charges reconciliation (table 2K) and the related notes.

Deloitte refer to these tables as the 'Regulatory Accounting Statements' and their audit opinion is included on pages 42 to 45 of the APR.

Table 1F is not subject to audit procedures. As agreed with Ofwat, Deloitte have performed agreed upon procedures in relation to this table.

## Outcome of Deloitte's assurance

Deloitte's audit opinion confirms:

- Proper accounting records have been kept by the appointee as required by licence condition F.
- The Regulatory Accounting Statements are in agreement with the Appointee's accounting records and returns for the purpose of preparing the Annual Performance Report.
- The Regulatory Accounting Statements have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by WSRA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies (including the accounting separation methodology).
- There is appropriate quality assurance with checks and controls identified.

## 6.2.2 Jacobs Scope

We asked Jacobs to provide technical assurance on the following elements of APR reporting:

- Performance against legacy STW PCs including associated customer ODIs and key supporting processes and data

for properties and volumes and Customer Operations Service Centre regulatory inputs in respect of the Powys area.

- Non-financial data included in the APR section 4 tables
- Common PCs reporting (PR19 ODIs)
- RoRE and financial flows.
- Cost allocation between appointee associates STW and HD, between HD price controls and to third parties.

## Process

Jacobs undertake assurance using a three staged approach on a risk basis taking account of prior years assurance. Stages one and two focus on documentation and process. During stage one, Jacobs reviewed the PDT which are followed in order to report against PCs. Stage two included both desktop reviews and face-to-face interviews. These reviews ensure that:

- Processes are in place to produce data that are consistent with the RAGs, performance commitment definition or non-financial data definition.
- Improvements and changes in processes from previous assurance rounds are clearly stated.
- Accountability and responsibility of each stage of the process is clear with dependencies, assumptions, risks and mitigations identified.
- There is appropriate quality assurance with checks and controls identified.

Stage three focuses on data produced and associated commentaries which explain our performance in more detail. Audits are carried out in person with the responsible data owners. These audits ensure that:

- Data produced are consistent with the PDT and any deviations from this are identified and evidenced.

- Any rewards/penalties or further data points are calculated in line with Final Determination requirements. This focusses on the mechanistic calculation to give the gross reward/penalty position.
- Commentaries accurately reflect the data and performance within the year.

The assurance undertaken by Jacobs this year complements our overall assurance framework and reflects our view of the level of risk, which is in part informed by the previous assurance findings. Application of each stage of the Jacobs assurance approach for 2018/19 was guided by the level of risk.

## Outcome of Jacobs' assurance

### APR Section 2 – Cost allocation

As part of the industry's annual performance reporting, Ofwat requires companies to publish regulatory accounts that, among other things, set out financial information:

- on the allocation of costs by price control and subsections of the value chain;
- on non-appointed activity; and
- on transactions between associate companies.

In reporting on the above, we are required to comply with Ofwat's RAGs – in particular RAG 2.07 (Guideline for classification of costs across the price controls) and RAG 5.07 (Guideline for transfer pricing in the water and sewerage sectors).

Over and above the RAGs, companies' licences also place an obligation on them to ensure that every transaction between the appointee and any associated company is at arm's length, so that neither gives to nor receives from the other any cross subsidy

(Condition F). This also applies to appointed and non-appointed activity within the appointee.

Following the acquisition of Dee Valley Water, and the implementation of the subsequent NAV application to align STW and HD to the geographical border between England and Wales, Ofwat still expects transactions between STW and HD to be at arm's length.

Ahead of your year-end financial reporting, we asked Jacobs to review a sample of our cost allocation processes. We selected the sample based on your view of the risk associated with them. In total Jacobs reviewed 36 PDTs and processes, which covered:

- Allocations across price controls within STW and HD.
- Allocations between appointed and non-appointed activity within STW and HD.
- Allocations and recharges of costs between the associate companies STW and HD.

Consistent with previous work in this area, Jacobs reviewed the documentation and processes with a focus on the consistency of our allocation approach with the RAGs. To that end, Jacobs sought to understand:

- The areas/activities that were being provided.
- The costs associated with that activity – which for the PDTs we reviewed were operating costs.
- How those costs are recharged, allocated and why.
- How our approach is compliant with RAGs.

Jacobs acknowledged that many improvements had been made from the prior year and that we are continuing to improve our processes.

## APR Section 3 – Performance Commitments

### Half year

This year we asked Jacobs to focus the above staged approach on targeting PCs that we considered as high risk. The desk top reviews focused on whether actions from last year's assurance had been addressed. Process and data meetings were held where:

- We had made significant changes to our process since last year and/ or the PCs did not meet our target confidence grade.
- There is potential to impact the customers' bill due to earning a significant reward or incur significant penalties.
- We may be underperforming and/ or lack confidence in the data quality feeding into the AMP7 PCs's.

During their half year review Jacobs identified three areas that potentially had material risks:

- **SIM** – Following the integration of Hafren Dyfrdwy into Severn Trent's systems Jacobs noted some inconsistencies with regional allocation tags for unwanted calls and written complaints i.e. some contacts were appearing as 'unknown' in the reports and could not be allocated to a geographical area.
- **Properties and Volumes** – Jacobs identified that changes to reports to make them more robust mean the team was unable to simply produce Q1 data as the new reports took snapshots of a live system. Additionally Jacobs asked us to explain how we had accounted for changes in market eligibility following our NAV as there were some inconsistencies in the business and residential figures.
- **Leakage** – During their review, Jacobs noted that at half year there was a risk of our water balance gap being greater than 5%, which could mean our current reporting method is not the most appropriate.

We addressed these risks following half year assurance and are pleased to say that Jacobs agreed that these had been resolved during our year end assurance.

#### Full year

Jacobs reviewed the reported full year performance for the vast majority of the PCss set out in our Final Determination and the processes that were used to produce the figures. In line with our risk-based assurance framework, Jacobs did not review the PCs data or process where it is deemed low risk, for example 'Improved understanding of our services through education', which has no financial reward associated and has had no methodology changes from the prior year.

Jacobs' scope of assurance work included checking the following:

- The processes used are robust, enabling risks to be identified, managed and reviewed.
- The processes are sufficient, demonstrating an internal system of control and are consistent with the requirements of the regulatory obligations.
- The processes are managed with a system of governance that demonstrates a sufficient internal system of internal control.
- Data is competently sourced, processed and reported and fit for purpose.

Jacobs noted 'Overall, for the legacy STW PCs and non-financial APR section 4 tables and lines we reviewed we observed robust processes and reporting procedures. For the 2018-19 data we reviewed we note there are no remaining material issues...'

We are pleased that our improvements made in the year have been recognised and Jacobs were satisfied with our reporting of the PCs.

#### APR Section 3 – Leakage

In 2018/19 we undertook our established assurance process which included process and data audits on our PCs at half-year and again at year-end with Jacobs, our assurance partners. At half year, Jacobs raised a potential risk to our year end position on the legacy Severn Trent customer ODI in Powys:

*'During our half year exercise we observed that there is a potential material risk for 2018-19 full year reporting as your teams half year analysis indicates the [water balance] gap is continuing to grow...'*

Although the Ofwat methodology changes planned for AMP7 would close the gap, we were aware that it was increasing. As a result of this risk, our teams undertook a number of improvement actions to understand why our water balance gap was growing:

- We reviewed all elements of our leakage calculation and ensured that the data is as accurate as possible. The rigour around understanding and improving our data accuracy helped us to know where leaks were taking place by eliminating areas where we were simply unable to account for water use. Through this we also improved our understanding of the additional water consumption observed during the hot weather period.

• Using our small area monitors, commercial consumption monitors and half yearly consumer meter readings we gained greater confidence in our ability to differentiate between true increases in water consumption and leakage. Based on the success this work delivered, we plan to continue this work throughout 2019/20.

As part of the work to better understand our data all components of the water balance

were reviewed and Jacobs were engaged in November to provide additional assurance and challenge and also to undertake regular interim audits of components and overall approach prior to year-end. Outputs of the interim audits were fed back to the head of leakage, head of group compliance and assurance and director of strategy and regulation.

The water balance investigation identified areas to reduce the water balance gap which consisted of data corrections, data improvements and methodology changes which were reviewed and agreed with Jacobs. The data changes have been included in the APR19 leakage reporting. The methodology changes, along with the previously identified consistency changes, have been included in our AMP7 shadow reporting. As a result of our work, Jacobs were satisfied that we had addressed the material risk noted at half year.

#### APR Section 3 – Common PCs

Ofwat has been working to develop consistent guidance for the 14 common PCs that it intends all companies to report on in the next AMP. While we are not required to formally report on these measures until 2020/21, Ofwat has included these measures in Table 3S of the APR for 2018/19. As a result, we asked Jacobs to use its three staged assurance approach in line with our other PCs by reviewing our processes, methodology and data.

Overall, Jacobs noted that for the majority of measures we were compliant with the reporting requirements, they did flag two common PCs required improvements in certain components of our leakage and per capita consumption measures to ensure we are fully compliant for 2020. Action plans are in place to ensure that all PR19 PCs including the common ones are fully compliant and ready for reporting in 2020.

#### APR Section 4 – non financial APR

Jacobs noted '*For the non-financial APR section 4 lines we reviewed we note that whilst there are no outstanding issues from our data audits that should have a material impact on your overall APR reporting for 2018-19, there are some lines where you will be monitoring reporting risk more closely, or implementing improvements, due to issues we identified during our work. We also recommended you carry out a review of how data is being aggregated for the purposes of HD APR19 reporting.'*

For all areas of risk or recommendations noted by Jacobs, we will review these and ensure we address any concerns next year.

#### 6.2.3 Black & Veatch Scope

Black & Veatch Ltd provided technical assurance on performance reported against annual PCs and against Ofwat common measures for Leakage, Interruptions to Supply and Per-Capita Consumption in respect of the Wrexham area.

#### Process

Black & Veatch conducted a one stage audit, which reviewed both process and data and included both desktop review and face-to-face interviews. As part of the process audit, Black & Veatch reviewed the PDTs which are followed in order to report against PCs. These reviews ensure that:

- Processes are in place to produce data that are consistent with the PC definition.
- Improvements and changes in processes from previous assurance rounds are clearly stated.

• Accountability and responsibility for each stage of the process is clear, with dependencies, assumptions, risks and mitigations identified.

- There is appropriate quality assurance with checks and controls identified.

The data audit focused on the data produced and associated commentaries which explain our performance in more detail. Audits are carried out in person with the responsible data owners. These audits ensure that:

- Data produced are consistent with the PDT and any deviations from this are identified and evidenced.
- Commentaries accurately reflect the data and performance within the year.

#### Outcome

Overall, Black & Veatch noted: '*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.'*

Black & Veatch's summary of assurance is included on page 23 of the APR.

#### 6.2.4 Internal Audit Scope

Internal Audit conducted a number of checks across section 4 and the APR which included:

- Ensuring that all required statutory and regulatory disclosures were included in the text of the APR.
- Data checks on low and medium low risk tables and lines in Section 4. In some instances the tables checked derived from other financial tables in sections 1 and 2 that had been previously assured and Internal Audit would verify that the number used in both tables was the same.

#### Process

As part of its assurance, Internal Audit performed the following checks:

- Confirmed that the processes followed appeared appropriate to produce the data required for the submission.
- Traced historical data used in the tables back to source or previous published submission.
- Checked that data was produced in line with the methodology documents and RAG4 requirements.
- Data from the working files was agreed to the APR data tables to be submitted.
- A sample of business cases were reviewed to check the correct allocation of costs.

#### Outcome

Internal Audit confirmed that no material issues had been found and that '*all additional supporting evidence and answers to any queries raised were provided.*'

# 7. Outcome of assurance in other areas

In February 2019, we republished our 'Statement of risks, strengths and weaknesses' that we had published in November, alongside our final 'Assurance plan'. This document set out our key risks and included details of how we would address these with assurance this year in our final assurance plan. The table below details the outcome of that assurance. We believe that this table represents the majority of our high / medium high risks and stakeholder prioritised activity within the Company, however as a part of our risk and compliance framework we are always challenging our teams to ensure the data that they produce and publish is of a sufficiently high quality. We believe that good assurance is an integral part of the way we work and that checks are undertaken in both a formal and informal manner as part of our business as usual activity. We also complete numerous self-assessments of compliance at first and second line across the business.

Risk Area	Why?	Summary of assurance undertaken
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Annual Performance Report including our PCs	<p>This report is the principal way that we will document our annual performance and hold ourselves publicly to account. The report is divided into the following sections:</p> <p><b>Section 1: Regulatory financial reporting</b></p> <p><b>Section 2: Price review &amp; other segmental reporting</b></p> <p><b>Section 3: Performance Summary</b></p> <p><b>Section 4: Additional regulatory information</b></p> <p>The report will include inputs from other areas covered by this assurance plan (e.g. financial accounts) and require some forecasts of performance. It is important that we present information in a fair and balanced way that is accessible to our broad range of customers and stakeholders.</p> <p>In addition some of our PCs have a financial reward or penalty associated so customer bills will be directly affected by our performance.</p>	As described in section 6 above.
Annual Report and Accounts	<p>We have a statutory obligation to ensure that our financial accounts are prepared in accordance with the relevant financial reporting framework and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.</p>	<p>Our ARA has been subject to our established assurance and governance framework with the majority of data being subject to three lines of assurance. Deloitte have provided our financial audit opinion in line with statutory and regulatory guidelines. Their opinion is included in our ARA. Additionally any data that is included in both the APR and ARA is subject to the assurance as described in section 6. Our Internal Audit team also conducted some cross checks of the data used in the publication to ensure consistency.</p>
Annual Report to CCWater	<p>CCWater are the statutory customer representative body for our industry and a member of the CCG. We want to ensure the information we provide on a quarterly and annual basis is accurate. The majority of this data comes directly from our PC reporting.</p>	<p>Each quarterly submission is subject to internal first and second line assurance. Where the data is used for a PC the data is also subject to our assurance approach as described in section 6 above.</p>

Boundary realignment	<p>Following the creation of Hafren Dyfrdwy on 1 July 2018, our regulatory reporting has now been split according to the new licence lines. We have asked all lines of assurance to consider how the boundary realignment has impacted regulatory reporting and whether performance has been allocated to the correct entity.</p>	<p>Having completed the majority of our system integration programme at the beginning of the year, the focus for assurance this year was ensuring that our regulatory reporting reflected the changes. This led to us asking all areas to be able to report on a '4-box' model basis so that the four geographical areas within both companies could be identified e.g. STW England, Wrexham, Powys and Chester. As part of its third line assurance, we then asked Jacobs and Black &amp; Veatch respectively to check we could report performance on the basis agreed in Ofwat's final NAV determination. Thanks to the significant work undertaken by our operational and financial reporting teams, no material issues relating to boundary realignment have been identified.</p>
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Risk Area	Why?	Summary of assurance undertaken
Charges including access prices and non-primary	<p>We want to make sure that what we charge our customers is correct. We have established assurance processes to ensure we are within our revenue cap and compliant with Ofwat's charging rules. The charges process is split into two parts:</p> <p><b>Draft</b> – Since the non-household retail market opened, we have been required to publish draft wholesale charges in October to give retailers early sight of charges for the next financial year. Access prices are also reviewed at this stage.</p> <p><b>Final</b> – In January, companies are required to publish all of their proposed charges for the next financial year i.e. non-household and household, retail and wholesale and non-primary charges.</p> <p><b>New Connections</b> – On an annual basis we publish information relating to our New Connections charges as per the requirements of the Water Industry Act. Ofwat have now confirmed the new rules will not apply until 2022. While this won't impact our current year's assurance plans we will comply with any future requirements.</p>	<p>Our Scheme of Charges reporting is subject to three lines of assurance with a number of providers.</p> <ul style="list-style-type: none"> <li>• Numeritas who reviewed our financial model</li> <li>• Jacobs who reviewed our methodology, processes and data outputs</li> <li>• Internal Audit who conducted final consistency checks on the model outputs, published documents and tracked noted assurance actions through to completion.</li> </ul> <p>The outcome of their assurance was reported to the Audit Committee prior to approval. No material issues were outstanding and our final Scheme of Charges for 2018/19 was approved by our Board ahead of publication in line with our established governance. A Board assurance statement was published alongside our charges.</p>
Cost allocation activities	<p>Following the creation of Hafren Dyfrdwy we wanted to ensure that across the business we allocate costs correctly so that Hafren Dyfrdwy customers in Wales only pay for the services they receive, and vice versa for customers of Severn Trent in England.</p>	<p>In addition to the established activities described above (e.g. licence to operate and ERM) and in order to comply with the requirements of RAG 5.07, 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 Disclosure Committee. We have also established a RAG5 working group reporting directly to the Steering Committee, ensuring that any improvement actions are undertaken at an operational level.</p>
Drought Plan	<p>The Water Act (2003) made it a statutory requirement for water companies to produce and maintain a drought plan. We update these plans every five years. Our Drought Plan sets out how we will manage our resources and supply system in dry years, to maintain our service to our customers.</p>	<p>For our draft Drought Plan we performed second line assurance including technical assurance with no material issues identified.</p> <p>For the Statement of Response in September three lines of assurance were undertaken with Jacobs undertaking third line for any material changes or responses. No material issues were identified by Jacobs.</p> <p>We plan to carry out three lines of assurance on a risk based approach for the final plan.</p>
Reservoir resilience	<p>Highlighted as high risk in ERM due to potential loss of life and our obligations under the Reservoirs Act. Due to the nature of these assets, which are large water retaining structures, they have the potential to cause significant damage.</p>	<p>The risk levels associated with our reservoirs have been continuously monitored throughout the year through our ERM reporting, including bi-annual reporting to the Hafren Dyfrdwy Board. We have an action plan in place to ensure that inspections are completed on time and have been liaising with the EA to ensure any areas of concern are addressed.</p>
Governance of regulatory and statutory duties	<p>As noted above, we want to ensure we can demonstrate we have good governance arrangements in place in order for us to meet our regulatory and statutory obligations. During PR19, Black &amp; Veatch reviewed our governance arrangements and our processes for meeting these obligations to ensure these were appropriate</p>	<p>Our licence to operate process was subject to review through our established governance. This year we also added an extra step whereby we conducted face to face signoff sessions with members of our executive to highlight departures and areas of risk. This led to an increased level of engagement and challenge in the licence to operate process and acted as an additional level of assurance. In one instance a member of our executive team requested his managers re-visit their assessments before his sign off.</p>
K factor and ODI Model	<p>We provide a set of data spreadsheets to Ofwat on an annual basis so that it can calculate our in year ODI reward / penalty. Following Ofwat's review, we acknowledged that a small number of errors were made in our submission and had been missed by our second line assurance process.</p>	<p>This year this submission is superseded by the PR19 process, therefore please refer to 'PR19 – Future reporting and Initial Assessment of Plan ('IAP').</p>

Risk Area	Why?	Summary of assurance undertaken
Licence condition L	Following creation of Hafren Dyfrdwy, we want to ensure that we have confidence in our programme to maintain our underground assets.	Governance and associated processes are in place, and cost plans are reported. The work on asset health dashboards that is being developed for STW will be implemented across HD over the next year to give direct visibility of performance and how it relates to the health of our assets, to give further reassurance that maintenance and investment levels are proportionate to the service need.
Market information (water resources)	To help these markets grow successfully, it is important that customers and potential market participants can trust our costs are accurate in these areas for activities such as demand management, treatment, transport and other 'search costs'. We will support these new market areas and ensure our data is accurate and has had a third line review before publication.	For our bioresources submission, we supply a nil return on behalf of Hafren Dyfrdwy. For our water resources submission, much of the process, data and assurance is derived from the WRMP. As the water resources submission publication deadline is set to one month after publication of a company's final WRMP we will conclude our assurance at that time. We will ensure a consistency check is performed between the two publications.
Market Performance Standards ('MPS') and Operational Performance Standards ('OPS')	On a quarterly basis, we are required to submit a number of key performance indicators to the market operator, MOSL which then publishes the information on its website. This information is used by retailers, Ofwat and MOSL to ensure that wholesalers are delivering a competitive and fair service to all customers in the market. This year, failure to meet MPS SLAs will also result in a financial penalty.	OPS and MPS performance is reviewed throughout the month by the responsible managers and monthly with the accountable senior manager. Assurance has been completed on all our OPS submissions with third line assurance provided by Internal Audit periodically throughout the year.
PR19 – Future reporting and Initial Assessment of Plan ('IAP')	We want to ensure that in advance of the next reporting period (2020-25) we have adequate processes in place to report our new measures especially for our PCs that have a financial reward associated with them. Additionally, following Ofwat's IAP assessment our business plan was categorised as requiring 'significant scrutiny'. As a result we have had to resubmit our business plan to Ofwat, including a full set of data tables, as well as responding to a number of queries.	As part of the PR19 process this year we have made several submissions to Ofwat <ul style="list-style-type: none"> <li>• PR19 submission - our submission to Ofwat was subject to an extensive programme of assurance which followed our established risk based approach and governance procedures. The assurance was specifically developed for PR19 with substantial third line assurance being undertaken by a number of assurance providers and industry experts. A statement of the assurance undertaken was submitted alongside our plan which can be found on our website.</li> <li>• PR19 queries – throughout the year we have received requests for clarification from Ofwat on our PR19 submission. Typically these have a two day turnaround and as such we aim to produce high quality responses within the timescale provided. Responses are produced by the responsible operational team and then reviewed by the Group Compliance and Assurance team as a second line check. Responses are always approved by a senior manager prior to being sent to Ofwat.</li> <li>• PR19 Plan resubmission and IAP Response - For both submissions, we applied the same risk-based third line assurance approach as was used for the original submission and included third line review by external assurers and peer review by industry experts. This included the resubmission of a new Board assurance statement.</li> <li>• PR14 reconciliation – Any data derived from APR19 was subject to assurance as described in section 6 above. Additionally our Internal Audit team reviewed our data.</li> </ul>

Risk Area	Why?	Summary of assurance undertaken
Water quality obligations	Our internal risk assessment noted this as potentially medium high risk due to recent staff changes within the teams involved. We believe we are compliant with our obligations due to existing processes but we want to refresh our managers on their obligations.	Annual reporting of our water quality measures with ODIs are also subject to three lines of assurance as described in section 6 above. In addition, since publication of our final assurance plan, we have reviewed our licence to operate assessments of water quality obligations and reduced the risk associated by completing or clarifying RACIs across the organisation. Following on from this review, we have also changed some of the accountable managers to reflect roles and responsibilities.
Water Resource Management Plan	This document sets out how we plan to meet our customers' need for clean water both now and in the future, taking into account the changing impacts of climate change and population growth. NRW has set out the approach it expects companies to follow in completing the submission and has outlined specific requirements for the Board to provide assurance that 'it is satisfied the plan represents the most cost effective and sustainable long-term solution.'	External third line assurance of data, methodologies and the presentation of information was provided by Black & Veatch. They found no material issues in the plan however made recommendations which we have implemented. Our WRMP was approved by our Board in line with our established governance and the assurance reviewed by the Audit Committee. Our Board provided a statement of assurance with the publication of our draft WRMP.

# 8. Our approach to assurance from 2020 onwards

Our approach to assurance is constantly evolving and as we look to the next AMP, we want to develop our assurance processes further and innovate new methods to build trust.

## 8.1 Board governance and oversight

Our Board will continue to remain fully engaged in monitoring our performance and providing challenge where required through our established governance arrangements in the next AMP. In particular, performance against our new PR19 measures will be monitored by the Executive Committee and Board, and through the Severn Trent Plc Disclosure Committee and Audit Committee at least during mid-year and year end points in the reporting cycle. Our assurance plans will continue to be reviewed by Severn Trent Plc Disclosure Committee and Audit Committee for their input and challenge.

## 8.2 Our risk based approach to assurance

We will continue to use our risk based three lines of assurance approach to target the areas that matter most to our customers and to respond to changing regulatory conditions. To ensure we spot potential issues early, our future assurance plans will continue to highlight new reporting requirements or new legislation as an area of focus. For example, we expect all new PR19 PCs to go through both mid-year and year end audits in the first year to enable us to adequately assess areas for improvement and ensure we've the best data available to report our performance.

As part of our established processes, our new PCs will also be added to our licence to operate framework with accountable managers assigned to ensure strong business ownership and to capture any risk of non-compliance with the measures. Any business critical risks associated with our PCs will also be captured through our established ERM system.

## 8.3 A transparent approach to historic restatement

We are committed to continuously improving our data and information to support our regulatory returns and other information we publish in two ways:

- Striving to improve our current reporting methods – we review our internal processes and look externally for improved ways of reporting especially in areas where our information gathering process may still be maturing. For example, we acknowledged
- Correcting errors in a transparent manner and protecting our customers – while we believe our assurance framework reduced the risk of errors occurring in the first place, we recognise that as we review our historical performance retrospectively we may discover examples where we didn't get things right first time. In these small number of instances, we are committed to issuing clear and public corrections in the regulatory publications affected where we consider that this may impact on the trust of our customers.

## 8.4 Commitment to independent assurance

Trusted independent assurance is a critical part of providing confidence so we have already engaged our technical and regulatory assurance specialist, Jacobs, to work with us from now until 2025. We received and reviewed comprehensive bids from a number of external assurers through an OJEU tender process – an advertised tender with a scoring mechanism designed in advance of receiving full bids. As a result of this process, we've selected Jacobs as our technical auditor for the next six years. They offered the strongest package of assurance while also demonstrating value for money. During the last few years, Jacobs have provided a number of independent reports for our parent company, Severn Trent Water, and presented their findings to Severn Trent Plc Disclosure Committee the Severn Trent Plc Audit Committee and both STW, and more recently, HD Boards, while developing a cooperative relationship with data providers and owners across the wider business. Jacobs have built a strong historical knowledge of systems and processes now in place across HD, which will enable them to continue to act as a 'critical eye' and challenge us in areas of potential risk or non-compliance over the coming years

## 8.5 Transparency and challenge

From an external stakeholder perspective, we will continue to share our operational performance with CCWater on a quarterly basis and consult with external stakeholders on our assurance plans to ensure we receive appropriate levels of customer challenge and scrutiny. Our communications and customer research teams will also continue to look at the best ways of sharing our regulatory reporting information in a transparent way that is accessible and engaging to our customers.

As a public service we want to be transparent about how we balance the needs of our customers, our strategic plans as a business and a fair return for our investors. 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 will continue to pay our taxes in full and on time; pay dividends and executive salaries that are reasonable and sustainable and linked to the delivery of outcomes to customers; and avoid complex offshore financial vehicles.

Detailed historical financial information is shared with customers and stakeholders through the Hafren Dyfrdwy website where we will continue to disclose this information throughout the next period to 2025. Our regulatory financial reporting is subject to external assurance by our third line financial auditors, Deloitte, as detailed in section 6 and 7.

Hafren Dyfrdwy is part of the Severn Trent Plc group, which also publishes its own ARA.

This contains information regarding our dividend policy. We also publish a history of our dividend payments for Severn Trent Plc going back to 1990. This ensures clarity about how our investors are rewarded based on our performance through the Group's activities. This information will continue to be subject to third line assurance prior to publication.

We recognise that these elements are growing areas of interest to our customers given the ongoing national debate around executive pay and renationalisation. While the information we've published in our ARA and APR is very detailed, we recognise that it may not be accessible to all segments of our customer base. So we will provide a summary of this information in our customer APR and going forward, we'll consider how best to display this information while complying with current and future statutory and regulatory reporting requirements.

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**RHAGOROL O'R TAP**  
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Hafren Dyfrdwy  
PO Box 507  
Darlington DL1 9XF  
[hdcmru.co.uk](http://hdcmru.co.uk)

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