Hafren Dyfrdwy Cyfyngedig

Annual Report and Accounts
for the year ended 31 March 2023

Company Number: 03527628

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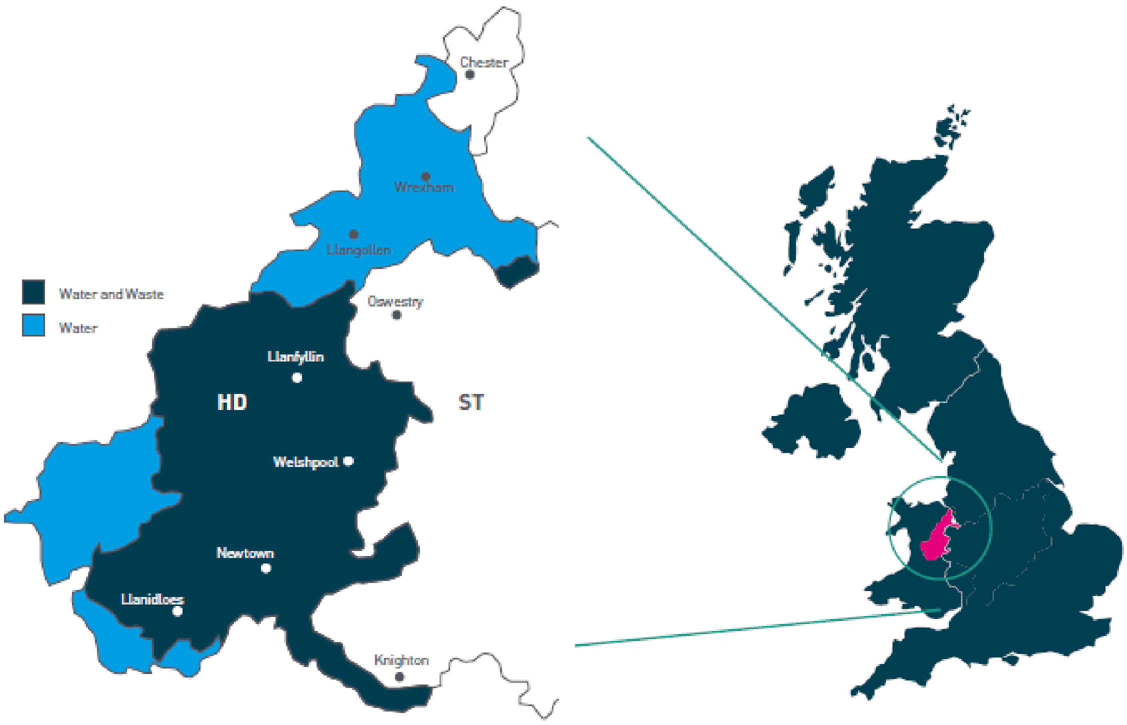
Company Information

Company Number	03527628
Directors	J B Coghlan A Beynon C M Hodgson J J Jesic S Jones-Evans M Mehmet H M Miles (until 1 April 2023) A P Stephens (from 1 April 2023)
Company Secretary	H Woodall-Pagan (until 5 October 2022) S Greenop (from 5 October 2022)
Registered Office	Packsaddle Wrexham Road Rhostyllen Wrexham Clwyd LL14 4EH
Solicitors	Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG
Auditor	Deloitte LLP Statutory Auditor 2 New Square Street London EC4A 3BZ

STRATEGIC REPORT

About Us

Hafren Dyfrdwy provides Mid and North-East Wales with high-quality water and waste water services at one of the most affordable prices in Wales and England.



Hafren Dyfrdwy is regulated by Ofwat, the economic regulator of the water and waste water sector in Wales and England. Every five years, we work with our customers to develop a new Asset Management Plan ('AMP') which is then assessed by and agreed with Ofwat.

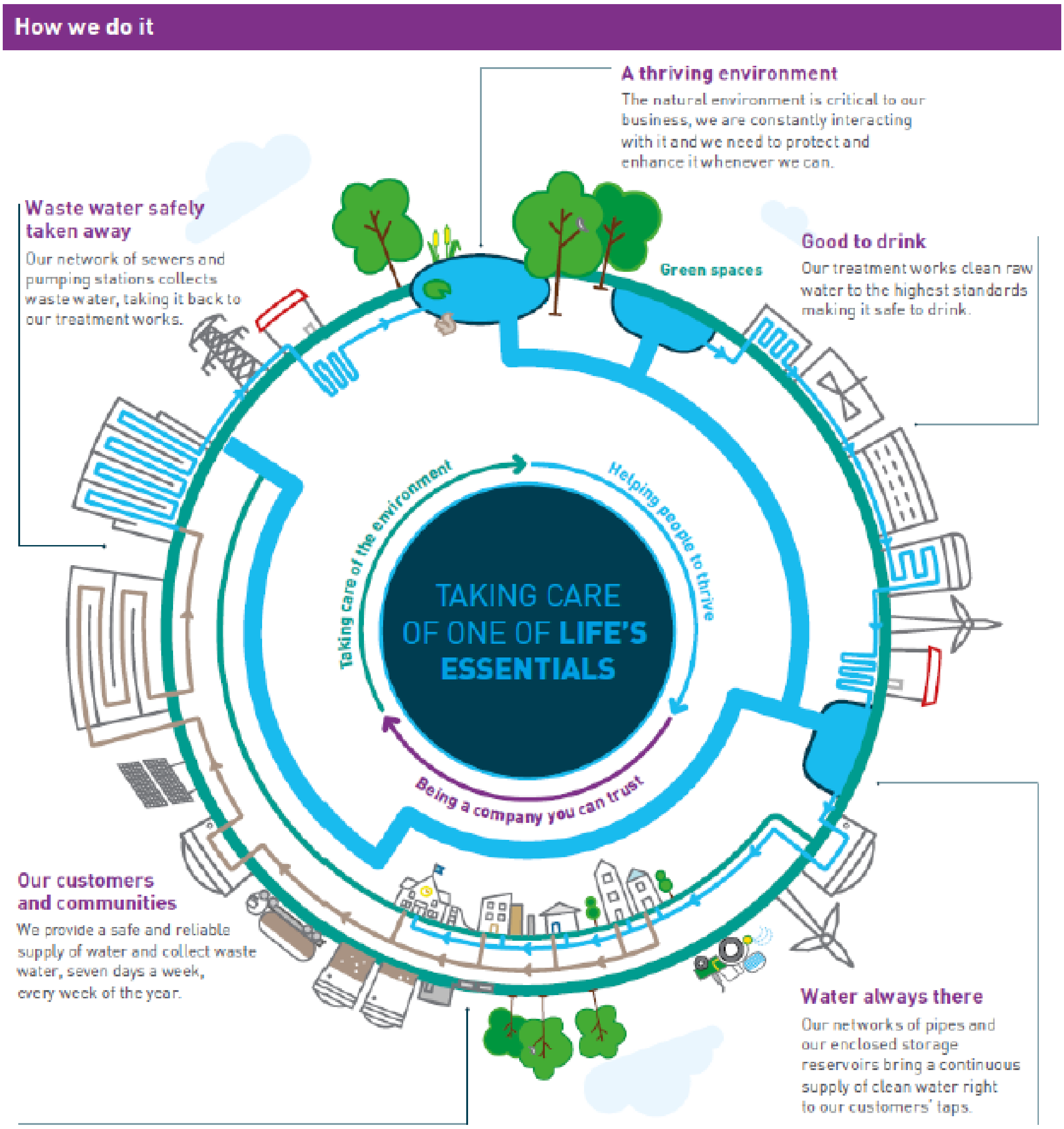
Preparations are underway for our next Price Review, 'PR24', which will cover the AMP period 2025-30 ('AMP8'). As with our business plan for AMP7 (which covers the AMP period 2020-25), we have been shaping our AMP8 business plan through extensive engagement with customers to listen and discuss the issues that are important to them, both now and for the future.

As a result, our business plan will take a long-term view, delivering for our current customers and putting firm building blocks in place to continue to improve services and protect them for future generations. Imperative to this is maintaining our position as a sustainable and socially purposeful company.

The Directors of Hafren Dyfrdwy Cyfyngedig are pleased to present their Strategic Report on the affairs of the Company, along with the Directors' Report, the audited financial statements and the Auditor's Report for the year ended 31 March 2023.

Business Model and Overview

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



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

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

We are addressing climate change as a priority and investing in renewable energy production.

Business Overview

Hafren Dyfrdwy is a wholly owned subsidiary of Severn Trent Draycote Limited, part of the Severn Trent Plc Group. The Company is one of 11 water and waste water companies operating in Wales and England, supplying services at one of the most affordable prices in the UK to c.108,500 customers.

Our strategy is that prevention is better than cure and we adopt a calm network approach aimed at delivering multiple benefits to stakeholders. Our plans have been developed in full consideration of the Well-being of Future Generations Act, aspiring to always operate in a way that is socially and environmentally sustainable.

This Strategic Report covers the year ended 31 March 2023, which is the third year of the five-year regulatory period known as 'AMP7', and includes detail of our progress in relation to delivering our customer outcomes, service commitments, and financial and environmental performance.

Key Facts from 2022/23

Turnover **£38.7 million** (2021/22: £35.0 million)	**Loss before interest and tax** **£7.1 million** (2021/22: £2.5 million)
Litres of drinking water supplied each day **61.4 Ml/d** (2021/22: 63 Ml/d)	**Litres of waste water treated each year** **5,474 Ml/y** (2021/22: 6,351 Ml/y)
Biodiversity Improvements **223 hectares of land** (2021/22: 340 hectares)	**Community Fund Grants Awarded** **Over £45,000** (2021/22: £52,000)
Households and businesses served **108,508** (2021/22: 107,443)	**Employees[1]** **179** (2021/22: 133)

[1] Average during 2022/23 – see note 5 to the financial statements

Our Purpose, Values and Culture

The Hafren Dyfrdwy Board, supported by the Executive Committee, is committed to the long-term sustainable success of the Company, which means focusing on how best to deliver for the customers we serve and our wider stakeholders. The Board recognises the importance of the Company's strategy, Purpose, Values and culture in delivering long-term success and building and maintaining trust in its activities. As such, approval of the Company's strategic aims and objectives is a matter reserved to the Board. The Board reserves responsibility for establishing Hafren Dyfrdwy's Purpose, Values and strategy, and continuously seeks to satisfy itself that our culture is aligned to these.

Our Purpose and Values set the cultural tone of our organisation, guide our behaviours and express the intent behind what we do. We believe that if we are united by a clear Purpose, we will deliver better outcomes for all our stakeholders – our customers, our colleagues, the communities we serve and the environment we depend on.

We are first and foremost driven by our **Purpose**, '**Taking care of one of life's essentials**', which ensures our customers and communities experience the very best of our essential product every day. We look after every drop of water – all the way from our upland catchments to our customers' taps, taking waste water safely away and recycling it back into the environment, cleaner than when we took it.

We are guided in delivering our Purpose through our **Values**, which were formulated through extensive consultation with our colleagues from across the Severn Trent Group. By agreeing these Values together, we ensure they both reflect our role as a provider of an essential public service and are meaningful and inspiring to our employees, customers and the communities in which we live and operate.

Setting bold ambitions

We always do the right thing and have courage to challenge the norm and speak up if things are not quite right. We are prepared to step out of our comfort zones and act with both today and the future in mind.

Inspired to try new approaches

We search out safe, better and faster ways of doing things through innovation and are always curious and willing to learn.

Promoting fairness and equality for all

We keep our promises to customers and show care by treating everyone fairly and equally. We try to enhance the environment around us and spend every pound wisely.

Succeeding on our journey

We make a difference for our customers every day, owning problems and working with others until they are solved. We take pride in what we do and champion our work in the communities we work and live in.

The Board recognises the importance of building and promoting a culture of integrity and openness where inclusion and diversity are valued. Our Purpose and Values underpin our **culture** of **Doing the Right Thing** and this behaviour is demonstrated by our colleagues every day, in the decisions they make and the actions they take. The Board and Executive Committee recognise the importance of their roles in setting the tone for the Company's culture and they complete the Doing the Right Thing e-learning course every year, together with all of our employees. We also expect our supply chain partners to apply the same standards to their behaviour.

To fulfil its role of monitoring and assessing Values and culture, and satisfy itself that behaviour throughout the business is aligned with our Purpose, the Board considers culture at every meeting, through a standing people update from the Managing Director, which is complemented by dedicated reports on topics such as employee engagement, health, safety and wellbeing and diversity and inclusion. Through an independent lens, the Board also reviews the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chain and fully endorses the Group's Anti-Slavery and Human Trafficking Statement.

In addition, to deepen their understanding of the Company's Values and culture, Board members undertake site visits throughout the year to meet colleagues in person, observe the true culture of the Company, the way in which the workforce apply our Values in all that they do and discuss first-hand the key issues identified by them. Board members also attend the Company Forum, to listen directly to what employees have to say and to provide updates on matters being considered by the Board. During the year, the Board also took part in our 'Ask the Board' event, where colleagues were invited to pose questions to the Board in a live Q&A environment, without scripted briefings, providing a further opportunity for the Board to engage with our people and gain an appreciation of the Company's culture.

The Board believes that our strong Values and culture are a key strength and there are resulting benefits in employee engagement, retention and productivity, which is why questions around our Purpose, Values and culture feature heavily within our annual employee engagement survey, QUEST. It is clear from the results that our Purpose and Values strongly resonate with our employees, as demonstrated by the overall employee engagement score of 8.8 out of 10 – placing us in the top quartile of all businesses and in the top 5% of energy and utility companies globally. Employees agree that our Values align with our Purpose and provide a good fit with the things they consider important in life and they feel inspired by the Purpose of our Group. The Board considers both the positive and more challenging aspects of the QUEST survey and discusses the action plans to be put in place for areas of employee focus, in order to ensure any misalignment with our Values and culture is addressed.

This robust programme of activity enables the Board to satisfy itself that policies, practices and behaviours throughout the business are aligned with our Purpose and culture. No misalignment was identified during the year and, as such, no corrective action was required to be taken.

Further details of how the Board monitors culture and engages with employees are set out on pages 42 to 45.

SETTING ASPIRATIONS AND PERFORMING FOR ALL THOSE WE SERVE

Our current business plan, for the AMP7 period, was built around what matters to our customers and their expectations of Hafren Dyfrdwy, both as a water and waste water service provider and as a company which can and should play a positive role in wider society.

Our Purpose, 'Taking care of one of life's essentials', unites everyone at Hafren Dyfrdwy and underpins our strategy, which has been developed in full consideration of the Well-being of Future Generations (Wales) Act 2015 (the 'Well-being of Future Generations Act') and its ambitions to improve social, cultural, environmental and economic wellbeing in the region. This Purpose is central to all that we do and the Board ensures that the Company's strategy, Values and culture are consistent with our Purpose.

Our Annual Report demonstrates how our Purpose runs through everything we do. The Board focuses on our Purpose when determining how the Company should operate and in considering how decisions the Board make will affect each of our stakeholder groups. Read more about our engagement with stakeholders and how the Board considers stakeholders in its decision making on pages 30 to 41 and pages 46 to 48, respectively.

Hafren Dyfrdwy Strategic Direction Statement

Our first-ever Strategic Direction Statement ('SDS') for Hafren Dyfrdwy, covering the period through to 2050, was published during 2021/22 and is being used in the formulation of our PR24 plans. The SDS demonstrates that we are a proud local company and recognise our role as a custodian of valued Welsh assets.

We know having a clear strategic direction is key as we seek a more sustainable path for our company and plan how to best respond to the future opportunities and challenges that the next 30 years presents. This will allow us to continue to support our current and future, local customers in the best way.

Read our full SDS on the Hafren Dyfrdwy website.

Performance Summary

At Hafren Dyfrdwy, we believe that being a socially purposeful company is central to our strategy. We are a company guided by a clear public service ethos that also draws on the benefits of private sector investment to improve services. We seek to give our customers the best of both worlds.

We are pleased to present our progress against the delivery of our customer outcomes for the third year of our business plan, for the 2020-25 period known as AMP7.

We have maintained our Outcome Delivery Incentive ('ODI') performance in 2022/23 at 71% of measures being green.

Additionally, we have improved performance across the suite of our performance measures, reducing our net of tax penalty to £0.289 million (2021/22: £0.414 million). Our improved performance is as a result of the dedication of our teams and the continued development of our standalone offering as the smallest and most agile water and waste water company in Wales and England.

Improving Core Service in Water and Waste Water

As the smallest company in the sector with the lowest population density that serves a rural area, it can be difficult to achieve our stretching industry comparative targets, many of which are set in reference to levels achieved by the larger water and waste water companies or more urban centric water only companies.

In water, we have delivered strongly on the measures of importance to our customers, including upper quartile Compliance Risk Index ('CRI') scores of 0.56 and exceeding our lead pipe replacement target four times over for the third year in a row. We continue to be focused on improving our leakage position and are fixing more leaks than ever before.

On average, customers experienced an interruption to their supply for 16 minutes and 39 seconds over the year. This represents a 56% improvement on the event time in 2021/22 and 76% from 2020/21. Despite the improvement, this outcome remains below customer expectation, and we continue to embed our learnings from the Wrexham Ring Main events in 2020/21, significantly increasing resilience and responsiveness.

In waste, we have focused on optimising our asset performance to drive greater control and improvement. As a result of this activity, we have maintained our strong pollution performance from last year with just two occurrences, beating our target again. We continue to be significantly ahead of our performance commitment for sewer blockages as our education campaign continues to improve behaviour.

Supporting our Customers and Communities

We continue to have the lowest average combined bills in Wales and England at just over a £1 a day, but we know that for some this is still too much and is a source of worry.

This year we have continued to expand our programme for customers we support by 25% year on year, against the backdrop of an ongoing cost of living crisis. We continue to help by offering one of the most generous bill discounts available in the water sector (up to 90% discount for those on the lowest incomes).

Following our investment of £211,000 above our 2020-25 plan into 'Help to Pay When You Need It' schemes in 2022/23, we were able to support over 8,000 customers, some of whom received discounts of up to 90% off their bill. We know that customers can experience short-term financial struggles, so we continued to offer payment breaks to allow time for our customers to get back on track and remove some of the pressure they may be experiencing, and we saw the number of customers supported increase by 23% across the year.

We continue to expand our activity in our communities across Wales through our Community Partnership Specialist and to work closely with external partners such as local councils, charities and Citizens Advice, to drive increased engagement with those that need our help the most.

Our Priority Services Register ('PSR') allows us to understand when our customers might need our help. We have rigorous processes in place to ensure we will support 100% of these customers during an incident and that is what we have done this year.

Enhancing the Natural Environment

We are pleased to share that across a suite of measures, our environmental performance goes from strength to strength. We have maintained the excellent record of no serious pollutions for over 10 years, equalled our best ever Category 3 performance, with two wastewater events, and delivered 100% treatment works compliance for our wastewater recycling assets.

For our storm overflows, we have seen a significant improvement in performance with a 48% reduction in the average duration and a 17% reduction in activations to an average of 29 – placing us firmly on track to reach 20 by 2025. Our commitment to 'Get River Positive' is fully aligned to the workstreams within the Wales Better River Quality Taskforce; a collaboration with Dŵr Cymru Welsh Water, Natural Resources Wales, the Welsh Government and Ofwat. Read more on pages 40 to 41.

Looking wider across our estate, our ambition at Lake Vyrnwy brings to life our approach of integrating with nature. We have delivered over 200ha of biodiversity improvement, including a further 80ha of peatland restoration. Over AMP7 we are forecasting to restore 1,690 ha of peatland through partnership work with RSPB Cymru.

This year, we have looked ahead to increase our resilience and build adaptability through:

- Developing our Drainage and Wastewater Management Plan ('DWMP') to design our long-term investment to reduce storm overflow activations and reduce the risk of sewer flooding; and
- Preparing our Water Resources Management Plan ('WRMP') to deliver a sustainable supply of water balancing the needs of the environment with customer demand.

Delivering for Wales

We are really proud of being a custodian of valued Welsh assets. Working collaboratively with regulators, government, local bodies and companies in our sector in Wales, we aspire to be a leading, community-focused water and waste water company, that makes a meaningful and positive environmental and social difference. We recognise that, given our role in the Foundational Economy in Wales, we have a responsibility in delivering against the Well-being of Future Generations Act and we are passionate about ensuring the future wellbeing of generations in our region, and within Wales as a whole.

As an example, during the year we established a dedicated hub in Powys, so we now have our customer contact and customer engagement activity operating across two key sites in our region. By providing a hub directly in the heart of the community we serve, our customers have benefitted through reduced travel times, resulting in faster resolutions to the issues they have contacted us about.

The Managing Director opened our Newtown Hub in June 2022 with a launch event attended by Hafren Dyfrdwy colleagues and local councillors.

Financial Performance

During the year, the business has continued to invest in its assets, which has grown our regulated capital value by £15.3 million. We have incurred headwinds from a number of challenging external factors, including unprecedented wholesale energy prices, cost pressures on chemicals and other materials, and additional operating costs during the exceptionally hot and dry summer and the freeze thaw event in December, which has resulted in a loss of £6.3 million.

The regulatory model set the inflationary uplift in this year's tariffs from CPIH from November 2021. This lag and the difference between our key costs and the basket of goods in CPIH, meant our regulated revenue for the year included an increase of 4.6% while inflation on key operating costs was higher than this.

We have seen the benefits of the investment in our estate yielding increased income generation from diverse sources, boosting our longer-term financial resilience. We have increased the investment in our asset base through capital schemes totalling £15.9 million and infrastructure renewals expenditure of £5.2 million. This investment is driving safety and resilience in our water supplies, reducing downtime caused by supply interruptions and protecting the rivers in our region through investment in our waste treatment capabilities.

Turnover increased in the year by 10.3% to £38.7 million (2021/22: £35.0 million). Revenue from our water and waste water activities increased 7.5% year on year, as a result of 'allowed' inflationary bill increases. Further, we saw a 51% increase in our other revenue streams such as our renewable energy generation, timber revenue and Other Water Company commission (for billing of waste on behalf of Dŵr Cymru Welsh Water).

Despite the inflationary increases, customers continue to pay the lowest combined average bills in Wales and England however we know that for some customers this is still too much and some customers can experience short-term financial struggles. We continued to offer payment breaks to allow time for our customers to get back on track and remove some of the pressure they may be experiencing in addition to our other support schemes, which saw us helping over 8,000 customers, with the number of customers supported increasing by 23% across the year.

Operating costs increased by 22% to £45.7 million (2021/22: £37.6 million). Higher energy and chemical prices resulted in cost increases of £3.0 million as the higher costs of energy consumed exceeded the benefit from our renewable energy revenues. We also incurred a £1.1 million charge in our provision at our Pen Y Gwely Reservoir where we have more clarity on the future costs of decommissioning.

Our insourcing activity at Powys resulted in our net labour costs increasing 41.7% to £8.1 million (2021/22: £5.7 million), with the benefits seen in improvements to our Supply Interruptions performance, and investment in the region allowed us to strengthen our skilled workforce. Our average headcount for the year was 179 employees, against prior year average of 133, an increase of 35%, demonstrating our commitment to employment in the region.

The charge for bad and doubtful debts increased by 23% to £1.4 million (2021/22: £1.1 million) due to:

- A minor deterioration in cash collection resulting from the ongoing cost of living crisis, increasing the provision;

- A release for expected future losses provision driven by reduced unemployment offsetting the expectation of significant household income squeeze in the coming year; and
- In-year write-off of older probate accounts unsuitable for continued collection.

The loss before interest and tax was £ 7.1 million (2021/22: £2.5 million).

Net finance income for the year was £0.4 million (2021/22: £0.4 million) relating to the defined benefit pension scheme, in line with prior year.

Capitalised interest of £2.3 million was higher year on year (2021/22: £1.3 million) due to higher interest rates and increase in loan value (note 8 of the financial statements).

We are committed to paying the right amount of tax at the right time. As a loss-making company we receive a corporation tax credit, but in addition to this form of taxation, we pay a range of taxes, including business rates, employers' national insurance and environmental taxes such as Climate Change Levy that are charged in our income statement.

The loss after tax for the year was £6.3 million (2021/22: £7.3 million).

Our defined benefit pension scheme surplus was £5.7 million (2022: £17.5 million). During March 2023, the Company completed the bulk annuity buy-in of the Dee Valley Water Pension Scheme ('DVWS'). As a result of the buy-in, whilst the legal obligation to pay the employee benefits as they fall due remains with the Company, the right to reimbursement of such amounts to the Company has been obtained under the insurance policy.

We finished the year with a strong balance sheet, net assets of £149.6 million (2022: £150.0 million) with losses being offset by a £15 million equity injection from Severn Trent Draycote Limited (see page 106), net current assets of £16.1 million (2022: £15.8 million net current liabilities) and RCV gearing of 60.24% (2022: 39.65%, or 52.1% adjusting for the £15 million equity injection post balance sheet).

Risk Management

Our Approach to Risk

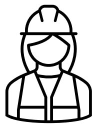
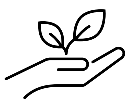
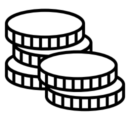
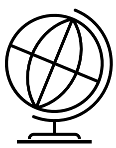
Hafren Dyfrdwy has a robust risk management framework in place to effectively identify, assess and mitigate risk. Our risk management framework enables us to meet our strategic objectives and optimise our risk exposure within our risk appetite.

2022/23 Risk Landscape

The 2022/23 year has been another challenging year with a key area of focus managing the cost of living crisis which has impacted many of our household customers as ‘real’ disposable incomes fall. Inflation has soared, with a key driver being the rapid increase in energy costs, caused by a rise in the wholesale price of gas. We recognise that it is a difficult time, and it can be a real struggle for some of our customers. Our Here2Help Scheme can reduce bills by up to 90% based on the household’s financial circumstances and more information on how we are supporting our customers can be found on pages 9 to 10.

Our Risk Priorities

Hafren Dyfrdwy prioritises the following when making decisions about its long-term strategy and day-to-day operations.

	The health, safety and wellbeing of our people and the communities we serve and maintaining our essential operational services are our top priorities, and we have no appetite for risks brought on by unsafe actions.
	Protecting the environment is a key long-term commitment and we aim to enhance the water environment and improve biodiversity not only for our local region, but for Wales as a whole.
	Adherence to laws and regulations is a fundamental requirement and we are committed to ensuring compliance with all water regulations and to operate within our licence permits; therefore, we have no appetite for compliance-related risks. We are also committed to the Well-being of Future Generations Act and working collaboratively with regulators, government, local bodies and Dŵr Cymru Welsh Water, which is the only other company operating within our sector in Wales.
	Our approach to financing is to take measured risk consistent with providing resilience and delivering sustainable outperformance for the best long-term value for our customers and stakeholders.
	We are determined to play a leading role in addressing the impact of climate change through mitigating our own impact and that of our supply chain, and adapting to the challenges that climate change may bring in the future.

Overseeing Risk

Our approach to risk management is designed to enable the business to deliver its strategic objectives.

The well-established Severn Trent Group Enterprise Risk Management ('ERM') process and internal control framework has been implemented within Hafren Dyfrdwy to help us identify, evaluate and manage risks to influence decision making.

Our approach cannot eliminate all risk entirely, but ensures we have the right structure to effectively navigate the challenges and opportunities we face and only take risks that are within our risk appetite.

Risk Reporting

The Group's ERM process, applied to all Group subsidiaries, is operated by the Severn Trent Group Central ERM Team and is underpinned by a standardised methodology to ensure consistency.

ERM Champions and Co-ordinators operate within Hafren Dyfrdwy, with support and challenge provided by the Central ERM Team, continually identifying and assessing risks and reporting on a quarterly basis. Standardised criteria are used to consider the likelihood and velocity of occurrence and potential financial and reputational impacts.

The potential causes, impact and mitigating controls related to each risk are well documented. This assessment allows us to put in place effective risk response strategies to mitigate the risk to an acceptable level and, following governance checks, to remediate any defective controls or implement additional controls as required.

Our most significant risks from our risk profile are reported to the Executive Committee for review and challenge. In addition to the regular in-depth reviews undertaken by the Executive Committee, the Board receives a detailed paper every six months to enable it to discharge its role relating to the oversight of the Company's risks. The paper also provides the Board with an updated assessment of the effectiveness of the controls in place for mitigation of each risk and, where necessary, the action plans developed to enhance such controls.

Principal Risks

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

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

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

For example, after conducting our review of Principal Risks we felt 'Customer Experience' could be expressed more clearly and felt a standalone risk would be better than it being embedded within Principal Risks 1 and 2, particularly given:

- The changes in expectations from our customers recently;
- Cost of living crisis impacting ability to pay; and
- Continued development in technology and expectations on digital communications.

There may be additional risks that emerge in the future, and we undertake regular horizon scanning to identify and report these to the Board.

Key: Change in year	↑ **Increase in risk exposure**	↓ **Decrease in risk exposure**	↔ **No change in risk exposure**	☼ **New risk**

HEALTH AND SAFETY	
Principal Risk 1: Due to the nature of our operations, we could endanger the health and safety of our people, contractors, and members of the public.	**Change in Year** ↔
Examples of risk mitigation: • The Group's Goal Zero policy clearly sets out our target that no-one should be injured or made unwell by what we do. • Hafren Dyfrdwy has a well-established Health, Safety and Wellbeing ('HSW') Framework to ensure all our operations and processes are conducted in compliance with Health and Safety legislation and in the interests of the safety of our people and our contractors. The Framework is subject to regular review. • We employ a competency framework and compliance with mandatory training is regularly monitored.	

- Monitoring of our supply chain through site manager forums and on-site inspections, including health and safety reviews to ensure compliance.
- HSW bulletins are cascaded throughout the Group, including to the supply chain, and discussed at the dedicated monthly Hafren Dyfrdwy HSW Forum.
- A dedicated HSW toolkit, called Safety Net, allows real time data recording to capture, analyse and report on all HSW incidents and implement targeted interventions in a timely manner.
- We monitor and investigate relevant health and safety incidents from other sectors.

INFRASTRUCTURE FAILURE AND ASSET RESILIENCE	
Principal Risk 2: We do not provide a safe and secure supply of drinking water to our customers.	**Change in Year** ↔

Examples of risk mitigation:

- We have developed comprehensive resilience plans, such as our Water Resources Management Plan and Drought Plan to inform our capital investment programme and business plan.
- Key operational employees are required to complete mandatory Water Quality Competency training.
- We have invested in in-house capability to bolster repair teams and facilitate accelerated response times.
- Our 24/7 control centre monitors our operations and assets, including real-time telemetry coverage from our loggers.
- We run strategic modelling to assess potential changes to supply and demand on our water network and the impact of climate change. See Principal Risk 7.
- We regularly review and update processes, standards, and operational procedures.

INFRASTRUCTURE FAILURE AND ASSET RESILIENCE	
Principal Risk 3: We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment.	**Change in Year** ↔

Examples of risk mitigation:

- We run strategic modelling, such as the Drainage and Wastewater Management Plan, to assess potential changes to supply and demand on our waste water network, to reduce service issues and potential damage to the environment.
- Our 24/7 control centre monitors our asset performance, including real-time telemetry coverage. We operate an in-house Waste Water Network Response Team.

- Key operational employees are required to complete mandatory training programmes to ensure continued competence with evolving standards.
- We run educational programmes for customers promoting safe use of the waste water system, including appropriate disposal of wet wipes and cooking fat.
- We monitor sites with Flow to Full Treatment ('FFT') through a dedicated dashboard.

CUSTOMER SERVICE AND EXPERIENCE	
Principal Risk 4: We do not meet the needs of our customers or anticipate changing societal expectations with the level of customer service we provide.	**Change in Year** ☼

Examples of risk mitigation:

- Our Retail Transformation Plan and Customer Experience Steering Group helps drive further improvements of our customers' journeys on an end-to-end basis.
- Our positive press campaigns, such as bill inserts, and activities, including our Community Fund, help boost awareness of our Hafren Dyfrdwy brand.
- We have incident management processes and procedures for vulnerable customers with special requirements in the event of operational events impacting services to give them a better, more personalised service.
- Our customer strategy focuses on improving customer experience drivers, for example, the recent insourcing of billing telephony enabling better customer contact experiences.

CYBER SECURITY AND TECHNOLOGY RESILIENCE	
Principal Risk 5: Our critical technology capabilities are not maintained due to cyber threats or system failures, impacting the services we deliver through our key infrastructure assets or core systems.	**Change in Year** ↑

Change in Year: Despite our robust approach to cyber security and placing a focus on managing cyber risks, we have seen heightened Cyber risks globally and as an industry with our peers subject to targeted cyber-attacks this year.

Examples of risk mitigation:

- Dedicated Group Information Security Team and Data Privacy Officer responsible for monitoring information security and cyber threats.
- Mandatory annual cyber security training for all employees.
- A robust operational security programme, including physical access controls, on-site system protection and remote system protection. A programme of regular internal and third party testing of our security network and systems.
- An effective vulnerability management system, including penetration testing of publicly accessible systems, behavioural alerts, patching processes, data disposal and access control, including Multi-Factor Authentication.

- We work closely with third party IT service partners to manage risk and improve technical standards.
- Migration to cloud platforms improving the resilience of our disaster recovery and business continuity plans.
- All operational and office sites have business continuity and crisis management plans in place, which are tested on a regular basis.
- We have disaster recovery plans that are stress tested and updated annually.

POLITICAL, LEGAL AND REGULATORY

Principal Risk 6: Changing societal expectations leading to regulatory reform or policy changes from Welsh Government, increase the risk of non-compliance.	**Change in Year** ↑

Change in Year: Our industry has experienced significant media and political focus and there is a clear message that there is a greater expectation for the industry to do more, especially when it comes to protecting the environment.

Examples of risk mitigation:

- Our Governance Framework, policies, procedures and continuous training ensure compliance with the Welsh regulatory framework.
- We are committed to working with the Welsh Government to develop its water strategy. We have strong relationships and engage regularly through open dialogue with the Welsh Government, local and national Senedd Members, Wales Water Forum, Natural Resources Wales, the Drinking Water Inspectorate and Ofwat.
- We consult external legal advisers providing detailed reviews in respect of upcoming legislation that may impact Hafren Dyfrdwy.

CLIMATE CHANGE, ENVIRONMENT AND BIODIVERSITY

Principal Risk 7: Our Group climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain our essential services.	**Change in Year** ↔

Examples of risk mitigation:

- Our AMP7 Business Plan supports increased resilience against the potential impacts of climate change through capital scheme delivery.
- Climate Change Steering Groups bring together expertise from across the Group.
- Our Group Triple Carbon Pledge – committing all Group companies to net-zero carbon emissions, 100% renewable energy and an all-electric fleet (where available) by 2030.
- At a Group level we utilise scenario data modelling to understand the impact climate change could have on our ability to deliver Hafren Dyfrdwy's essential services.

CLIMATE CHANGE, ENVIRONMENT AND BIODIVERSITY	
Principal Risk 8: We fail to influence positively the natural capital in our region.	**Change in Year** ↔

Examples of risk mitigation:

- We have strategic plans to enhance biodiversity in our region and a number of ODI commitments to protect our local environment, including river water quality, pollution incidents, biodiversity improvements and environmental compliance.
- We run strategic modelling to estimate the increasing pressures on nature, for example, from climate change, including, drought or extreme weather events and biodiversity loss that has potential to impact ecosystems.
- We are committed to enhancing biodiversity by supporting the Wales Better River Quality Taskforce and ‘Get River Positive’ through five pledges to further improve river water quality by 2030.

Viability Statement

Assessment of Current Position and Long-term Prospects

The Directors' assessment of Hafren Dyfrdwy's current financial position is set out in the Financial Performance section on pages 12 to 13. Important aspects of that assessment that are most relevant to the assessment of viability are:

- Hafren Dyfrdwy's regulatory gearing is 60.24%, close to Ofwat's assumed gearing of 60% for the notional company on which the regulatory allowances for this AMP are based;
- Hafren Dyfrdwy's credit rating is above the investment grade base level and is stable; and
- The defined benefit pension has been de-risked via a "bulk annuity" buy-in and is in a surplus of c.£5.7 million.

Hafren Dyfrdwy, is a regulated long-term business characterised by multi-year investment programmes and relatively stable revenues. The water industry in Wales and England is currently subject to economic regulation rather than market competition and Ofwat, the economic regulator, has a statutory obligation to secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory functions. Ofwat meets this obligation by setting price controls for five-year Asset Management Plan ('AMP') periods including mechanisms that reduce the risk of variability in revenues from the regulated business in the medium term by adjusting future revenues to balance over or under recovery compared to the original plan.

AMP7 runs to 31 March 2025 and Hafren Dyfrdwy has developed its plans to deliver the operational and financial performance set out in the Ofwat's determination. We have based our assessment of prospects for the next two years on these plans.

When considering Hafren Dyfrdwy's prospects beyond 2025, it is necessary to make assumptions about the price review process for the period 2025-30 (known as 'PR24'), which will take place in 2024. In making this assessment we have taken account of:

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

We have significant investment programmes, funded through customer bills as well as debt and equity financing from our parent company.

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

Period of Assessment

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

However, the changing nature of regulation of the water industry and the uncertain geopolitical and macroeconomic outlook increase the uncertainty inherent in our financial projections. We have an established planning and forecasting process and the Board consider that the assessment of Hafren Dyfrdwy's prospects is more reliable if based on an established process. Our latest medium-term plan extends in detail to the end of the AMP7 period in 2025, with less detailed projections looking beyond this. A longer period of assessment introduces greater uncertainty because the variability of potential outcomes increases as the period considered extends.

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

Assessment of Viability

In assessing our future prospects, we have considered the potential effects of risks and uncertainties that could have a significant financial impact under severe but plausible scenarios. The risks and uncertainties considered were identified in the Company's Enterprise Risk Management process, which is described on pages 14 to 15, and from the key assumptions in the financial model.

While we have estimated the size of each of the severe but plausible scenarios described below, we have grouped scenarios with similar impact types together and performed stress testing for the scenario with the greatest impact. Where the scenario occurs at a point in time, we have assumed that it occurs at the point in the plan with the lowest headroom.

The risks and scenarios tested are described below.

Risk Assessed	Severe but Plausible Scenario	Stress Test Applied
Due to the nature of our operations, we could endanger the health and safety of our people, contractors and members of the public.	Serious injury, ill health or death of employees, contractors or members of the public as a result of what we do.	An extreme one-off event.
We do not provide a safe and secure supply of drinking water to our customers.	Catastrophic breach of a large raised reservoir (>10,000 cubic metres). Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	An extreme one-off event. Totex underperformance in each year of the forecast. ODI penalty in a single year.
We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment.	An extreme breach in a sludge lagoon at a large sewage treatment works. Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	An extreme one-off event. Totex underperformance in each year of the forecast. ODI penalty in a single year.
We do not meet the needs of our customers or anticipate changing societal expectations with the level of customer service we provide.	Our customer performance is well below their expectations across a range of measures.	ODI penalty in a single year.
Our critical technology capabilities are not maintained due to cyber threats or system failures, impacting the services we deliver through our key infrastructure assets or core systems.	A cyber attack results in a critical loss of personal data leading to regulatory action.	An extreme one-off event.
Changing societal expectations, resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the risk of non-compliance.	A breach of law or regulations results in a significant one-off penalty.	A financial penalty.

We also applied stress tests relating to economic factors: higher and lower inflation (including deflation); and higher interest rates, and a combined scenario taking into consideration Totex underperformance, ODI penalties and a financial penalty.

The amounts of the stress tests applied were:

Stress Test Applied	**Amount Modelled**
A. An extreme one-off event	A one-off impact of £150 million at the point in the forecast with the lowest headroom.
B. Totex underperformance	An increase in Totex of £4 million in each year of the forecast.
C. ODI penalty	A penalty of £0.6 million in a single year.
D. Financial penalty	A penalty of £150,000 in a single year (c 6% of turnover).
E. Combined scenario 1	An increase of Totex of £4 million in each year; An ODI penalty of 1.5% in one year; and A financial penalty of £150,000 in one year.
F. Combined scenario 2	An increase of Totex of £4 million in each year; An ODI penalty of 1.5% in one year; and A financial penalty of £150,000 in one year. High inflation.
G. Higher inflation for three years	10% spike in CPIH followed by two years at 5%.
H. Lower inflation in each year	Decrease of 2% in CPIH.
I. Deflation for two years	CPIH of -1%.
J. Higher interest rates	New debt financed at 2% above the iBoxx index.

We assessed the impacts of the scenarios on our financial metrics and credit metrics. Where the result of the stress test indicated more than a limited impact, a risk of a downgrade of credit rating or a breach of a bank covenant, we considered what mitigating actions would be available and whether they would be sufficient to mitigate the potential impact of the stress test.

The table below sets out the potential impacts of the stress tests and the mitigating actions that would be available to address the impacts.

Stress Test Applied	Potential Impacts on Viability without Mitigating Action	Mitigation Available (See Below)
A. An extreme one-off event	Increased gearing and deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings below investment grade.	Manage liquidity by temporarily reducing working capital. Call on any insurance policies available in the first instance. To manage gearing levels in the future, additional equity investment from the Group would be required. Consider new sources of funding initially from Severn Trent Group, before raising external debt, either directly or indirectly from the Group. Reprofile capital programme to ease short-term pressure on ratings.
B. Totex underperformance	Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in ratings below investment grade.	Manage liquidity by temporarily reducing working capital. To manage gearing levels in the future, additional equity investment from the Group would be required. Consider new sources of funding initially from Severn Trent Group, before raising external debt, either directly or indirectly from the Group. Reprofile capital programme to ease short-term pressure on ratings.
C. ODI penalty	The penalty would flow through revenue two years after the performance commitment was breached. Gearing by end of AMP8 would be at c. 55% Deterioration in credit metrics in one year without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital.
D. Financial penalty	Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital.

	ratings although still at investment grade.	
E. Combined scenario 1	Increased gearing and deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings below investment grade.	Manage liquidity by temporarily reducing working capital. To manage gearing levels in the future, additional equity investment from the Group would be required. Consider new sources of funding initially from Severn Trent Group, before raising external debt, either directly or indirectly from the Group. Reprofile capital programme to ease short-term pressure on ratings.
F. Combined scenario 2	Increased gearing and deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings below investment grade.	Manage liquidity by temporarily reducing working capital. To manage gearing levels in the future, additional equity investment from the Group would be required. Consider new sources of funding initially from Severn Trent Group, before raising external debt, either directly or indirectly from the Group. Reprofile capital programme to ease short-term pressure on ratings.
G. Higher inflation for three years	Increased gearing and deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Engage with ratings agencies to discuss the short-term nature of the impacts. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Manage liquidity by temporarily reducing working capital.
H. Lower inflation in every year	Reduction in profitability Pressure on gearing Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Engage with ratings agencies to discuss the short-term nature of the impacts. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Manage liquidity by temporarily reducing working capital.
I. Deflation for two years	Little or no impact	No action.
J. Higher interest rates	Little or no impact	No action.

The mitigating actions available are described in more detail below:

Mitigating Action	**Details**
Engage with ratings agencies and banks.	While ratings agencies and banks apply formulaic calculations as part of their ratings and covenant assessments, judgment is also applied. Where a threshold for a particular rating is breached, a downgrade might not be applied if the agency considers the situation to be temporary and likely to reverse in the near future.
Manage liquidity by temporarily reducing working capital.	We would seek to accelerate collection of amounts receivable with particular focus on overdue accounts. We would work with our suppliers to negotiate longer credit terms where appropriate.
Cost reduction programme	We would review discretionary expenditure to identify costs that could be avoided or reduced without a detrimental impact to customer service.
Reprofile capital programme	By deferring elements of capital expenditure, we could mitigate the impact of significant events on our cash flow and smooth the effect on key ratios over a number of years, reducing the size of the impact in any one year.
Obtain short term funding facility from Group to facilitate new long term debt strategy	The Group has access to a wide range of capital markets and maintains a diverse range of funding sources with an ability to provide short-term financing to the Company while it seeks to acquire its own external debt.

In selecting which mitigating actions to apply, we would seek to balance the interests of all stakeholders and, in particular, would prioritise mitigating actions that would not lead to a breach of our commitments to customers.

Under all scenarios considered, the Company would remain solvent and have access to sufficient funds in normal market conditions. On this basis, the stress tests indicated that none of these scenarios, including the combined scenario, would result in an impact to the Company’s expected liquidity, solvency or debt covenants that could not be addressed by mitigating actions and are therefore not considered threats to the Company’s viability.

Governance and Assurance

The Board reviews and approves the medium-term plan on which this Viability Statement is based. The Board also considers the period over which it should make its assessment of prospects and the Viability Statement. The Audit and Risk Committee supports the Board in performing this review. Details of the Audit and Risk Committee’s activity in relation to the Viability Statement are set out in the Audit and Risk Committee Report.

This statement is subject to review by Deloitte, our External Auditor. Deloitte’s Audit Report is set out from page 94.

Assessment of Viability

The Board has assessed the viability of the Company over a seven-year period to March 2030, 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 2030.

Going Concern Statement

In preparing the financial statements, the Directors considered the Company's ability to meet its debts as they fall due for a period of one year from the date of this report, taking into account the forecast future cash flows, the future commitments for the Company, the net current asset position of £16.1 million at 31 March 2023 and the financing facilities available to the Company.

As at 31 March 2023, the Company has drawn down £29.9 million of the £30 million revolving credit facility ('RCF') from its ultimate parent company, Severn Trent Plc. This facility matures 8 March 2026. We are exploring options to introduce external finance in the coming year.

In making this assessment, the Directors have considered the minimum headroom available, and assessed both the forecast future cashflows and reasonable downside scenarios. This was carried out in conjunction with the consideration of the Viability Statement above.

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

Spotlight on Sustainability

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

We are a company guided by a clear public service and we strive to think beyond just the basic services we provide, to how we can have a positive impact on the broader landscape. We understand the need to strike the balance between affordability now and the sustainability over the longer term – balancing the needs of people, planet and profit so that we are able to have a positive impact for decades to come.

The Welsh Government has long made its intentions clear, declaring a climate emergency in 2019 and a nature emergency in 2021 and stating its ambition to set an example that others will follow. More recently, the pandemic has prompted a shift from 'build back better' to 'build back greener', and this year we continued to align our approach to the needs of our local communities and to the Welsh National agenda, to allow for deeper and stronger connections to the customers we serve and create the opportunity for an even bigger positive impact.

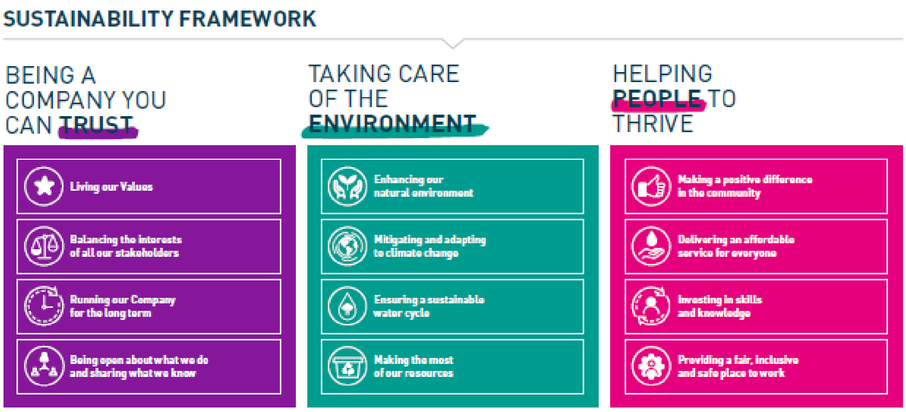
In 2020, we formally launched our Group Sustainability Framework (below) supported by an initial £1.2 billion investment by the Group over AMP7.

Our social purpose has been developed in full consideration of the Well-being of Future Generations Act and is aligned to its ambitions to improve Wales' social, cultural, environmental, and economic wellbeing. As a company we rely on people, communities, and the environment to deliver our Purpose – taking care of one of life's essentials.

When we developed our 2020-25 business plan, we took a long-term view that was inextricably entwined with sustainability, delivering for customers today whilst putting the building blocks in place to continue to improve our services and protect them for future generations. The three most important aspects of our plan map to our Group Sustainability Framework:

- Improving our core water, waste water and retail services even further;
- Adapting to our changing climate; and
- Doing more to improve the environment.

Additionally, 15 of our ODI performance commitments (out of 31) are mapped to our Group Sustainability Framework.



Engagement with our Stakeholders

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

This section provides insight into how the Board engages with our stakeholders to understand what matters to them and further inform the Board's decision making and the actions taken as a consequence. You can read more in our formal Section 172 ('s.172') Statement on pages 46 to 47, which sets out our approach to s.172 and provides examples of decisions taken by the Board, including how stakeholder views and inputs have been considered in its decision making.

The principles underpinning s.172 are not only considered at Board level, but they are also part of our culture. They are embedded in all that we do and impacts on stakeholders are considered in the business decisions we make across the Company, at all levels, strengthened by our Board setting the right tone from the top. Pursuant to the Companies Act, this information is incorporated by cross reference in the Governance Report from page 52. Our Engagement in Action section showcases some of the exciting opportunities we have had throughout the year to engage with our key stakeholders. We welcome any feedback from our stakeholders.

Engagement in Action: Customers

In serving our customers, we want to provide both value and a great experience. Our engagement with them ensures that we are truly able to understand what matters to them and deliver improvements in service.	
What matters to them	Customer service and performance. Leakage and supply reliability. Affordability and value for money. Assistance in times of need. Responsible investment.
How we engage at Board Level	Customer Operations performance is discussed at every Board meeting. Customer perceptions of value for money is reported to the Board. Our Board-approved extensive customer engagement shapes our strategy and business plan.
How we engage across the Company	Regular meetings with Consumer Council for Water ('CCW') Wales and the Welsh Government at management level to discuss issues such as water sector security and resilience, customer experience and affordability. Frequent discussion and consultation with our online customer community. Quarterly tracking of customer perceptions against key indicators including trust and satisfaction. Ensure customers can contact us 24/7.

Using Water Wisely and Staying Hydrated

During the hot and dry weather experienced during 2022, we encouraged our customers to use water wisely and shared tips on how to stay cool as the temperatures soared.

Our social media accounts provided simple steps to use water more efficiently at home, whilst also having a positive effect of saving money on bills too.

The top hot weather tips included:

- Keep hydrated;
- Have a shower rather than a bath to save water;
- Use a bucket and sponge rather than a hose to clean your car;
- Look for leaking loos and get them fixed;
- Turn off taps when not in use;
- When emptying the paddling pool, use the water to water your plants; and

- Water plants in the evening with a watering can as it is more effective due to less water evaporating.

By using water wisely, our customers helped us to avoid the need to introduce a Temporary Usage Ban ('TUB', also known as a hosepipe ban).

We also directed customers to our website or our social media channels, where they could find more information on how to save water and other ways to reduce their bills.

Affordability Campaign

Our latest affordability campaign involved outreach to local schools and increased use of social media to share details of our schemes and how we can support our customers through the cost of living crisis.

Over 110 schools were contacted to share leaflets or messaging about the ways we can help and it is anticipated that this alone has helped us reach over 10,000 families.

A direct mailing to over 12,500 households, who are known to be in receipt of benefits, drove engagement even further. Our own social media activity was complemented by the independent media activity, coverage by two big, local outlets, with a combined estimated readership reach of over 80,000.

We have seen a 23% increase in the number of customers supported year on year.

Dysgu Cymraeg

We are proud of our Welsh heritage and support colleagues who wish to learn or improve their Welsh language skills so they can better engage with our Welsh speaking customers. Customers can opt for Welsh-only communications, and we will be shortly launching a campaign to capture language preferences, to ensure we are contacting customers in ways most suitable for them.

Colleagues have access to a range of Welsh Language courses, all free of charge, and the Executive Committee members have set the tone from the top by enrolling in the introductory course.

HomeServe

During the year, we agreed to introduce HomeServe's Plumbing and Drainage Policy to our customers, to provide an informed choice and peace of mind should anything happen to the plumbing and drainage that they are responsible for. Customers who take out policies benefit from emergency cover, which could avoid expensive repair bills. Since the launch in April 2023, over 40 customers have taken out policies.

Engagement in Action: Communities

<table>
<tr><td colspan="2">In line with the Well-being of Future Generations Act, we want to work together to improve our environment and encourage healthier and more cohesive communities. Our aim is to be a force for good in the communities we serve and, in doing so, create value for all our stakeholders.</td></tr>
<tr><td>What matters to them</td><td>Operational impact and potential disruption.
Local employment.
Economic contribution.
Protection of the environment.</td></tr>
<tr><td>How we engage at Board Level</td><td>Employees who live and work in our communities met members of the Board during the year.
The Board supported the continuation of the Hafren Dyfrdwy Community Fund during the year, which continues to receive extensive interest and resulted in over £45,000 from the 2022/23 allocation being donated to eight local projects.
The Board, in conjunction with the Board of Dŵr Cymru Welsh Water, has developed a shared Vision for 2050, as a first step to enhancing our collaborative approach to water and waste water services in Wales.
Environmental and sustainability matters are regularly considered by the Board.</td></tr>
<tr><td>How we engage across the Company</td><td>Regular meetings with Natural Resources Wales ('NRW) and other key stakeholders to discuss environmental regulation matters.
Regular attendance at the Wales Land Management Forum, Agri-Pollution sub forum with NRW and other key water sector organisations to discuss Agri-pollution regulations.
Regular engagement with Government officials and elected representatives on water and environment related issues.
Our people volunteer through our Community Champions programme, working to improve our communities and environment.
Engagement with the UK Water Industry Group to discuss water poverty.</td></tr>
</table>

Sponsoring the Montgomery Eisteddfod

Hafren Dyfrdwy was the proud sponsor of Montgomery Young Farmers' Club's ('YFC') Eisteddfod during the year. This bilingual event is one of the YFC's largest showcase cultural events, which is always packed full of traditional, and not so traditional, entertainment and fun stage performances. The creative flair of YFC members is demonstrated in the Arts, Cookery and Craft section and the Literature and Prose display is of a very high standard. Winners from the various competitions have the opportunity of going forward to represent Montgomery at a Wales and National level.

Sport in Support of Alder Hey Children's Hospital

A charity football match in Wrexham saw colleagues from Hafren Dyfrdwy take on semi-professional Penycae Football Club, all in aid of Alder Hey Children's Hospital Charity and the family of local girl who is under the hospital's expert care.

The charity football match was organised to raise funds for both the family and in support of the amazing work done at Alder Hey Children's Hospital. Hafren Dyfrdwy colleagues were delighted to work with the volunteers at Penycae Football Club to deliver an incredible event that raised vital funds to make an unbelievable difference to the hospital. Donations were taken on the gates and there was also a raffle, live band, a bar with food and an auction which all helped to raise around £4,000 for this fantastic cause.

Hafren Dyfrdwy Community Fund

Following the success of the Hafren Dyfrdwy Community Fund in 2021/22, which awarded over £50,000 to seven projects, a second year of the Community Fund was launched for 2022/23.

Applicants from across the region can apply for between £2,000 - £10,000 for new projects that are unique, have a genuine community need, and stand out as having a real impact on improving community wellbeing. The Fund is overseen by a panel made up of our colleagues, who review the strongest applications from each funding round and have the final decision on where the money goes.

From the 2022/23 Community Fund allocation, over £45,000 had been awarded to eight projects in the region.

One project to receive funding was Llanfyllin Shed, a community-based group that was originally set up as a way for local men to meet up on a regular basis and give them the opportunity to share and learn new skills, whilst at the same time build friendships, support each other and have some fun. Since being awarded the £5,000 grant, Llanfyllin Shed has built and furnished its kitchen and activity area and has bought numerous woodworking machines and tools, so now have a well-equipped workshop. The Men Shed opening hours have been extended and there is now a Knit and Knatter group, as well as a new She Shed group.

Shed membership has increased and members have been working with Montgomeryshire Wildlife Trust and the RSPB, to make hedgehog and owl boxes – a lovely example of how the Community Fund can be used to improve our environment and encourage healthier and more cohesive communities.

Engagement in Action: Employees

Our greatest asset is our experienced, diverse and dedicated workforce. Our relationship with them is open and honest, and they are appropriately supported, developed and rewarded to be their best in all that they do.	
What matters to them	Health, safety, and wellbeing. Diverse and inclusive workplace. Opportunities to reach full potential. Open and honest environment. Fair pay and reward.
How we engage at Board Level	Individual Board members attend the Company Forum and feedback on discussions at subsequent Board meetings. 'Ask Our Board' events provide a platform for colleagues to ask questions to the Board in a live and unscripted environment. The Board undertakes site visits to meet colleagues in person and discuss their experiences first-hand. Employee culture and engagement are discussed at Board meetings. Diversity and inclusion are regularly considered by the Board. Company Purpose and culture discussed at Board meetings. The Board considers QUEST survey results and the steps taken to address feedback.
How we engage across the Company	Employee engagement survey ranked us in the top 5% of global utility companies this year. In addition to Board attendance, our Company Forum brings together employee representatives at quarterly meetings, including Trade Union representatives.

<u>Company Forum</u>

Providing opportunities for our employees to be involved in business decisions is a key part of our culture and the Board's selected workforce engagement mechanism, our Company Forum, helps to facilitate this. The Company Forum meets at least four times a year and attendees are invited from Trade Unions, all leadership levels, the Executive Committee and Board. Through this Forum we engage with employees on all ways of working. The agenda is wide ranging, and attendees consistently feedback on the value that they get from Board attendance, and the national officers highlight how different this is to the experience that they have in other organisations.

<u>Dydd Gŵyl Dewi Hapus!</u>

Board members celebrated St David's Day on 1 March by delivering traditional Welsh foods, including Welsh cakes and Bara Brith, to colleagues at our Packsaddle site.

Ask Our Board

During the year we hosted an 'Ask Our Board' event and employees were invited to pose questions to the Board in a live Q&A environment, without scripted briefings, in order that the Board could listen to the views of the workforce first-hand.

QUEST

Our annual employee engagement survey, QUEST, helps us to understand what is going well and where we can improve. QUEST is conducted by an independent research company to ensure the results are anonymous. The Board believes that our strong Values and culture are a unique strength and there are resulting benefits in employee engagement, retention and productivity, which is why questions around our Purpose, Values and culture feature heavily within QUEST. It is clear from the results that our Purpose and Values strongly resonate with our employees, as demonstrated by the overall employee engagement score of 8.8 out of 10 – placing us in the top quartile of all businesses and in the top 5% of energy and utility companies globally.

All Colleague Roadshows

Across October and November 2022, we held the first ever All Colleague Roadshows across our Packsaddle and Newtown sites. Hosted by members of our Executive Committee, topics covered included performance, financials, HR, customer and environment, as well as an open Q&A session with each of the groups. All events were well attended, with feedback questionnaires providing positive feedback and constructive builds for future sessions.

Engagement in Action: Suppliers and Contractors

Along with our employees, our suppliers support us in delivering for our customers. Strong supplier relationships ensure sustainable, high-quality delivery for the benefit of all stakeholders. Our geographic area contains many small suppliers, and we recognise that fostering relationships with them is vital to the communities we serve.	
What matters to them	Fair engagement and payment terms. Collaboration. Responsible supply chain. Stability of work.
How we engage at Board Level	Commercial performance discussed at Board meetings, including updates on relationships with suppliers where appropriate. The Board regularly monitors progress on sustainability in our supply chain. The Board has oversight of our Supplier Code of Conduct and endorsed the Group's Anti-Slavery and Human Trafficking Statement.
How we engage across the Company	Meetings with suppliers at the outset of the relationship to agree on performance metrics and ensure continual monitoring of performance; supplier questionnaires and satisfaction surveys/ stakeholder materiality surveys. Regular meetings with our suppliers, including training on Modern Slavery, and our Code of Conduct Doing the Right Thing. Audits and inspections of suppliers. Periodic performance and commercial reviews. Regular supplier conferences. Supplier whistleblowing 'Speak Up' hotline.

We recognise that supplier engagement is integral to our success. Benefits from our strong supplier engagement include ensuring a resilient supply chain; being able to share knowledge and expertise to find the right solutions for our customers; ensuring continuous sustainable development; and developing responsible business strategies. Our enduring relationships with our suppliers in turn helps us to reduce the risks we face as a business all for the benefit of our wider stakeholders, including our customers and communities.

We have a commercial strategy to buy local and buy Welsh wherever possible, and to ensure a tailored service for Hafren Dyfrdwy. To support this, during the year, we have improved our engagement with and helped the development of the local Welsh supplier base. This has led to contracts with 25 local suppliers, across various categories, which has not only delivered savings but also created at least 25 additional local jobs in the supply chain.

Procurement activity undertaken the year included our Sludge Disposal tender, which resulted in a contract with a Welsh business, meaning that all of the Company's sludge is now treated locally in Wales.

We also developed our Depot Hub in Powys during the year, which, although involved the insourcing of Water Networks repair and maintenance activity, required the creation of a local supplier network to support our operations. 12 local suppliers were on-boarded to provide a range of products and services, enabling a quick, agile response for customers.

There have been challenges in sourcing Welsh or local suppliers to meet our specific needs and whilst there has been promising progress in this area, we know there is still more to do. We appointed a dedicated Category Manager during the year, who continues to ensure all contracted services are tailored to meet Hafren Dyfrdwy's needs.

For dedicated Hafren Dyfrdwy tender opportunities, we now use Sell2Wales as an additional tender platform, and where appropriate, we also use Business Wales to promote our requirements in Wales.

Engagement in Action: Regulators and Government

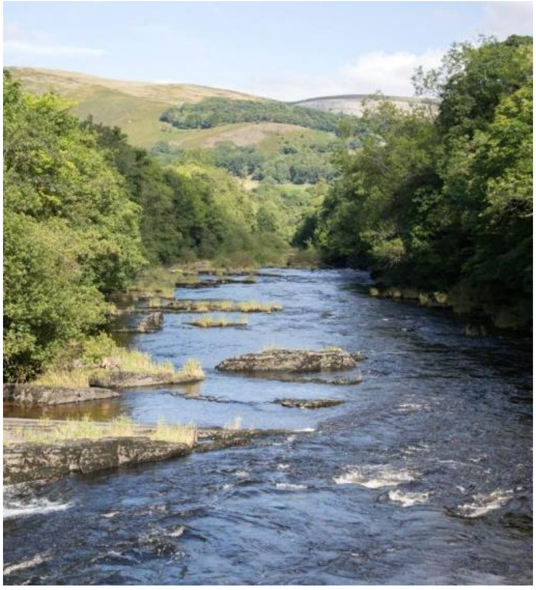
The policy framework for the water sector in Wales is set by the Welsh Government. We seek to engage constructively and proportionally to achieve the best outcomes for customers and the environment. Below the policy framework, our industry is regulated by Ofwat and others. We agree commitments with our regulators and continually report our performance against these. We work closely with our regulators to shape our industry to help ensure the right outcomes for customers and the environment. Our relationships with the Government, our regulators, and other agencies support us in ensuring that we meet the highest customer service and environmental standards, while offering our customers the lowest prices. We continue to maintain a positive relationship with our economic regulator, Ofwat, grounded in our sector-leading performance for customers and all of our stakeholders.	
What matters to them	Outcomes for customers, the environment and long-term resilience. Performance against regulatory targets. Trust and transparency. Governance and compliance. Reduced environmental impact.
How we engage at Board Level	To deepen Board level understanding of our regulators, our Chair and Board formally met with representatives from Ofwat during the year. Regulatory matters are regularly considered by the Board, including the Drainage and Wastewater Management Plan, Water Resources Management Plan, National Environment Programme and scheme of wholesale charges. Regulatory stakeholders attend Board meetings and events, including from the Drinking Water Inspectorate ('DWI'), Consumer Council for Water ('CCW') and Welsh Government during the year. Regulatory consultation updates are considered by the Board. Annual attendance at the Wales Water Forum with representatives from the Welsh Government as well stakeholders from CCW, NRW and the Drinking Water Inspectorate. Members of the Board attended the Wales Better River Quality Taskforce meetings with members of NRW, Welsh Government, Dŵr Cymru Welsh Water and Ofwat. Members of the Board attended the CBI Wales Dinner.
How we engage across the Company	Regular meetings with our regulators at management level including, Welsh Government, NRW, DWI, CCW and Ofwat. Regular engagement with Government officials and elected representatives on water and environment related issues.

<u>Ofwat Visit to Powys</u>

In February 2023, the Managing Director hosted key personnel from Ofwat – Gwen Roberts (Director for Wales), David Jones (Non-Executive Director) and Iain Coucher (Chair). After meeting at our new Depot Hub in Powys, the group embarked upon site visits of Newtown Waste Water Treatment Works and Llandinam Water Treatment Works. It proved to be the perfect opportunity to demonstrate the engagement and commitment of our colleagues to be a local company that serves local communities.

The visit also provided useful context for a subsequent meeting between our Chair and Managing Director with the Chair of Ofwat and its CEO, David Black, which was part of the series of sessions being held by Ofwat with each water and waste water company, as part of preparations for PR24 business planning.

<ins>'Get River Positive' River Pledges</ins>



The Wales Better River Quality Taskforce brings regulators, government and water companies together to improve river water quality.

In July 2022, we announced our commitment to the Wales Better River Quality Taskforce by launching five pledges to improve river water quality by 2030.

We recognise the vital role that our region's rivers play, and that there is much more that we can do to make them the healthiest they can be.

Central to the pledges is a commitment that work carried out by the Company will ensure storm overflows and sewage treatment works do not harm rivers.

The five river pledges are set out below.

1. Ensure storm overflows and sewage treatment works do not harm rivers • Using better data, we will find and fix problems quicker than ever before. • Working in partnership with the Taskforce to deliver the storm overflow Roadmap. • Based on the measure of Reasons for Not Achieving Good Status ('RNAGS'), our operations will not be the reason for unhealthy rivers by 2030.
2. Create more opportunities for everyone to enjoy the region's rivers • Working with local clubs to increase opportunities for water-based activities at our reservoir sites. • Raising awareness of how and where to enjoy the water within the region safely.
3. Support others to improve and care for rivers • Championing the banning of wet wipes that contain plastic and all wet wipes that are not 'Fine to Flush'. • Making sure that our Community Fund continues to offer support to community groups and charities that are improving our region's rivers. • Using our convening powers to help others address their contribution to river health and wider natural environment.

4. Enhance rivers and create new habitats so wildlife can thrive • Protecting, improving and creating new habitats for native wildlife to thrive – such as curlew, black grouse and the Welsh clearwing moth. • Accelerating our peatland restoration programme – to deliver significant carbon benefits, improve the health of rivers and reservoirs and improve raw water quality for less intensive treatment processes. • Working with community groups and organisations such as Montgomeryshire Wildlife Trust to care for rivers and further address issues across our region. • Cleaning and restoring rivers and riverbanks across our region, utilising our Community Champion volunteers in partnership with Glandŵr Cymru. • Recognising the valuable role that woodland can play in safeguarding the natural environment, including improving water quality, managing our estate to deliver structurally diverse, highly productive, forests for biodiversity and natural amenity.
5. Be open and transparent about performance and plans • Ensuring that our performance information is easily accessible and transparent on our website.

Get River Positive is more than just words. Over the last year we have been working to deliver our five industry leading pledges to make our region's rivers the healthiest they can be. We have promised that our operations will not be the reason for any stretch of river in the whole Hafren Dyfrdwy region to be classified as unhealthy by 2030. We are pleased to be able to report that we have 100% discharge permit compliance for our waste water treatment works and have only two waste pollution incidents; our quick and effective response minimising the impact to the environment. We currently account for 7.5% of the harm to rivers in our region, the investment we are making over the next two years will bring this down to 3.5% and to 0% by 2030.

Our commitment to use our existing Community Fund to support community groups and charities that are as passionate as us about improving our region's rivers. Since the Community Fund's launch in September 2020, we have invested over £60,000 in local environmental projects. We are committed to doing all we can to take leadership on many of the issues our region's rivers face and to partner with others. For example, during the summer of 2022 our River Rangers Team, alongside our waste water operational colleagues spent several days in Newtown and Welshpool talking to our customers and businesses about what should not be flushed down the toilets or poured down the sink. Educating on sewer misuse is key to protecting homes from flooding cause by sewer blockages, as well as protecting the local river environment.

We work best when we work together. That is why we have joined forces with Dŵr Cymru Welsh Water, Welsh Government, Natural Resources Wales and Ofwat to form the Better River Quality Taskforce (alongside Afonydd Cymru and Consumer Council for Water provide independent advice to the taskforce, offering insight and challenge from a stakeholder and customer perspective). Together we are looking at how we all manage the water environment in Wales and working to deliver detailed plans to drive rapid change and improvement.

Our People

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

Our teams are passionate about the positive role they can play in helping customers and communities thrive and they care that we create an environment where everyone can feel comfortable to bring their whole self to work.

This section is dedicated to showcasing our people and our culture. You can read more about how we have listened to and engaged with our colleagues on pages 35 to 36.

Keeping our People Safe and Well

We believe passionately that no one should be hurt or made unwell by what we do. We experienced zero Lost Time Incidents ('LTIs') during the year, however, we are never complacent. Our dedicated Hafren Dyfrdwy Health and Safety Forum, comprising representatives from across the business, meets regularly to create and monitor progress of the Hafren Dyfrdwy Health and Safety Plan, to understand common practices across business areas and to share best practice.

Wonderfully You: Providing a diverse and inclusive place to work

Our diversity and inclusion ('D&I') strategy is included within our Group Sustainability Framework under the 'Providing a Safe, Inclusive and Fair Place to Work' pillar. In September 2021, we launched 'Wonderfully You' across the Group, our new D&I ambition, and this training has been delivered at Packsaddle for Hafren Dyfrdwy colleagues.

Our diversity ambition is to reflect the communities we serve. Success means we can feel comfortable that we are tapping into every available talent pool in our community, and that we can best serve our customers because we understand all their needs. Our plans to achieve that include widening our outreach programmes so that we attract more applications from under-represented groups, breaking down some of the historical stereotypes that might prevent people from considering certain career paths, and making sure that we have a level playing field at the selection stage.

We encourage company-wide conversations on D&I and have lots of training courses available via the Severn Trent Academy to help support managers who may want or need extra support on this topic. We have also held sessions with operational managers in Hafren Dyfrdwy dedicated to D&I, to encourage them to think differently and explore this further within their teams.

On inclusion, our ambition is to maintain and develop a fair working environment where everyone can succeed. We measure our progress through our engagement survey, QUEST, and monitor the parity or disparity between different ethnicities and genders. Reverse mentoring and our employee advisory groups have also helped to give our employees a voice across the organisation so that we can educate each other about our differences and have a say in our company policies and procedures.

In recent years we have focused on championing the voices of colleagues from diverse backgrounds. The Group has four active employee advisory groups for LGBTQ+, Ethnicity, Disability and Women in Science, Technology, Engineering and Mathematics ('STEM') and Operations. They work alongside external advisers to help shape our policies and interventions. They have been fundamental to our progress so far and, going forward, we see them playing an even more active role. Each working group has a voluntary Chair and an Executive sponsor to give them greater support, and we have strong representation for Hafren Dyfrdwy with James Jesic sponsoring the Ethnicity group. We are excited to explore more opportunities to connect Hafren Dyfrdwy into these networks.

Progress on Diversity

The Board continues to drive the agenda of diversity across the Company in setting the right tone from the top and is supportive of the Company's ambitions in this area. A breakdown by gender of the number of persons who were Directors of the Company, senior managers, as defined in the UK Corporate Governance Code 2018 (the '2018 Code') and Companies Act 2006, and other employees as at 31 March 2023 is set out below, along with details of ethnicity representation within these same groups.

Gender Representation as at 31 March 2023

	Directors		**Senior Leaders***		**Graduates and Apprentices**		**All Employees**	
	No.	%	No.	%	No.	%	No.	%
Male	3	43	-	-	5	100	154	77
Female	4	57	-	-	-	-	45	23
Not Specified/ Prefer Not to Say	-	-	-	-	-	-	-	-

Ethnicity Representation as at 31 March 2023

	Directors		**Senior Leaders***		**Graduates and Apprentices**		**All Employees**	
	No.	%	No.	%	No.	%	No.	%
White British or White (inc. Minority-White Groups)	6	86	-	-	4	80	175	88
Mixed/Multiple Ethnic Groups	-	-	-	-	-	-	-	-
Asian/Asian British	-	-	-	-	-	-	-	-
Black/African/ Caribbean/ Black British	-	-	-	-	-	-	1	0.5
Other Ethnic Group	1	14	-	-	1	20	1	0.5
Not Specified/ Prefer Not to Say	-	-	-	-	-	-	22	11

* During 2022/23, there were no employees within Hafren Dyfrdwy that met the definition of 'Senior Manager' under the 2018 Code and Companies Act 2006, therefore we cannot report ethnicity and gender data in this regard.

Attracting, Developing and Retaining Talent

An inclusive environment is the foundation of a truly diverse organisation, with all of the rewards that brings. Whilst the recruitment market has been buoyant after COVID-19 and Brexit, our in-house recruitment model has proven beneficial, enabling us to continue to attract and retain quality talent. Our team of in-house recruiters are able to work directly with candidates, demonstrating our Purpose and culture first-hand and attracting individuals who embody our Values. Our successful in-house model has also enabled us to ensure our diversity and inclusion ambitions remain a priority.

Long term, one of our greatest opportunities to improve diversity is through our New Talent Programmes. We have committed to our largest ever intake of apprentices for 2023 having created five apprenticeship opportunities in line with our ambition to reflect the communities we serve. We will be supporting a number of school events each year, enabling us to partner up with schools in Wrexham and achieve School Valued Partner status.

During the year, the Group supported 61 undergraduates through the #10000BlackInterns Programme. We were delighted that 44% of interns gained employment following their placements with the Group, including the intern placed within the Company, who went on to be offered a permanent role in Hafren Dyfrdwy's Capital Team. Read more about Emmanuel's experience as an intern below.

We continue to recognise the importance of developing our people and, as such, talent management remains a key areas of focus. The Group's five-year talent plan focuses on building both technical and leadership capability and creating talent pipelines for the future.

The Group's Academy opened in February 2021, supporting our ambition to be socially-purposeful in all that we do, giving back to the communities we live and work in, and providing opportunities for people to learn, retrain and develop with us in our industry.

During the past year, over 22,700 learners have passed through its doors and we have hosted 765 learning events generating over 56,000 learning hours at our Academy. We have delivered over 71,000 hours against the Group's 100,000 free employability training hours target by face-to-face and virtual delivery and self-serve online platforms.

We recognise that everyone learns in different ways and that is why the Academy goes beyond classroom learning, using a combination of the latest technology, including virtual reality, simulation and online learning.

As part of our Academy offering, we also facilitate mentoring and coaching, helping employees develop or giving them the chance to help develop others. The Group remains fully accredited as an employer apprenticeship provider, meaning we can deliver our own in-house apprenticeship pathways for waste and water treatment and water networks.

Emmanuel
Intern: Customer Operations – Water Treatment

"

My internship was a wonderful experience! I was involved with a lot of projects, which included site inspections of reservoirs and sewage treatment works, and I was also involved in the ongoing installation of valves along the discharge main in Broughton.

It was a really insightful period, spending time in promoting the quality of water supplied to customers, directly impacting on the life of people around me.

Overall, it has been a wonderful experience and I want to convey a big thank you to all who has contributed directly or indirectly to my experience.

"

Listening to our People

Providing opportunities for our employees to stay connected to the direction of the Company and be involved in business decisions is a key part of our culture and we are always looking for new and different ways for the Board to engage with employees from across the business. You can read about how we have engaged with our employees throughout the year on pages 35 to 36.

Fairly Rewarding our People

In June 2023, following discussion with the Trade Unions, we agreed a 7.5% annual pay increase for our frontline teams, starting from July 2023. As part of this two-year deal we also agreed an increase for 2024 of either November 2023 CPIH inflation or 5%, whichever is higher.

Remuneration: Find out more

The Company Remuneration section, within the Severn Trent Plc Annual Report and Accounts 2022/23 Directors' Remuneration Report, sets out the steps we take to make sure that our pay and reward framework, below Executive and senior management, is transparent in a way that is meaningful and useful.

Freedom of Association and Collective Bargaining

We recognise the right of all employees to Freedom of Association and Collective Bargaining. We seek to promote co-operation between employees, our management teams and recognised Trade Unions.

We meet with our Trade Unions on a regular basis and see mutual benefit in sharing information with our colleagues and seek their feedback and suggestions. We believe this fosters a common understanding of business needs and helps to deliver joint solutions aimed at making our business successful.

Human Rights and Modern Slavery

We are committed to protecting the human rights of our employees and contractors as we have clearly set out in our Code of Conduct, Doing the Right Thing. We have a responsibility to understand our potential impact on human rights and to mitigate potentially negative impacts. Whilst not having a specific human rights policy, we have Group policies on Human Resources, Anti-Bribery and Anti-Fraud, Whistleblowing ('Speak Up') and Procurement, and a separate Group Anti-Slavery and Human Trafficking Statement.

We will always treat people in our business and supply chain fairly and have a clear zero-tolerance approach to modern slavery. To date we have had no instances of modern slavery raised, but we are not at all complacent and are fully committed to protect against modern slavery in our business and supply chain. We know modern slavery is a growing global issue and know our customers and stakeholders share our concern. Our highest risk is through our supply chain.

We work with our suppliers to ensure they operate to the same standards we set ourselves and ensure they understand the risks involved in their own supply chains. All suppliers are required to sign up and operate in line with our Code of Conduct, which clearly states zero tolerance, and this is built into our procurement tender process.

Section 172 Statement

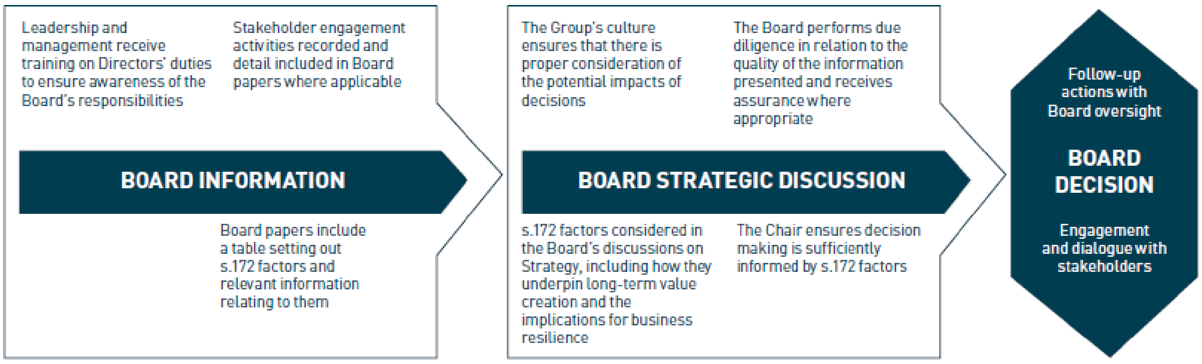
Stakeholder engagement is central to the formulation and execution of our strategy and is critical in achieving long-term sustainable success. The needs of our different stakeholders as well as the consequences of any decision in the long term, are well considered by the Board.

It is not always possible to provide positive outcomes for all stakeholders and the Board sometimes has to make decisions based on balancing the competing priorities of stakeholders.

Our stakeholder engagement processes enable our Board to understand what matters to stakeholders and consider carefully all the relevant factors and to select the course of action that best leads to high standards of business conduct and success of the Company in the long term.

The principles underpinning s.172 are not only considered at Board level, but they are also part of our culture. They are embedded in all that we do as a company.

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



In performing their duties during 2022/23, the Directors have had regard to the matters set out in Section 172 of the Companies Act 2006.

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

- Likely consequences of decisions in the long term
- Interests of the Company's workforce
- Need to foster relationships with suppliers, customers and others
- Impact of operations on the community and environment
- High standards of business conduct
- Need to act fairly between members of the Company

Key Topic	**Long-term Planning**	**s.172 Consideration**	♦♦♦♦♦♦

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

The Board spent a significant amount of time considering key long-term programmes that are inextricably linked to our environment, such as our Drainage and Wastewater Management Plan (‘DWMP’), draft Water Resources Management Plan (‘WRMP’) and the National Environment Programme (‘NEP’), and out PR24 submission, including our Long-Term Delivery Strategy. Through these interrelated plans, the Board has ensured that we have appropriate, and aligned, plans in place to consider the impacts of population growth, drought, environmental obligations and climate change uncertainty so that we can continue to deliver our essential services for customers now and in the future whilst also transitioning to a net zero world.

Community / Environment: These long-term planning tools – the DWMP, draft WRMP and NEP – have helped us identify and mitigate the effects of challenges such as population growth, drought, environmental obligations and climate change uncertainty.

Customers: Ensuring that we can continue to provide water and remove waste water is central to our business model. In deliberating the actions that the Company may need to take in the future, the Board had to consider the impact of customer bills, to ensure they remained affordable. The Board continues to shape the business plan for the next AMP, due to be submitted to Ofwat in October 2023, and PR24 continues to be tabled as a standing agenda item at all Board meetings.

Employees / Suppliers: The Board considered the Company’s workforce and supplier partners in terms of delivering the programmes agreed under the DWMP, WRMP and NEP. Where possible, the Company should continue its work with partners to pool resources and maximise benefits for stakeholders.

Regulators: The Board recognises the importance of working with its regulators in development of its plans, in order to deliver benefits for multiple stakeholders whilst also enhancing the quality of the natural environment.

Outcomes and impact on the long-term sustainable success of the Company

The Board reviewed where the business is today in order to outline its ambitions for the future, in consideration of the changing environment within which Hafren Dyfrdwy operates. The Board agreed that it was vital that the Company delivered consistently outstanding operational performance in a manner that has a positive sustainable impact for all stakeholders. The Board determined that this was best achieved through balancing the long-term interests of all stakeholders.

Key Topic	**Tankering and Jetting Contract Award**	**s.172 Consideration**	♦♦♦♦♦

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

A number of approvals for contract awards were sought from the Board during the year following completion of the associated tenders, including one for planned and reactive tankering and jetting requirements across our waste water sites.

Suppliers: The Board considered supplier partners in support of the Company’s commercial strategy to buy local and buy Welsh, whilst balancing the need to ensure excellent service is delivered by a resilient supply chain. Notwithstanding that the successful supplier was not a Welsh company, the service would be based at a Hafren Dyfrdwy site, ensuring positive working partnerships between both companies.

Communities: The Board was pleased to observe that a number of job opportunities would be created in the region as a direct result of the successful supplier being awarded the contract. Local sub-contractors would also be used where required.

Customers: With the service based in the locality, the Board noted that successful supplier would be able to provide faster response times, thereby delivering enhanced customer satisfaction.

Colleagues: The relevant operational teams were involved in the tender process throughout and supported the recommended outcome, which provided the Board with assurance that the supplier had the requisite ability to deliver an outstanding service.

Outcomes and impact on the long-term sustainable success of the Company

The Board's approval of the recommendation to award the contract to the successful supplier will result in an enhanced service delivered from a local operations base, with the additional benefit of providing jobs in the region.

Key Topic	**Biodiversity Duty**	**s.172 Consideration**	♦♦♦♦

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

Hafren Dyfrdwy complies with Section 6 of the Environment (Wales) Act 2016, which emphasises the importance of considering biodiversity and ecosystems within our early thinking and business planning, including any policies plans, programmes and projects, as well as our day-to-day activities.

Communities / Environment: Maintaining and enhancing biodiversity will have a wider impact on our local environment and communities, which many of our colleagues call home.

Customers: The Board is mindful that customers want us to protect and improve the environment where they live and therefore is supportive of the enhancement work we undertake as a Company.

Colleagues: The Board encourages colleagues to volunteer as Community Champions and engage in environmental improvement projects within the Company's region. The Board considered the feedback from the workforce in respect of Community Champion participation, noting that this supported high engagement levels in the Company's QUEST survey results.

Regulators: The consideration of biodiversity and ecosystems, and the associated compliance report that is submitted annually to Welsh Government, is a legal requirement.

Outcomes and impact on the long-term sustainable success of the Company

The Board supports the aims of Welsh Government under its Well-being of Future Generations Act and is fully committed in the Company playing its part in the vision to create a better future for Wales, demonstrating environmental leadership and embracing the sustainable management of the natural resources approach. We are proud of being a custodian of the natural environment, and the achievements made by the Company in relation to biodiversity and ecosystems clearly represents this.

Non-Financial and Sustainability Information Statement

This section of the Strategic Report constitutes the Non-Financial and Sustainability Information Statement of Hafren Dyfrdwy Cyfyngedig, produced to comply with sections 414SA and 414CB of the Companies Act. The information listed in the table below is incorporated by cross reference.

Reporting requirement	Policies and standards which govern our approach	Additional information and risk management
Stakeholders	Our **Group Customer Policy** outlines how our people are responsible in ensuring we keep our promises to our customers and deliver great customer service. Our **Group Data Protection Policy** supports our people in taking responsibility for protecting our employee and customer data whilst considering and implementing the commitments made within the policy when performing their work and making decisions. Our **Group Commercial Policy** outlines what is expected of all those involved in procurement activities, enabling them to uphold our Values of acting with integrity and putting our customers first. Complying with this Policy enables employees to maintain proper standards of fairness and integrity in business relationships with colleagues and suppliers.	Stakeholder Engagement – pages 30 to 41 Section 172 Statement – pages 46 to 48 Board Activities – pages 63 to 65
Environmental Matters	Our **Group Environment Policy** supports our environmental plans and our commitment to environmental leadership. It sets out guiding principles of how we as a Group operate to protect the environment and the commitments our people need to consider when performing work activities and when making decisions.	Stakeholder Engagement – pages 30 to 41 Section 172 Statement – pages 46 to 48 Severn Trent Plc 2022/23 Annual Report: • TCFD Report and Net Transition Plan – pages 39 to 63 • Corporate Sustainability Committee Report – pages 137 to 140 Sustainability Report – www.severntrent.com
Employees	Our **Group Health, Safety and Wellbeing Policy** outlines what is expected of employees as regards health, safety and wellbeing, ensuring that no one gets hurt or made unwell by what we do. This policy extends to anyone employed by, or who carries out work on behalf of, Severn Trent Plc and its Group companies, contractors, temporary staff and agency workers.	Culture – pages 6 to 8 Our People – pages 42 to 45 Stakeholder Engagement – pages 30 to 41 Governance Report – pages 52 to 84

	We truly believe that our Values are an essential and vital part of the life and culture of Severn Trent, and that's why we take seriously any reports about illegal practices or inappropriate conducts within our Company. Our **Group Speak Up Policy** provides colleagues with information around how to report any wrongdoing they have witnessed. We hold ourselves to the highest ethical standards and encourage our colleagues to Speak Up if they are worried about wrongdoing affecting our Company, customers, colleagues or suppliers. Our **Group HR Policy** outlines our commitment to maintaining a work culture that is diverse and inclusive, that's supportive and nurturing, and which makes the most of everyone's growth potential. We also protect the human rights of all of our colleagues.	Audit and Risk Committee Report – pages 73 to 81 Directors' Remuneration Report – pages 82 to 84
Respect for Human Rights	We are committed to doing all we can do ensure that modern slavery does not exist in our supply chain and our **Anti-Slavery and Human Trafficking Statement** is available on the Severn Trent Plc website. As set out in our **Group Diversity and Inclusion Policy**, **Wonderfully You**, we celebrate all forms of diversity within our workforce.	Our People – pages 42 to 45 Governance Report – pages 52 to 84 Anti-Slavery and Human Trafficking Statement – www.severntrent.com
Anti-Corruption and Bribery	Our **Group Financial Crime and Anti-Bribery and Anti-Corruption Policy** outlines acceptable and non-acceptable behaviours to ensure compliance with antibribery and anti-fraud laws, which includes improper payments, gifts or inducements of any kind to and from persons, including officials in private or public office, customers and suppliers. This policy also covers our approach to inside information, political donations, conflicts of interest, gifts and hospitality and continuous disclosure. Our **Group Conflicts of Interest Policy** provides guidance around managing conflicts of interests arising from obligations pursuant to the Companies Act 2006, the 2018 UK Corporate Governance Code and associated rules and guidance issued by the Financial Conduct Authority. Our **Group Security Policy** aims to minimise the likelihood of a threat being realised through the use of appropriate security solutions that reduce the impact of these threats through the deployment of robust response and recovery measures. As with competition law itself, our **Group Competition and Competitive Information Policy** applies to all parts of our business, and we take our position within the market, and our	Governance Report – pages 52 to 84 Audit and Risk Committee Report – pages 73 to 81

	compliance with competition and antitrust laws, seriously. It is not enough just to comply with the law. In everything we do, we strive to do it with openness, fairness and honesty, which is supported by our Values and the stringent rules we have in place.	
Social Matters	**Doing the Right Thing**, our **Code of Conduct**, helps us put our Values into practice. Our Values and Code of Conduct embody the principles by which the Group operates and provide a consistent framework for responsible business practices. Our **Group Environment Policy** and **Group Customer Policy** (see above) also cover social matters.	Directors' Report – pages 85 to 91 Severn Trent Plc 2022/23 Annual Report: • TCFD Report and Net Transition Plan – pages 39 to 63 • Corporate Sustainability Committee Report – pages 137 to 140 Sustainability Report – www.severntrent.com
Description of Principal Risks and Impact of Business Activity		Our Approach to Risk – pages 14 to 15 Principal Risks – pages 16 to 20 Business Model and Overview – pages 4 to 5
Description of the Business Model		Business Model and Overview – pages 4 to 5
Non-Financial Key Performance Indicators		Strategic Report – pages 1 to 51 Performance Summary – pages 9 to 11

The policies mentioned above form part of Severn Trent's Group policies, which act as the strategic link between our Purpose and Values and how we manage our day-to-day business. During the year, the Board determined that the policies remain appropriate, are consistent with the Company's Values and support its long-term sustainable success.

Approval

This Strategic Report was approved by the Board.

By order of the Board.

Suzanne Greenop
Company Secretary

13 July 2023

GOVERNANCE REPORT

UK Corporate Governance Code 2018 Compliance Statement

The Hafren Dyfrdwy Cyfyngedig Board is fully committed to Ofwat's principles for Board leadership, transparency and governance and supports the emphasis on the importance of strong Board leadership and the special responsibilities attached to regulated monopoly companies providing an essential public service.

As Hafren Dyfrdwy is not a listed company, it is not required to comply with the UK Corporate Governance Code 2018 (the '2018 Code'). However, Hafren Dyfrdwy has elected to comply with the 2018 Code, where appropriate and reasonably practicable, to ensure the highest standards of governance.

For the whole of the financial year ended 31 March 2023, Hafren Dyfrdwy was compliant with the 2018 Code, with the following exceptions:

1. Remuneration Committee at Company Level

The Remuneration Committee at Severn Trent Plc Group level operates on behalf of Hafren Dyfrdwy. There have been no Remuneration matters for consideration by the Hafren Dyfrdwy Board during the year. In the event such consideration is required, the matters will be considered at Hafren Dyfrdwy Board level. The Severn Trent Plc Remuneration Committee comprises only independent Non-Executive Directors of Severn Trent Plc and the Chair of Severn Trent Plc, who was considered independent on appointment. One member of the Committee, Christine Hodgson, also serves as a Non-Executive Director on the Board of Hafren Dyfrdwy.

The Severn Trent Plc Remuneration Committee provides advice, assurance and recommendations only, ahead of the Hafren Dyfrdwy Board making final decisions. Details of the Severn Trent Plc Remuneration Committee can be found in the Severn Trent Plc Annual Report and Accounts 2022/23, available on the Severn Trent Plc website. A copy of the Hafren Dyfrdwy Governance Framework can be found on page 62.

2. Provisions Relating to Relations with Shareholders

The Company has not complied with the provisions relating to Relations with Shareholders which covers Dialogue with Shareholders and Constructive use of the Annual General Meeting, as it would not be appropriate to do so. However, Severn Trent Plc, as ultimate parent company of Hafren Dyfrdwy, does fully comply with these requirements.

Board of Directors

We have a strong, experienced Board, with a diverse range of professional backgrounds, skills and perspectives.

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

Directors serving as at 31 March 2023

Ann Beynon OBE

BA Hons

Appointed: Independent Non-Executive Director on 1 April 2018

Committees: Audit and Risk, Nominations

Ann is a Non-Executive Director and chairs the Board of Farmers' Union of Wales Insurance Services, a Board member of Coleg Cymraeg Cenedlaethol and a member of the CBI Wales Council. Previously, Ann was a Director for BT Wales, S4C's Head of Political and International Affairs and Equality and Human Rights Commissioner for Wales. Prior to this, Ann was a member of the Royal Commission on Reform of the House of Lords.

Other roles:

- Chair of FUW Insurance Services Limited
- Director of Coleg Cymraeg Cenedlaethol
- Director of Cwmni Ann Beynon CYF

John Coghlan

BCom, ACA

Appointed: Chair on 17 February 2017

Committees: Nominations (Chair)

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

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

John is Chair of the Severn Trent Plc Audit and Risk Committee and is a member of the Severn Trent Plc Treasury Committee. John is also the Group's designated Non-Executive Director in respect of Cyber Security.

Other roles:

- Non-Executive Director and Senior Independent Director of Landmark Group Holdings Limited
- Non-Executive Director of Clarion Housing Group and Chair of its Audit and Risk Committee
- Member of the Advisory Board of Mace Group Limited
- Independent Non-Executive Director of Severn Trent Plc and Severn Trent Water Limited, the Group's licensed entity in England

Christine Hodgson CBE

BSc (Hons), FCA

Appointed: Independent Non-Executive Director on 1 April 2020

Committees: Nominations

Christine brings extensive Board and Governance experience to the Company as well as a deep understanding of business, finance and technology leadership. She is a committed advocate of the need for companies to serve all of their stakeholders effectively and deliver their social purpose. Until her appointment as Chair of the Severn Trent Board, she was the Executive Chair of Capgemini UK Plc, one of the world's largest technology and professional services groups. Christine joined Capgemini in 1997 and built her career in a variety of roles including CFO for Capgemini UK Plc and for the Global Outsourcing business, CEO of Technology Services North West Europe and the Global Head of Corporate Social Responsibility.

Christine was previously an Independent Non-Executive Director of Ladbrokes Coral Group PLC until 2017, and Senior Independent Director and Chair of the Remuneration Committee at Standard Chartered Plc until September 2022 and January 2023 respectively. Christine retired as an Independent Non-Executive Director of Standard Chartered Plc on 31 January 2023.

In January 2020, Christine was appointed Commander of the Order of the British Empire (CBE) in the Queen's New Year Honours for services to education.

Christine is a fellow of the Institute of Chartered Accountants in England and Wales.

Other roles:

- Senior Pro-Chancellor and Chair of Loughborough University Council
- External Board Advisor to Spencer Stuart Management Consultants NV
- Chair of Newton Group Holdings Limited
- Chair of Severn Trent Plc and Severn Trent Water Limited, the Group's licensed entity in England

James Jesic

BEng (Hons), PhD, MIChemE, CEng

Appointed: Managing Director on 15 July 2020

Committees: Executive (Chair)

James is a chartered engineer, with a PhD in Chemical Engineering, and has extensive regulated business experience, gained in a number of senior leadership roles. James brings a wealth of operational, strategic and environmental expertise to the Executive Committee and, throughout his career, has delivered industry-leading customer service, environmental performance and operational transformation.

James was appointed Group Capital and Commercial Services Director in 2023 and has accountability for the Group's multi-billion pound capital design and delivery programme. He is also responsible for the Group's non-regulated businesses.

Prior to this appointment, James held the positions of Managing Director of Customer Operations and Director of Production, during which time he oversaw the operation of the Group's vast asset base, the production and supply of drinking water, the provision of waste water services and the Group's Bioresources business.

Other roles:

- Director of Capital and Commercial Services for Severn Trent Plc and Severn Trent Water, the Group's licensed entity in England

Sally Jones-Evans

FCIB, MSc, MBA

Appointed: Independent Non-Executive Director on 1 April 2018

Committees: Audit and Risk (Chair), Nominations

Sally is the Chair of the Principality Building Society, and is a Non-Executive Director at Delio Wealth Limited, a fast growing Welsh Fintech business. Sally's 30-year executive career was at Lloyds Banking Group where she held a wide range of roles leading customer-facing parts of the business. With a personal interest in tackling poverty and injustice, Sally also serves as a Trustee Director at Tearfund, the Christian relief and development charity.

Sally has recent and relevant financial experience gained from her financial services career and her work on many boards and audit committees and she chairs the Hafren Dyfrdwy Audit and Risk Committee.

Other roles:

- Chair and Non-Executive Director of Principality Building Society
- Non-Executive Director of Delio Limited
- Trustee Director of Tearfund

Mohammed Mehmet

BSc (Hons), PhD

Appointed: Independent Non-Executive Director on 1 April 2018

Committees: Audit and Risk, Nominations

Mohammed has been Chief Executive of two local authorities: Denbighshire County Council between April 2009 until April 2018, and interim CEO for Powys County Council from May 2018 to February 2019. He is a Trustee of Macmillan Cancer Support and Chair of the EDI Board. Mohammed is also a Non-Executive Director of Public Health Wales and chairs the People and Organisational Development Committee.

Mohammed has served on several National Boards, including the Public Services Leadership Panel. He was the first Chair of the National Procurement Board and he has led a number of regional programmes including the establishment of the North Wales School Improvement Service. Earlier in his career Mohammed was Director of Regeneration and Education in Islington and Assistant Director of Education in the London Boroughs of Camden and Hackney.

Other roles:

- Trustee for Macmillan Cancer Support
- Non-Executive Director of Public Health Wales NHS Trust

Helen Miles

ACMA

Appointed: Chief Financial Officer on 15 July 2020

Resigned: 1 April 2023

Committees: Executive

Helen joined Severn Trent in November 2014 as the Chief Commercial Officer, and in 2020 became the Capital and Commercial Services Director, before being appointed as CFO Designate in April 2023 and CFO in July 2023. She brings with her a breadth of commercial experience having worked within regulated businesses across the Telecoms, Leisure, and Banking sectors. As a member of the UK Board, Helen was instrumental in delivering HomeServe's future growth strategy and ensuring a sustainable, customer-focused business.

An experienced finance professional, Helen was previously CFO for Openreach, part of BT Group Plc, and has extensive experience of delivering major business transformation across the Group. Prior to BT Group, Helen worked in a variety of organisations including Bass Taverns, Barclays Bank, and Compass Group.

Helen has recent and relevant financial experience as a member of the Chartered Institute of Management Accountants.

Other roles:

- Chief Financial Officer of Severn Trent Plc and Severn Trent Water Limited, the Group's licensed entity in England (from 6 July 2023)
- Non-Executive Director of Breedon Group Plc

Director serving for part of the year

Sharmila Nebhrajani OBE

MA (Hons), ACA

Appointed: Independent Non-Executive Director on 1 April 2021

Resigned: 12 July 2022

Sharmila brings extensive Board and governance experience, gained in a variety of roles spanning the private sector, public sector and NGOs.

In her executive career, Sharmila spent 15 years at the BBC, latterly as Chief Operating Officer for BBC Future Media and Technology, and was most recently Chief Executive at Wilton Park, an executive agency of the UK Foreign and Commonwealth Office convening international dialogues for senior policy makers from around the world with a special focus on global health.

Sharmila read Medicine at the University of Oxford and has been a World Fellow at the University of Yale since 2007. She is a chartered accountant and was awarded an OBE in 2014 for services to medical research.

Other roles:

- Chairman of National Institute of Health and Care Excellence
- Non-Executive Director of ITV Plc
- Non-Executive Director of Halma Plc
- Non-Executive Director of Coutts & Company
- Member of Council of University of Oxford
- Independent Non-Executive Director of Severn Trent Plc and Severn Trent Water Limited, the Group's licensed entity in England

Director appointed following the 2022/23 year end

Adam Stephens

MEng, ACA, AMCT

Appointed: Chief Financial Officer on 1 April 2023

Committees: Executive

Adam joined the Severn Trent Group in 2015 and has since held a number of roles within the senior management team.

Adam holds both accountancy and treasury qualifications and has gained experience through a wide-range of roles both at Severn Trent and in previous organisations. He has a track record of delivering strategic projects and implementing cost transformation programmes. Adam has been involved in business planning processes and is knowledgeable about the regulatory environment we operate in.

Other roles:

- Group Treasurer and Head of Risk and Insurance for Severn Trent Plc

2022/23 Board Meeting Attendance

The table below shows the attendance of Directors at scheduled Board meetings during the year.

Director	Position	Board Meeting Attendance
Ann Beynon	Independent Non-Executive Director	5 / 5
John Coghlan	Chair	5 / 5
Christine Hodgson	Independent Non-Executive Director	5 / 5
James Jesic	Managing Director	5 / 5
Sally Jones-Evans	Independent Non-Executive Director	4 / 5*
Mohammed Mehmet	Independent Non-Executive Director	5 / 5
Helen Miles	Chief Financial Officer	5 / 5
Sharmila Nebhrajani	Independent Non-Executive Director	1 / 1**

* Sally Jones-Evans was unable to attend the Board meeting that was scheduled for October 2022 due to personal circumstances. Sally received all relevant papers in advance of the meeting date and provided comments on the matters to be considered to the Chair.

** Sharmila Nebhrajani resigned from the Board on 12 July 2023.

In the event a Director is unable to attend a meeting, they still receive related papers in advance and any input they have provided is fully considered by the Board.

Board Leadership, Company Purpose and Division of Responsibilities

The Board's role is to be effective in securing the long-term success of Hafren Dyfrdwy, ensuring the delivery of our strategy and that its overarching objectives remain aligned with the Company's Purpose and Values. Maintaining the highest standards of governance is integral to this, together with ensuring that the Board takes decisions that create sustainable long-term value for the mutual benefit of our customers, employees and the communities we serve.

An Effective Board

The operation of our Board is supported by the collective experience of the Directors and the diverse skills and experience they possess. This enables the Board to reach decisions in a focused and balanced way, supported by independent thought and constructive debate between the Directors. Trust and mutual respect are the cornerstones of relationships between our Directors, with a Board dynamic that supports open and honest conversations to ensure decisions are taken for the long-term success of Hafren Dyfrdwy, in full consideration of the impact upon all stakeholders.

As outlined below, there is a clear division of responsibilities between the roles of Chair and Managing Director. To allow these responsibilities to be discharged effectively, the Chair and Managing Director maintain regular dialogue outside the boardroom, to ensure an effective flow of information.

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

The Board is assisted through the management of agendas, meetings and minutes by Company Secretariat and advised in their meetings by the Company Secretary, where appropriate.

The effectiveness of the Board is generally reviewed on an annual basis and any evaluation is conducted according to the guidance set out in the 2018 Code and Financial Reporting Council ('FRC') Guidance on Board Effectiveness. You can read more about this year's internally-facilitated Board Effectiveness evaluation on pages 68 to 70.

Division of Responsibilities

As at the date of this report, our Board comprised the Chair, four Independent Non-Executive Directors and two Executive Directors. There are clear divisions between Executive and Non-Executive responsibilities, which ensure accountability and oversight.

The roles of Chair and Managing Director are separately held and their responsibilities are well defined, set out in writing in the Charter of Expectations, and regularly reviewed by the Board.

The Chair and the other Non-Executive Directors meet routinely without the Executive Directors, and individual Directors meet outside formal Board meetings in order to gain first-hand experience of our operations and engage with our workforce.

The Executive Directors meet frequently, including on a monthly basis as part of the Executive Committee, to attend to the ongoing management of the Group. Any significant operational and sector matters are communicated to the Non-Executive Directors on a timely basis outside of Board meetings.

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

Board Independence

The independence of the Board is a matter of utmost importance given the vital role Non-Executive Directors play in scrutinising the performance of management and holding individual Executive Directors to account against agreed performance objectives. The Chair regularly holds meetings with Non-Executive Directors without the Executive Directors or any management present, and Non-Executive Directors can obtain independent professional advice, at the Company's expense, in the performance of their duties. All Directors have access to the advice and services of the Company Secretary, whose appointment and removal is a matter reserved for the Board.

Conflicts of Interest

Severn Trent Plc has a Conflicts of Interest Policy in place for all Group companies. Our Board and its Committees consider potential conflicts at the outset of every meeting and the Board formally reviews the authorisation of any potential conflicts of interest every six months, with any conflicts being recorded in the Conflicts of Interest Register.

The Conflicts of Interest Register sets out any actual or potential conflict of interest situations which a Director has disclosed to the Board in line with their statutory duties and the practical steps that are to be taken to avoid conflict situations.

When reviewing conflict authorisations, the Board considers any other appointments held by the Director as well as the findings of the Board Effectiveness evaluation.

Board members hold external directorships and other outside business interests and we recognise the significant benefits that greater boardroom exposure provides for our Directors. However, we closely monitor the nature and number of external directorships our Directors hold in order to satisfy ourselves that any additional appointments will not adversely impact their time commitment to their role at Hafren Dyfrdwy. Before committing to an additional appointment, Directors confirm the existence of any potential or actual conflicts, that the role will not breach the Company's overboarding limit, and provide the necessary assurance that the appointment will not adversely impact their ability to continue to fulfil their role as a Director. Directors are required to obtain formal approval from the Board ahead of undertaking any new external appointments.

Our Non-Executive Directors commit sufficient time to discharging their responsibilities as Directors of Hafren Dyfrdwy in line with the requirements set out in our Charter of Expectations. Details of the Directors' external directorships can be found in their biographies on pages 53 to 57.

The Conflicts of Interest Policy continues to be applied practically throughout the year, such as considering the potential conflict presented by Directors having roles on other Group companies.

Articles of Association and Schedule of Matters Reserved to the Board

The requirements of the Board are clearly documented in the Hafren Dyfrdwy Governance Framework and Schedule of Matters Reserved to the Board.

To ensure the Board maintains oversight of the areas material to the delivery of the Group's strategy and Purpose, the Board undertakes an annual review of the Matters Reserved to the Board. The latest review took place in March 2023 and the Board agreed that the Schedule contained areas appropriate to require Board involvement, including in relation to strategy, structure and capital, financial reporting, controls and communication with stakeholders. The Schedule of Matters Reserved to the Board is available on the Hafren Dyfrdwy website.

Strategy

Appropriately evaluated strategic decisions are crucial to help us to deliver our strategy and achieve our Purpose of 'taking care of one of life's essentials'. Responsibility to all of our stakeholders for the approval and delivery of the Company's strategy, and for creating and overseeing the framework to support its delivery, sits with the Board.

As well as standing strategic items at every Board meeting, the Board also holds a dedicated Strategy Day with members of the Executive Committee to help consider the strategic direction of the Company for the short, medium and long term. Responsibility for the development and implementation of the Group's strategy and overall commercial objectives rests with the Managing Director who is supported by the Executive Committee.

The Directors present their report and the audited Group financial statements for the year ended 31 March 2023. The performance review of the Company can be found within the Strategic Report. This provides detailed information relating to the Company, its Business Model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2023.

Stakeholder Engagement

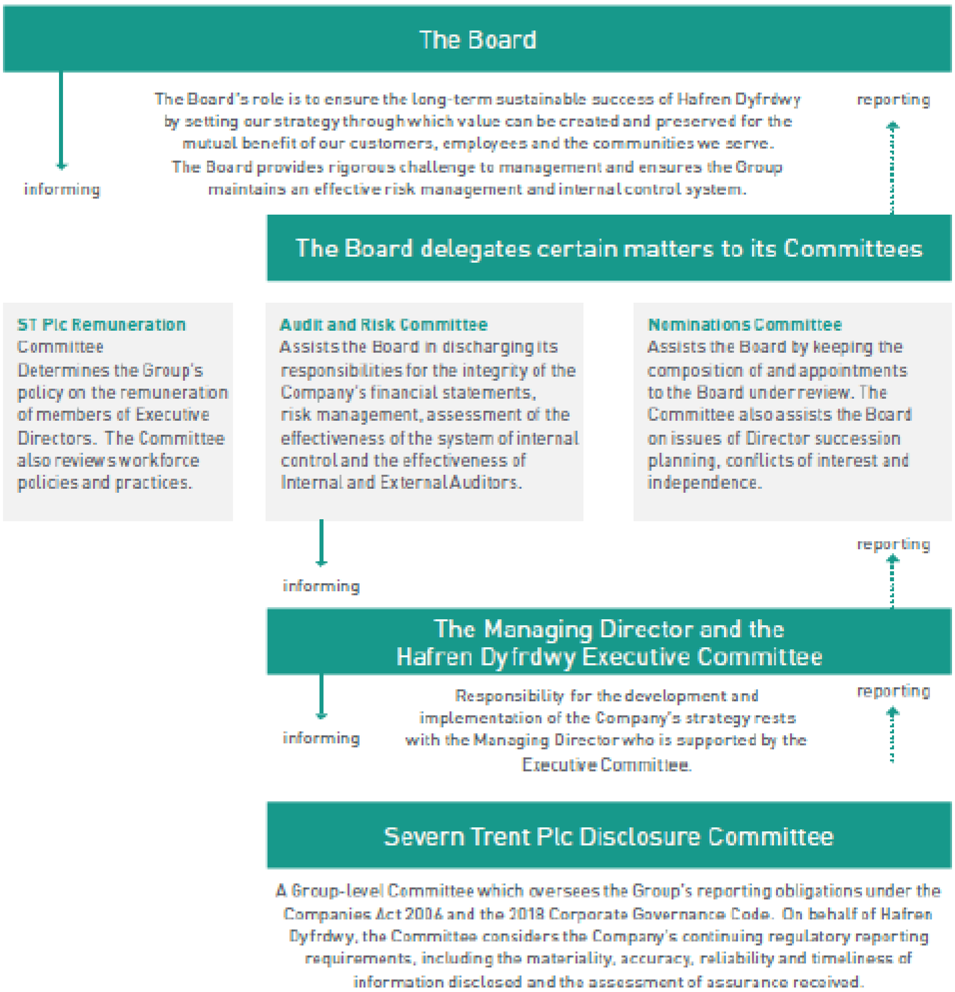
Stakeholder engagement is central to our strategy and, as such, a detailed disclosure setting out stakeholder engagement activity conducted during the year is included in our Strategic Report. The Board ensures that the Company engages effectively with its stakeholders and encourages a two-way dialogue in order that the decisions made by the Board take into account the views of, and potential impacts on, stakeholders.

Our dedicated Stakeholder Engagement section and Section 172 Statement on pages 30 to 41 and 46 to 48 respectively set out how the Board has considered and contemplated the interests of stakeholders. A detailed overview of the Board's engagement with our workforce is set out on pages 35 to 36.

Governance Framework

The Board is supported by the Hafren Dyfrdwy Governance Framework, which is set out below. The Governance Framework comprises the Board, Executive Committee and the respective Committees. In line with the 2018 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 respective Terms of Reference. The Board periodically reviews the Terms of Reference of each Committee.

The Governance Framework is also subject to periodic review to ensure that it remains appropriate. In 2021, the Board decided to constitute a dedicated Hafren Dyfrdwy Audit and Risk Committee, effective 15 July 2021, with membership comprising Independent Non-Executive Directors only (excluding the Chair, in line with the 2018 Code).



The dedicated Hafren Dyfrdwy Audit and Risk Committee operates on behalf of Hafren Dyfrdwy in providing advice, assurance review and recommendations only, ahead of the Board making final decisions. The Directors remain responsible for the discharge of Hafren Dyfrdwy's legal and regulatory obligations and the content of any financial statements and regulatory submissions.

The Severn Trent Plc Executive Disclosure Committee oversees the Group's reporting obligations under the Companies Act 2006, the 2018 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.

Activities of the Board During 2022/23

<u>Board meetings</u>

Board meetings follow a carefully tailored agenda that is agreed in advance by the Chair, in conjunction with the Company Secretary. All meetings are structured to allow open discussion and a typical Board meeting will comprise reports on operational and financial performance, legal and governance updates and one or two detailed deep dives into areas of particular strategic importance. Details of the Directors' attendance at the scheduled meetings that took place during the year can be found on page 58. Minutes of Board and Committee meetings are circulated to all Directors after each meeting.

Below are details of key topics discussed by the Board during the year.

Performance

- Managing Director's Overview
- Chief Financial Officer's Report
- Operational Performance Reports and Deep Dives

Financing, Procurement and Commercial

- 2023/24 Budget and Business Plan
- Long-term Viability and Going Concern
- Equity Injection
- Credit Rating
- Pension Update
- Tender Approvals
- Supplier Management Update

Governance and Stakeholders

- Governance Updates
- Board Effectiveness
- Non-Executive Director Fees
- Appointment of Company Secretary
- Stakeholder Engagement Reports

Strategy

- PR24
- Board Strategy Day Reflections
- Lake Vyrnwy Investment Opportunities
- Environment Update

Regulatory

- Regulatory Updates
- Annual Report and Accounts
- Annual Performance Report
- Draft and Final Drainage and Wastewater Management Plan
- Draft Water Resources Management Plan
- Wholesale Charges for 2023/24
- Water Quality
- Annual Report on Reservoir Safety
- Proposed Licence Modifications
- Environment (Wales) Act 2016 – Section 6 Biodiversity Duty
- National Environmental Programme Submission

Culture and Values

- Whistleblowing Arrangements Annual Review
- Diversity and Inclusion
- Health, Safety and Wellbeing Update
- Group Anti-Slavery and Human Trafficking Statement
- Community Fund Update

Assurance, Internal Controls and Risk Management

- Internal Audit Plan
- Internal Audit Updates
- AMP7 Assurance Map Update
- Enterprise Risk Management Updates
- Cyber Security Deep Dive

<u>Stakeholder engagement at Board meetings</u>

The Board recognises the value of maintaining close relationships with its stakeholders, understanding their views and the importance of these relationships in delivering our strategy and the Company's Purpose.

The Board has met with representatives from the following stakeholders during the year:

<u>Site visits</u>

The Board, and individual Directors, undertake site visits during the year, to deepen their understanding of the Company's operations and further inform the Board's decision making in creating sustainable long-term value for the mutual benefit of stakeholders.

Cae Llwyd Reservoir

During February 2023, the Board visited Cae Llwyd Reservoir at Rhosllanerchrugog near Wrexham. The site visit was jointly hosted by the Enterprise Risk, Reservoir Engineering and Capital teams to demonstrate how different areas of the business are interlinked.

- The Enterprise Risk Team provided the Board with an overview of ERM activities and used reservoirs as an example to illustrate the ERM reporting model and how reservoir risk is managed.
- The Reservoir Engineering Team brought to life the work undertaken to ensure key controls continue to operate effectively to mitigate the risk.
- The Capital Team presented the construction work that had been completed under the 'Measures in the Interests of Safety' requirement of the Reservoirs Act.

<u>Informal Board interactions</u>

The Board also meets more informally, in the form of Board dinners, outside of the scheduled Board meeting calendar. These sessions are important in building and maintaining successful relationships and promoting a culture of openness in Board discussions. Senior management and external stakeholders are often invited to attend these sessions.

Composition, Succession and Evaluation

Composition

As at 31 March 2023, the Hafren Dyfrdwy Board comprised seven Directors, and this remains the case as at the date of this Annual Report, albeit that following the year end, one Executive Director resigned and another Executive Director was appointed (both with effect from 1 April 2023).

Of the seven Directors, two are Executive Directors and five are Independent Non-Executive Directors. The details of their career background, relevant skills, Committee membership, tenure and external appointments can be found within their individual biographies on pages 53 to 57.

Of the five Independent Non-Executive Directors currently serving on the Hafren Dyfrdwy Board, two Directors also sit on the Boards of Severn Trent Plc and Severn Trent Water Limited. The Board is of the opinion that, when assessed against the circumstances set out in the 2018 Code and given the thorough monitoring of potential conflicts of interest, both Directors retain independence in relation to each Board, and therefore the Independent Non-Executive Directors form the largest single group on the Hafren Dyfrdwy Board (71%).

In consideration of feedback from Ofwat, which outlined that full independence could only be demonstrated by those sitting solely on the Hafren Dyfrdwy Board, the Board took the opportunity during the year to consider its composition. In the interests of openness and transparency, and to ensure that the single largest group on the Board comprises objectively Independent Non-Executive Directors, the Board decided to address this perceived imbalance and agreed that Sharmila Nebhrajani would step down from the Board following completion of the 2021/22 reporting process in July 2022. Sharmila's resignation reduced the Board's membership to its current membership of seven Directors, three of whom are Independent Non-Executive Directors, *as defined by Ofwat*, and together they form the largest single group on the Board at 43%, with the other two groups – Independent Non-Executive Directors also sitting on the Severn Trent Plc Board and Executive Directors – each making up 28.5% of the Board's composition.

In respect of the Board Committees, Independent Non-Executive Directors form the majority of the membership of both the Audit and Risk and Nominations Committees, with no Executive Directors serving on either Committee. Since the resignation of Sharmila Nebhrajani from the Board, the Audit and Risk Committee has been chaired by Sally Jones-Evans, an Independent Non-Executive Director with recent and relevant financial experience.

Board Training and Development

The environment in which we operate is continually changing. It is therefore important for our Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date. Our Board Effectiveness process includes training discussions with the Company Secretary and, as required, we invite professional advisers and subject matter experts to provide in-depth updates. These updates are not solely reserved for legislative developments but aim to cover a range of strategic issues including, but not limited to, the economic and political environment, environmental, technological and social considerations. The Company Secretary also provides regular updates to the Board on regulatory and corporate governance matters. The Activities of the Board section on pages 63 to 65 sets out further detail on the topics covered during the year.

The aim of the training sessions is to continually refresh and expand the Board's knowledge and skills. In doing so, the Directors can contribute to discussions on technical and regulatory matters more effectively. The sessions also serve as an opportunity for the Board to discuss strategy and risks with management below Executive Committee level and gain further direct insight into our business and management capability.

Directors also have access to our online resource library, which is continually reviewed and updated. The library includes a Corporate Governance Manual, briefings on Board training session topics and a further reading section which covers updates and guidance on changes to legislation and corporate governance best practice.

Directors' Skills and Experience

An effective Board requires the right mix of skills and experience. Our Board is a diverse and effective team focused on promoting the long-term success of the Company. The matrix below details some of the key skills and experience that our current Board members have, which have been gained across a range of organisations and roles. These are particularly valuable to the effective oversight of the Company and execution of our strategy.

	Strategy	M&A	Corporate Finance / Treasury	Accounting	Regulation	Technology / Innovation / Cyber	Customer	Brands	Engineering	Utility Sector	Sustainability, Including Climate Change	People Management	Commercial Procurement	Construction / Infrastructure Delivery	Large Capital Programmes	Political Affairs
Ann Beynon	✓				✓	✓	✓	✓		✓	✓	✓	✓	✓		✓
John Coghlan	✓	✓	✓	✓	✓	✓	✓			✓		✓	✓		✓	
Christine Hodgson	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓	✓
James Jesic	✓				✓	✓	✓		✓	✓	✓	✓		✓	✓	
Sally Jones-Evans	✓			✓	✓	✓	✓	✓		✓		✓	✓			✓
Mohammed Mehmet	✓				✓	✓	✓	✓		✓		✓	✓	✓	✓	✓
Adam Stephens	✓	✓	✓	✓	✓				✓	✓		✓				

Succession

Along with ensuring an appropriate mix of skills and experiences on the Board as a whole for the effective oversight of the Company's strategy and operations, the composition of the Board is also informed by the need for orderly succession across key Board and Committee roles.

Board composition and succession planning was a topic of discussion during the 2022 Board Effectiveness evaluation, with a resulting recommendation that thought should be applied to future changes to Board membership, including the loss of experience and knowledge of the business, in the context of Non-Executive Director tenure. Further details of the Board Effectiveness evaluation are set out below.

Induction

We develop a detailed, tailored induction for each new Non-Executive Director. This includes one-to-one meetings with the Chair and each of the existing Non-Executive Directors. One-to-one meetings are also arranged with the Managing Director, Chief Financial Officer and the Company Secretary, along with other members of senior management. New Directors also meet members of the operational teams and visit our key sites and capital projects to ensure they get a first-hand understanding of the water and waste water businesses and have a chance to experience our unique culture. We provide briefings on the key duties of being a Director of a regulated water company and proposed appointees meet with Ofwat as part of the appointment process. We continually enhance the Board's induction programme, building in feedback from new Directors and the Board Effectiveness evaluation.

Adam Stephens' induction programme is underway and has focused on the statutory duties that arise from being a Director, the legal and regulatory environment of the water sector and the Company's operations.

Evaluation

Our annual Board evaluation provides the Board, and its Committees, with an opportunity to consider and reflect on the quality and effectiveness of its decision making, the range and level of discussion, and for each member to consider their own contribution and performance.

This year, the review was facilitated internally by the Company Secretary, who is well placed as an independent sounding board. One-to-one meetings took place during August and September 2022, and key themes were shared with the Board and Nominations Committee along with a 2022/23 action plan.

Evaluation Process

STAGE 1	**Evaluation Process Planning**	The Group Company Secretary undertook a detailed review of the 2021 Board Effectiveness evaluation process in order to develop the approach for 2022, incorporating recommendations from the 2018 Code, Parker Review, FRC Guidance on Board Effectiveness and Ofwat's Board leadership, transparency and governance principles.
STAGE 2	**One-to-One Meetings**	Board members participated in comprehensive one-to-one meetings with the Company Secretary to allow reflection of discussion of matters relevant to boardroom culture, process and development.
STAGE 3	**Evaluation and Reporting**	The Company Secretary collated the individual responses, including analysis of themes and proposed actions. A detailed report, setting out the findings of the evaluation, was provided to the Chair for consideration. The Company Secretary and Chair met to discuss the findings, with the resulting report being tabled to the Board in October 2022.
STAGE 4	**Results and Recommendations**	The findings of the evaluation exercise were fully considered when making recommendations in respect of the continued appointment of individual Directors, and included an assessment of their independence, time commitment and individual performance. The proposed actions arising from the evaluation were thoroughly discussed and agreed for implementation and monitoring.
STAGE 5	**Monitor Progress**	The Board continued to oversee the progress made in relation to the agreed actions to ensure their timely completion.

The evaluation has concluded that, overall, the Board is well established and continues to operate effectively, with positive feedback received in relation to the contribution, commitment and engagement of all Directors. Each Director brings their own skills and experience to Board debates, which are characterised by a mutual sense of trust and respect between Executives and Non-Executives. Dynamics both inside and outside the boardroom are excellent and the servicing of the Board was carried out with a high standard of professionalism.

Minor areas were identified during the evaluation for incremental improvement in terms of the Board's overall effectiveness, as detailed in the table below.

Recommendation	Progress
Engagement outside of meetings Schedule additional informal interaction time for the Board outside of formal meetings.	A 'Private Meeting' for the Non-Executive Directors continues to be scheduled at the end of each Board and Committee meeting to allow the NEDs to freely discuss any issues they wish to raise and identify themes for future Board sessions. Dinners are held the night before most Board meetings to provide an opportunity to interact with other Directors in a more informal setting. These events are also often attended by external stakeholders that the Board is keen to engage with. A private dinner for the Non-Executive Directors was held prior to the Board meeting in January 2023. It is proposed that at least one Board dinner per year is held on a 'Non-Executive Director only' basis, which can be used to discuss Board succession and performance of the Executive Directors, amongst other topics.
Structure of meetings and agendas Agendas for both the Board and the Audit and Risk Committee to be reviewed by the Company Secretary to ensure proper consideration of items, particularly in view of the PR24 process commencing, to ensure items of a strategic and longer-term nature were given sufficient time on the agenda to allow for debate and discussion.	The forward plan of meetings was reviewed towards the end of 2022 and, with agreement from the Board, a new schedule of meetings was put in place. This included extending the duration of existing meetings to allow for more in-depth discussion and debate of strategic topics and the scheduling of additional Audit and Risk Committee meetings to create more space on the Board's agenda.
Board composition and succession planning Thought should be applied to future changes to Board membership, including the loss of experience and knowledge of the business, in the context of Non-Executive Director tenure.	The Nominations Committee will keep under review the composition needs of the Board in order to develop a phased succession plan to recommend to the Board. An update on succession planning was considered by the Nominations Committee at its meeting in June 2023.

Hafren Dyfrdwy-specific matters Recognising that excellent progress had been made, particularly on the Annual Report and Accounts, there remained an opportunity to adopt a more bespoke approach to **all** Hafren Dyfrdwy matters, whilst also incorporating the learnings from Group processes, for example, the Annual Performance Report.	Dedicated Hafren Dyfrdwy authors have provided content for the year end reports and reviews have been undertaken to ensure that a Hafren Dyfrdwy-specific tone remains consistent across both publications.

Nominations Committee Report

Committee Membership and Meeting Attendance 2022/23

Committee Member	Position	Nominations Committee Meeting Attendance
Ann Beynon	Independent Non-Executive Director	1 / 1
John Coghlan	Chair	1 / 1
Christine Hodgson	Independent Non-Executive Director	1 / 1
Sally Jones-Evans	Independent Non-Executive Director	1 / 1
Mohammed Mehmet	Independent Non-Executive Director	1 / 1
Sharmila Nebhrajani	Independent Non-Executive Director	1 / 1

All members of the Committee are Independent Non-Executive Directors of the Board. Only members of the Committee have the right to attend Committee meetings. Other individuals, such as the Managing Director, Company Secretary, other senior management and external advisers, may be invited to attend meetings as and when appropriate. None of these attendees are members of the Committee.

Committee Activities 2022/23

The Committee met once during the year, to consider the following topics:

- Continued Office of Directors
- Board Composition
- Board Independence
- Appointment to the Chair of the Audit and Risk Committee
- Director Tenure

More information relating to Board composition and independence can be found on pages 60 and 66.

Diversity

A diverse organisation benefits from differences in skills, regional and industry experience, background, race, gender, sexual orientation, religion, belief and age, as well as culture and personality. The Board is focused on ensuring that the diversity of our employee base reflects the diversity of our region, including the gender, social and ethnic background, skills and experience amongst our customers and the communities we serve.

The Board continues to drive the agenda of diversity across the Company and is supportive of the Company's ambitions in this area. Data relating to the diversity of the Board and the Company's workforce is included in the Our People section, on pages 42 to 45.

When undertaking any Non-Executive Director recruitment, the Board ensures that the recruitment processes are in line with its Board Diversity Policy (the ‘Policy’, available on the Hafren Dyfrdwy website) to include candidates from diverse backgrounds and those with varied organisational experience. The Board believes diversity in its membership is vital for ensuring the Company is well-equipped to make decisions that meet the needs of the Company’s wide range of stakeholders. As such, the Board remains focused on promoting broader diversity and creating an inclusive culture in line with the recommendations of the Hampton-Alexander, FTSE Women Leaders, Parker and McGregor-Smith reviews.

The objectives and targets of the Policy, approved by the Board in June 2023, and an update against each of them, are set out below.

Board Composition

Policy Target	Position as at Date of Report
Aim to achieve and maintain the position where at least 40% of the individuals on the Board are women.	✓ 43% of the individuals on the Board of Directors are women
Aim to achieve and maintain the position where at least one member of the Board is from a non-White Ethnic Minority background (as referenced in categories recommended by the Office for National Statistics (‘ONS’)).	✓ One member of the Board of Directors is from a non-White Ethnic Minority background

Recruitment and Selection

Policy Objective	Implementation
Ensure that the Board comprises individuals with a range of skills, experience, knowledge, perspectives and backgrounds.	Annual review of the Board’s composition by the Nominations Committee with particular consideration being given to the balance of skills, experience and independence of the Board. The Board Effectiveness evaluation specifically considered the composition of the Board and the contribution, commitment and independence of individual Directors.
Ensure that Board candidate lists will be inclusive according to the widest definition of diversity.	The Board and Nominations Committee recognise the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself.
Consider candidates for Board appointments from a wide pool.	
Oversee plans for diversity and inclusion across the business and receive regular updates in relation to these.	The Board receives updates on diversity and inclusion across the Company at least annually.

Audit and Risk Committee Report

Committee Membership and Meeting Attendance 2022/23

Committee Member	Position	Audit and Risk Committee Meeting Attendance
Ann Beynon	Independent Non-Executive Director	4 / 4
Sally Jones-Evans	Independent Non-Executive Director and Chair of the Committee (from 12 July 2022)	4 / 4
Mohammed Mehmet	Independent Non-Executive Director	4 / 4
Sharmila Nebhrajani	Independent Non-Executive Director and Chair of the Committee (until 12 July 2022)	2 / 2

All members of the Committee are Independent Non-Executive Directors of the Board. The Board considers that members of the Committee have recent and relevant financial experience and competence relevant to the sector. Only members of the Committee have the right to attend Committee meetings. Other regular attendees at meetings at the invitation of the Committee include the Chair of the Board, other Independent Non-Executive Directors, the Managing Director, Chief Financial Officer, Company Secretary, Head of Internal Audit, other senior management, representatives from the External Auditor, Deloitte, and representatives from the non-financial regulatory performance and data assurers, Jacobs. None of these attendees are members of the Committee.

The Committee regularly holds private discussions with the Head of Internal Audit and the External Auditor separately, without management present. The Committee Chair regularly holds separate one-to-one meetings with the Chief Financial Officer, the Head of Internal Audit, the External Auditor and other Committee members outside the meetings to better understand any issues or areas for concern.

Committee Activities 2022/23

The Committee assists the Board by establishing, reviewing and monitoring the formal and transparent policies and procedures to ensure the independence and effectiveness of the Internal and External Audit functions, the integrity of financial and narrative reporting, the Company's internal control framework and the adequacy of the process that enables the Board to assess the extent of Principal Risks the Company is willing to take to achieve its long-term strategic objectives. The Committee, and its individual members, act in a way that we consider is most likely to promote the success of the Company for the benefit of its members as a whole, including shareholders, as set out in Section 172 of the Companies Act 2006. This ensures that the interests of stakeholders are properly considered and reflected in decision-making processes. Additional information on how the Board, and Audit and Risk Committee, have considered stakeholders in their decision making can be found on pages 46 to 48.

The Committee's vital contribution to our Purpose of 'taking care of one of life's essentials' ensures that the interests of stakeholders, particularly our customers and regulators, are properly protected, by overseeing the Company's financial reporting and internal control arrangements. The Committee uses its collective expertise, with input from the External Auditor, to provide challenge to the approach and judgments made by management in the treatment of financial matters and the resulting disclosures within the financial statements. Transparency and openness are fundamental to the relationship between management and the Committee, which is of course reinforced through our culture of 'Doing the Right Thing'.

As such, one of the Committee's key roles is to advise the Board that it is satisfied that the Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for stakeholders to assess the Company's position, performance, business model and strategy. In doing so, the Committee ensures that management's disclosures reflect the supporting detail, or challenge them to explain and justify their interpretation and, if necessary, re-present the information. The External Auditor supports this process, in the course of its statutory audit, by auditing the accounting records of the Company against agreed accounting practices, relevant laws and regulations. Deloitte's audit report can be found on pages 94 to 103.

The Committee is pleased to advise the Board that the 2022/23 Annual Report and Accounts are fair, balanced and understandable ('FBU') and that the Directors have provided the necessary information to assess the Company's position, prospects, business model and strategy.

The FBU review process is described in further detail on pages 77 to 78.

Key areas of focus during the year are set out below.

Financial and Regulatory Reporting
Reviewed and discussed reports from the Chief Financial Officer on the financial statements, considered management's significant accounting judgments and the policies being applied, and assessed the findings of the statutory audit in respect of the integrity of the financial reporting of full year results. Reviewed the integrity of the regulatory reporting process relating to the Annual Performance Report, and other regulatory submissions as required to be submitted to Ofwat. Reviewed the 2022/23 Annual Report and Accounts and provided a recommendation to the Board that, as a whole, they complied with the 2018 Code principle to be 'fair, balanced and understandable and provide the information necessary to assess the Company's position, performance, business model and strategy'. Challenged and scrutinised management's detailed assessment of the Group's long-term viability and its ability to continue as a going concern. In doing so, the Committee took into account the risks facing the business, and its ability to withstand a number of severe but plausible scenarios. Having considered management's assessment, the Committee recommended to the Board the long-term Viability Statement set out on pages 21 to 27.

Internal Controls and Risk Management
Reviewed the effectiveness of the Company's Enterprise Risk Management processes and procedures and internal control systems, and integration of the components of the risk framework into Board and Committee reporting, prior to making a recommendation to the Board. Monitored fraud reporting and incidents of whistleblowing, including a review of the adequacy of the Company's whistleblowing processes and procedures, prior to reporting to the Board on this activity. Oversight and monitoring of the Company's compliance with the Bribery Act 2010, including a review of the adequacy of the anti-bribery, corruption and fraud processes and procedures (and associated policies).
Internal Audit
Considered Internal Audit reports presented to the Committee and satisfied itself that management had resolved or was in the process of resolving any outstanding issues or actions. Reviewed and approved the Internal Audit plan and approach for 2022/23. Reviewed the quality and effectiveness of Internal Audit and the effectiveness of the current co-source arrangements.
External Audit
Considered the 2022/23 statutory audit, including the key audit risks and level of materiality applied by Deloitte, audit reports from Deloitte on the financial statements and the areas of particular focus for the 2022/23 audit.

Internal Audit

Group Internal Audit is an independent assurance function available to the Board, Audit and Risk Committee and all levels of management, and is a key element of the Group's corporate governance framework.

Support is provided by four main co-sourcing partners: PwC, EY, KPMG and BDO. Co-source arrangements are reviewed annually and we believe this structure adds value, through greater access to specific areas of expertise, increased ability to flex resources, and the ability to challenge management independently. Co-source specialists continue to bring expertise to support the team and delivery of the audit plan where relevant.

Internal Audit Plan and Actions

The role of Internal Audit is to provide independent and objective assurance that the Group's risk management and internal control systems are well designed and operate effectively, and that any corrective action is taken in a timely manner.

A three-year strategic audit planning approach is applied, from which Internal Audit develops an annual risk-based audit plan; this facilitates an efficient deployment of resource in providing assurance coverage over time across the whole business. The Committee's role is to review and challenge the plan, specifically whether the key risk areas identified as part of our ERM process are being audited with appropriate frequency and depth. Individual

Committee members also bring an external view of risks the Company may be exposed to. Once approved by the Committee, regular reporting enables the Committee to monitor delivery of the audit plan and ensure that Internal Audit performs its work in accordance with the mandatory aspects of the International Professional Practice Framework of the Chartered Institute of Internal Auditors (the 'CIIA'), with integrity (honestly, diligently and responsibly) and objectively (without conflicts of interest).

Following the completion of each planned audit, Internal Audit seeks feedback from management and reports to the Committee on the findings of the audit, including any action that may be required. Where any failings or weaknesses are identified in the course of the review of internal control systems, management puts in place robust actions to address these on a timely basis. No material weaknesses were identified during the year. Action closure is reported to, and monitored by, the Committee and we are pleased to confirm that our review established that management places a strong focus on closing audit actions and ensuring timely completion.

The Internal Audit function also liaises with the External Auditor, discussing relevant aspects of their respective activities which ultimately supports the assurance provided to the Committee and Board.

Effectiveness

We undertake an annual review of the effectiveness of the Internal Audit function in line with the CIIA Internal Audit Code of Practice and the FRC Guidance on Audit Committees. The CIIA guidance states that Audit Committees should obtain an independent and objective external quality assessment at least every five years. However, the Group considers it prudent to carry out external effectiveness reviews every three years. The last external review of the effectiveness of the Internal Audit function was undertaken in December 2021. The review was carried out by BDO, which concluded that the Internal Audit function remained fit for purpose, was operating efficiently and effectively, and in line with good practice.

BDO's findings also highlighted clear evidence that the Internal Audit function operated with strategic alignment, a focus on risk and an emphasis on quality and continuous improvement, all underpinned by objectivity and integrity. The minor areas of improvement raised by BDO have been incorporated into an action plan which was shared and agreed with the Chair of the Board. All actions were completed in line with the proposed timescales. Taking all these elements into account, the Committee concluded that the Internal Audit function was an effective provider of assurance over the Group's risks and controls, and appropriate resources were available as required.

Internal Controls and Risk Management

The 2018 Code sets out requirements in relation to companies' internal controls and risk management and, as such, throughout the year, the Committee receives and reviews regular management reports and updates in relation to internal controls and risk management to assure itself that the processes in place remain effective.

Internal Controls

An internal control system can provide reasonable but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. The Committee reviews the Company's internal control systems and receives updates on the findings of Internal Audit's investigations at every meeting, prior to reporting any significant matters to the Board, which retains overall responsibility for the effectiveness of the full suite of internal controls across the Company.

As set out on page 129 of the Severn Trent Plc Annual Report and Accounts 2022/23, the Severn Trent Plc Audit and Risk Committee has oversight of the Group's preparations to enact early recommendations that have arisen from the BEIS consultation on 'Restoring trust in audit and corporate governance'. The Group is fully committed to ensuring that its audit and governance arrangements reflect best practice and address any new requirements within the expected timeframes. As part of this, during the year a detailed review of the Group's systems, processes and procedures was undertaken by the Severn Trent Plc Audit and Risk Committee in order to provide assurance to the Group's Boards that the Group's internal control systems, including those which cover financial reporting, continue to operate effectively.

Further to the reports received by the Committee, which set out the Company's processes, systems and assurance procedures, the Committee has concluded that it has complied with its obligations under the 2018 Code in relation to the assessment of risk and the monitoring and review of the effectiveness of internal controls and risk management. The Committee is pleased to confirm that it was able to provide the Board with assurance that the Company's internal control systems and risk management procedures are effective, efficient and operating as required.

Risk Management

The Company has an ERM process in place through which our Principal Risks and related controls are identified and assessed. The Board has overall responsibility for setting the Company's risk appetite and ensuring that there is an effective risk management framework in place, and has delegated responsibility for review of the risk management methodology and effectiveness of internal controls to the Audit and Risk Committee.

The Audit and Risk Committee is complemented by a Group Strategic Risk Forum which assists with reviewing the risk management system, internal controls that mitigate risks and undertaking reviews of assurance risk reports. The Central ERM Team also undertakes regular reviews of the integration of the components of the risk framework to inform Board and Committee reporting.

Further details of the Company's risk management systems and controls, along with details of the Company's Principal Risks, can be found on pages 16 to 20.

Whistleblowing

The Group has established procedures by which all employees may, in confidence, report any concerns. Our Whistleblowing Policy, 'Speak Up', sets out the ethical standards expected of everyone that works for, and with, us and includes the procedure for raising concerns in strict confidence. Our workforce can raise concerns through their line manager, senior management and through our confidential and independent whistleblowing helpline and online channel, 'Safecall'. All investigations are carried out independently with findings being reported directly to the Audit and Risk Committee.

The Board as a whole monitors and reviews the effectiveness of the Company's whistleblowing arrangements annually, to ensure that it has sufficient oversight of whistleblowing to support its work on assessing culture, risk and stakeholder engagement. The Audit and Risk Committee receives reports on investigations and all significant whistleblowing matters are reported directly to the Board. The Board also receives regular updates from the Committee and the Board completes an assessment of the effectiveness of the Company's whistleblowing procedures. The Board has reviewed these arrangements again this year and is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

Fair, Balanced and Understandable Reporting

At the request of the Board, the Committee has considered whether, in its opinion, this Annual Report and Accounts, taken as a whole, is 'fair, balanced and understandable ('FBU') and whether it provides the information necessary to assess the 'Company's position, performance, business model and strategy'. The following process was followed by the Committee in making its assessment.

1	**Regular Disclosure Committee Review** The Committee reviewed the Annual Report and Accounts throughout the process and undertook a detailed FBU assessment ahead of tabling a detailed report to the Audit and Risk Committee. This process was conducted in a timely manner to enable sufficient time for the Audit and Risk Committee to comment and review on the report and ensure overall balance and consistency.
2	**Audit and Risk Committee Review** The Committee reviewed the Annual Report and Accounts to provide comments and ensure overall balance and consistency.
3	**Internal Audit Verification and Oversight** Internal Audit reviewed the Annual Report and Accounts and oversaw a verification process for all factual content and reported back to the Committee on its assessment and findings.
4	**FBU Assessment** The Committee reviewed and approved the process in place to support the FBU assessment and reviewed the findings of this process. The Committee was satisfied that all the key events and issues reported to the Board by management (both positive and negative) had been adequately referenced or reflected within the Annual Report and Accounts.
5	**External Auditor Review** The External Auditor presented the results of its audit work. The significant issues and risks considered as a Committee were consistent with those identified by the External Auditor in its report (see from page 94 for more detail).
6	**Recommendation to the Board** The Board approved the Committee's recommendation that the FBU statement could be made, which can be found in the Directors' Responsibility Statement on pages 92 to 93.

External Auditor

The Committee has primary responsibility for overseeing the vital relationship with the External Auditor, including assessing its performance, effectiveness and independence annually and making a recommendation to the Board in respect of its reappointment or removal.

Effectiveness and Competence

The Committee considers audit quality to be the principal requirement of the annual audit process and, as such, a full effectiveness review is conducted annually. This year, it involved assessment of the External Auditor by Hafren Dyfrdwy and Severn Trent Audit and Risk Committee members, key Executives and relevant senior management, including an evaluation of whether the External Auditor met the minimum standards of qualification, independence, expertise, effectiveness and communication. Those participating in the evaluation completed a feedback questionnaire focusing on the following areas:

- Robustness of the external audit process, 'professional scepticism' of the External Auditor and degree of challenge to matters of significant audit risk and areas of management subjectivity.
- Appropriateness of the scope of the audit and the planning process for the delivery of an effective and efficient audit.
- Quality of the delivery of the audit, the service provided by the External Auditor and its knowledge and understanding of the Group's business.
- Expertise of the audit team conducting the audit.
- Independence applied by the External Auditor and that policies and procedures were consistently applied.
- Views on the quality of the interaction between the audit partner and senior members of the audit team and the companies being audited.
- Whether the statutory audit contributed to the integrity of the Group's financial reporting.

Feedback was collated and presented to the Severn Trent Plc Audit and Risk Committee in March 2023, without the External Auditor present. The Severn Trent Plc Audit and Risk Committee discussed the conclusions and any opportunities for improvement, which were brought to the attention of the External Auditor. The Severn Trent Plc Audit and Risk Committee also considered the outcome of the FRC's Audit Quality Review into the External Auditor's audit of Severn Trent Plc's financial statements for the year ended 31 March 2022. No significant issues were reported as part of either the internal or external review processes, and it was concluded that the external audit process and services provided by Deloitte were satisfactory and effective.

Independence

The Committee regards independence of the External Auditor as absolutely crucial in safeguarding the integrity of the audit process and takes responsibility for ensuring the three-way relationship between the Committee, the External Auditor and management remains appropriate.

The Committee recognises that independence is also a key focus for the External Auditor, and Deloitte has confirmed that it has complied with its own ethics and independence policies, which are consistent with the FRC's Revised Ethical Standard (2019). This includes the External Auditor's assurances that all of its partners and staff involved with the audit are independent of any links to the Group and that none of its employees working on our audit hold any shares in Severn Trent Plc.

Deloitte provides confirmation of independence during the planning stage of the audit, disclosing matters relating to its independence and objectivity. There were no independence issues raised in respect of the 2022/23 audit.

<u>Non-Audit Services</u>

To preserve objectivity and independence, the External Auditor is not asked to provide other services unless it is in the best interests of the Company that these are provided by Deloitte rather than another supplier, in accordance with the Group's Non-Audit Services Policy (the 'Policy').

The Policy was reviewed and updated during 2019/20 to reflect the FRC's Revised Ethical Standard and the more restrictive list of services that are now permitted, and the Policy was subject to a further review during the year by the Severn Trent Plc Audit and Risk Committee. The Policy requires Severn Trent Plc Audit and Risk Committee approval for all such non-audit services. The Policy also prohibits aggregate fees for non-audit services in excess of 70% of the average audit fee for the previous three financial years. Non-audit services for which the External Auditor may be used include audit-related services required by statute or regulation and other audit or assurance services as set out in the Ethical Standard.

During the year, Deloitte received £77,000 in fees for work relating to the audit services it provides to the Company. Non-audit-related work undertaken by Deloitte amounted to fees of £36,000 this year, which is 32% of the total fees paid to them. Audit and non-audit fees paid to Deloitte are set out in note 4 to the financial statements.

The only non-audit service provided by Deloitte was the audit of the financial information contained within the Annual Performance Report. In approving this non-audit fees, the overall ratio of non-audit fees to audit fees was considered and, given the scope of work, it was considered that Deloitte was best placed to perform these services. Where Deloitte was chosen, this was as a result of its detailed knowledge of our business and understanding of our industry, as well as demonstrating that it had the necessary expertise and capability to undertake the work cost effectively whilst maintaining its objectivity and independence.

Statutory Auditor Reappointment for the Year Ending 31 March 2024

Deloitte LLP has expressed willingness to continue in office as auditors and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of a Hafren Dyfrdwy Cyfyngedig Annual General Meeting.

Significant Issues Considered and Addressed in Relation to the Financial Statements

The Committee looked carefully at those aspects of the financial statements that required significant accounting judgments or where there is estimation uncertainty. These areas are explained in note 2 to the financial statements. The Committee considered the accounting treatment for revenue and accrued income; the appropriateness of provision against bad debt; and the classification of capital expenditure. It received detailed reports from both the CFO and the External Auditor on these areas and on any other matters which they believed should be drawn to the Committee's attention. The draft External Auditor's report on the financial statements was also reviewed, with particular reference to those matters reported as carrying risks of material misstatement.

The Committee discussed the range of possible treatments both with management and with the External Auditor, confirming that the judgments made by management were robust and supportable. For all the matters described below, the Committee concluded that the treatment adopted in the financial statements was appropriate.

The Committee reviewed and challenged the evidence and assumptions underpinning the use of the Going Concern assumption in preparing the accounts and in making the statements in the Strategic Report on Going Concern and long-term Viability (see pages 21 to 28). In particular, the Committee considered severe but plausible scenarios modelled in relation to the Company's Principal Risks (see pages 16 to 20), noting the stress tests performed by management and the potential mitigating actions identified.

Directors' Remuneration Report

Remuneration Details

Non-Executive Directors' Fees

The three Independent Non-Executive Directors of Hafren Dyfrdwy Cyfyngedig received an annual fee for the year ended 31 March 2023. All fees were recharged to the Company.

Non-Executive Director fees will increase by 3.0% to £33,090 from 1 July 2023; in line with the increase for Severn Trent Plc Non-Executive Directors.

	2023/24	**2022/23**	**Increase %**
Fee paid to all Non-Executive Directors	£33,090	£32,120	3.0%

Non-Executive Directors normally serve for a term of three years. The current expiry date of Sally Jones-Evans's, Ann Beynon's and Mohammed Mehmet's Letters of Appointment is 31 March 2024. This term of appointment may be extended for a further three-year term by mutual agreement of the Board. However, continuation of their reappointment is conditional on satisfactory performance and recommendation by the Hafren Dyfrdwy Nominations Committee.

The total single figure of remuneration below sets out the remuneration received by the Directors for 2022/23:

	Year ended 31 March 2023*		**Year ended 31 March 2022**	
Non-Executive Directors	**Salary and Fees (£'000)**	**Total (£'000)**	**Salary and Fees (£'000)**	**Total (£'000)**
Sally Jones-Evans	**35.8**	**35.8**	**31.2**	**31.2**
Ann Beynon	**31.9**	**31.9**	**31.2**	**31.2**
Mohammed Mehmet	**31.9**	**31.9**	**31.2**	**31.2**

* Salary increase applied from 1 July 2022

Chair Fees

John Coghlan was remunerated as a Director of Hafren Dyfrdwy Cyfyngedig and received an additional fee of £10,470 for 2022/23 in relation to his responsibilities as Chair of Hafren Dyfrdwy Cyfyngedig. His fee will increase by 3.0% to £10,785 from 1 July 2023; in line with the increase seen for the Non-Executive Directors and the Severn Trent Plc Chair.

Sharmila Nebhrajani was remunerated as Chair of the Audit and Risk Committee of Hafren Dyfrdwy Cyfyngedig up until 11 July 2022. From 12 July 2022, this role was fulfilled by Sally Jones-Evans. The fee for this was £5,115 in 2022/23, and it will increase by 3.0% to £5,270 from 1 July 2023.

Due to remuneration from her position as Chair of Severn Trent Plc, Christine Hodgson received no additional remuneration in respect of her role as a Director of Hafren Dyfrdwy Cyfyngedig during 2022/23.

Executive Directors' Remuneration

A recharge is made to Hafren Dyfrdwy in respect of a proportion of their time for duties carried out by the Executive Directors on behalf of the Company in 2022/23 and this amounted to 8.4% in relation to the Managing Director James Jesic and 6% in relation to the Chief Financial Officer ('CFO') Helen Miles.

The recharge for Executive Directors' time during 2022/23 reflects the fully embedded resource provided by other senior Severn Trent employees in respect of Hafren Dyfrdwy.

The remuneration of the Executive Directors is determined by the Remuneration Committee of Severn Trent Plc (the 'ST Plc Remuneration Committee'), and any payments made in relation to the annual bonus scheme or LTIP are determined by Group performance and paid out of Group earnings.

The Directors' Remuneration Report of Severn Trent Plc (which can be found in the Severn Trent Plc Annual Report and Accounts 2022/23 on the Severn Trent Plc website) sets out the Remuneration Policy for Executive Directors and other senior executive managers, and the total remuneration paid to those Directors.

Board Changes

Following her appointment as CFO of Severn Trent Plc, Helen Miles has stepped down as CFO of Hafren Dyfrdwy, effective as of 1 April 2023. Adam Stephens, Severn Trent Group Treasurer and Head of Risk and Insurance, became CFO of Hafren Dyfrdwy with effect from 1 April 2023.

Summary of the Implementation of the Remuneration Policy in 2023/24

Shareholders overwhelmingly approved the Severn Trent Group's Remuneration Policy (the 'Policy') at the Severn Trent Plc AGM in July 2021 (99.66% voted in favour); full details of the Policy can be found on the Severn Trent Plc website. A summary of how the Policy will be implemented in 2023/24 is contained in the 2022/23 Severn Trent Plc Directors' Remuneration Report on pages 149 to 151.

A key feature of our remuneration package is that it strongly incentivises improvements in service to every single customer, irrespective of whether they are served under the Hafren Dyfrdwy or Severn Trent Water instrument of appointment.

The ST Plc Remuneration Committee believes that the fundamental architecture of the Executive Directors' remuneration package is appropriate and the Group's Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering business priorities within a framework designed to promote the long-term success of Severn Trent, aligned with shareholder interests.

Annual Bonus 2023/24

Over the last year the focus on environmental performance of water companies has intensified, particularly in relation to how it links to Executive pay outcomes. Whilst the ST Plc Remuneration Committee is confident that we already have strong links between environmental performance and pay, with 20% of the existing annual bonus linked to environmental measures, we believe it is appropriate to go further and make the link between environmental performance and remuneration even stronger and more direct.

In April 2023, the ST Plc Remuneration Committee approved an increase to the weighting of the river health element from 8% to 12% and the creation of a specific section of the annual bonus for the 4* Environmental Performance Assessment ('EPA') rating equating to 5% of the total. This means that, from 2023/24, 30% of the annual bonus will be linked to measures relating specifically to the environment and river health.

Specifically for the Executive Directors of Hafren Dyfrdwy for 2023/24, James Jesic and Adam Stephens, 3% of their bonus is attributed to Hafren Dyfrdwy performance. The annual bonus performance measures and weightings for 2023/24 financial year will be as follows:

	Hafren Dyfrdwy	**Severn Trent Group**
Profit Before Interest and Tax	1.5%	38.5%
Customer and Environment ODIs • Minimise disruption to customers • Prevent failure in our network and at our sites • Improve the environment we live in	1.5%	33.5%
River Health	-	12%
Severn Trent Water EPA Rating	-	5%
Health and Safety (Lost Time Incidents)	-	8%

The ST Plc Remuneration Committee considers the forward-looking performance targets to be commercially sensitive and has, therefore, determined not to disclose them in advance. Details of the targets used will be disclosed in the 2023/24 Severn Trent Plc Directors' Remuneration Report.

Directors' Report

The Directors' Report for the year ended 31 March 2023 comprises pages 85 to 91 of this report, together with the sections of the Annual Report incorporated by reference. The Governance Report set out on pages 52 to 84 is incorporated by reference into this report and, accordingly, should be read as part of this report.

As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 1 to 51, as the Board considers them to be of strategic importance.

Specifically, these are:

- The Performance Review on pages 9 to 11, which provides detailed information relating to the Company, its business model and strategy, operation of its businesses, future developments and the results and financial position for the year ended 31 March 2023;
- Future business developments (throughout the Strategic Report);
- Details of the Company's policy on addressing the Principal Risks and uncertainties facing the Company, which are set out in the Strategic Report on pages 16 to 20;
- The Viability Statement and Going Concern Statement on pages 21 to 28;
- How we have engaged with our people and stakeholders on pages 30 to 41;
- Business relationships (throughout the Strategic Report); and
- The Section 172 Statement on pages 46 to 48.

For information on our approach to social, environmental and ethical matters, please refer to the Severn Trent Plc Group Sustainability Report, available at www.severntrent.com.

Principal Activity

The principal activity of the Company is to treat and provide water and remove waste water in Wales. There have not been any significant changes to the Company's principal activities in the year under review. The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

Areas of Operation

During the course of 2022/23, the Company had activities and operations solely in the UK.

Directors and Directors' Interests

The Directors who held office during the year, and up to the date of signing, were as follows:

- A Beynon
- J B Coghlan
- C M Hodgson
- J J Jesic

- S Jones-Evans
- M Mehmet
- H M Miles (resigned on 1 April 2023)
- S Nebhrajani (resigned on 12 July 2022)
- A P Stephens (appointed on 1 April 2023)

Biographies of the Directors currently serving on the Board are set out on pages 53 to 57. None of the Directors have any beneficial interest in the share capital of the Company. The beneficial interests of the Directors in the share capital of the Company's ultimate holding company, Severn Trent Plc, are disclosed within the accounts for Severn Trent Plc. No Director has any rights to subscribe for shares in, or debenture of the Company.

Detail relating to the remuneration of Directors is disclosed on pages 82 to 84.

Directors' Indemnities

The Company maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors and Officers. As permitted by the Company's Articles of Association (the 'Articles'), and to the extent permitted by law, the Company indemnifies each of its Directors and other Officers against certain liabilities that may be incurred as a result of their positions. The indemnity was in force throughout the tenure of each Director during the last financial year and is currently in force. Hafren Dyfrdwy Cyfyngedig does not have in place any indemnities for the benefit of the External Auditor.

Employees

The average number of employees within the Company is shown in note 5 to the financial statements. Hafren Dyfrdwy Cyfyngedig believes a diverse and inclusive workforce is a key factor in being a successful business. Through our Diversity and Equal Opportunities Policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities. This means more than ensuring we do not discriminate in any way – we want to create and maintain a culture open to a diverse population. Hafren Dyfrdwy Cyfyngedig believes that no one should be hurt or made unwell by what we do.

We are an equal opportunities employer and welcome applications from all individuals, including those with a disability. We are fully committed to supporting applications made by disabled persons and make reasonable adjustments to their environment where possible (having regard to their particular aptitudes and abilities).

We are also responsive to the needs of our employees. As such, should any employee become disabled during their time with us, we will actively re-train that employee and make reasonable adjustments to their environment where possible, in order to keep them in employment with us.

All our training, promotion and career development processes are in place for all our employees to access, regardless of their gender, race, age or disability. The provision of occupational health programmes is of crucial importance with the aim of keeping our employees fit, healthy and well, including an employee assistance programme.

Employee Engagement

We continuously engage with our employees in a number of ways to accommodate different working patterns.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings and our employee survey, QUEST. More information on employee engagement can be found on pages 35 to 36.

Research and Development

Innovative use of existing and emerging technologies will continue to be crucial to the successful development of new products and processes for the Company, and our products must continue to deliver value for customers.

Internal Controls

The Board is responsible for the Company's Internal Control systems and for reviewing their effectiveness. The Hafren Dyfrdwy Cyfyngedig Audit and Risk Committee regularly monitors and reviews the effectiveness of the Company's systems of Internal Control, including Risk management, financial, operational and compliance aspects, in accordance with the requirements of the 2018 Code and the Guidance, and appropriate systems have been in place for the year ending 31 March 2023 and up to the date of the Annual Report. This is described in the Audit and Risk Committee Report on pages 73 to 81. The Internal Control system can provide only reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Treasury Management

Details on our Treasury Policy and management activities are set out in the Severn Trent Plc Treasury Committee Report within the Severn Trent Plc Annual Report and Accounts 2022/23.

Post Balance Sheet Events

There are no post balance sheet events to disclosure.

Capital Structure

Details of the Company's issued share capital and of the movements during the year are shown in note 20 to the Company financial statements. The Company has one class of Ordinary Shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company. The issued nominal value of the Ordinary Shares is 100% of the total issued nominal value of all share capital. On 28 June 2022, the Company approved the issue of 15 million ordinary shares of £1 each to its parent company, Severn Trent Draycote Limited, in exchange for cash.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the UK Corporate Governance Code 2018 (on a voluntary basis), the Companies Act 2006 and related legislation. The Articles may be amended by Special Resolution of the shareholders. The powers of Directors are described in the Hafren Dyfrdwy Cyfyngedig Matters Reserved to the Board document, the Articles of Association and the Governance Report.

Group Structure

The Company's position within the Severn Trent Plc Group can be found on the Severn Trent Plc website.

Dividends

No dividends (2021/22: £Nil) have been paid in the year. The Directors do not recommend the payment of a dividend (2021/22: £Nil).

Contributions for Political and Charitable Purposes

Donations to charitable organisations during the year amounted to £45,677 (2022: £52,720). Further details of the Company's Community Fund are set out on page 34.

The Company's policy is to make donations to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer-term partnerships. In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes. We are also committed to supporting WaterAid, the UK's only major charity dedicated to improving access to safe water, hygiene and sanitation in the world's poorest countries.

Our policy is not to make any donations for political purposes in the UK, or to donate to EU political parties or incur EU political expenditure. Accordingly, Hafren Dyfrdwy did not make any political donations nor incurred political expenditure in the financial year under review.

Supplier Payment Policy

Individual operating companies within the Hafren Dyfrdwy Cyfyngedig Group are responsible for establishing appropriate policies with regard to the payment of their suppliers, based on the principles of the Prompt Payment Code. The companies agree terms and conditions under which business transactions with suppliers are conducted. It is Company policy that provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is also Company policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

Relevant Audit Information

The Directors confirm that:

- So far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- Each of them has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

External Auditor

Having carried out a review of its effectiveness during the year, details of which can be found in the Audit and Risk Committee Report in the Severn Trent Plc Annual Report and Accounts 2022/23, the Severn Trent Plc Audit and Risk Committee recommended to the Severn Trent Plc Board the reappointment of Deloitte LLP as External Auditor on behalf of all Group subsidiaries. A reappointment resolution to that effect was included on the agenda at the 2023 Severn Trent Plc AGM. Deloitte LLP has indicated its willingness to continue as Auditor. The Severn Trent Plc Audit and Risk Committee will also be responsible for determining the audit fee on behalf of the Severn Trent Plc Board.

Reducing our Carbon Footprint

As a Group, we have committed to achieving net zero operational carbon emissions by 2030. We have also committed to generating or procuring 100% renewable energy and moving our fleet to 100% electric vehicles by 2030, where available. This is known as the Severn Trent Group's Triple Carbon Pledge. We have also set Science Based Targets to reduce Scope 1 and 2 emissions by 46% by 2031 in line with a 1.5c pathway, and for 70% of our supply chain (by emissions) to have set a Science Based Target by 2026.

We follow the principles of the International GHG protocol and Defra guidance in our carbon accounting and use the industry standard Carbon Accounting Workbook ('CAW') for our reporting with exception of how we calculate our process emissions. This tool is reviewed and updated annually to reflect changes in guidance and emissions factors. Our data and processes are subject to external assurance every year.

In 2022, Severn Trent Water reported process emissions using an industry-leading measurement which used in-house monitoring and the latest science to calculate a more representative process emissions value. This approach has been adopted for Hafren Dyfrdwy for the first time this year which has resulted in a substantial increase in our reported total process emissions with our estimated emissions being reported as 1,030 tCO_2e versus an industry estimated value based on the CAW v17 value of 215 tCO_2e. It is clear from our evidence, that the longstanding UKWIR CAW methodology, which uses population equivalent and sludge volumes, underestimates our total emissions and that is why we have chosen to move away from this method.

As a large proportion of our location-based carbon emissions are driven by our use of energy, managing carbon also means managing costs. To reduce our operational emissions, we will continue to focus on improving our energy efficiency to offset the additional demands of a growing population and more stringent treatment quality requirements. We will also continue to decarbonise our fleet and encourage employees to take up low-carbon electric cars as part of our Triple Carbon Pledge.

Pursuing these measures will continue to reduce our key sources of emissions, reduce our reliance on the electricity grid and bring financial benefits for our customers and investors.

Our GHG data is reported internally during the year to the Severn Trent Plc Corporate Sustainability Committee and to the Severn Trent Plc Board. The Group's GHG data and processes are subject to external assurance by Jacobs in line with the principals of the IS0 14064-3 International standard for GHG emissions.

The Group has held the Carbon Trust Standard continuously since 2009, which recognises our consistent emissions reductions and effective carbon management processes and achieved the Advancing Tier for the Carbon Trust Zero Standard – this certification recognises the progress of an organisation on its journey to net zero. This included assurance to IS0 14064-3 International standard for GHG emissions for our Scope 1 and 2 and a small portion of our Scope 3 data. We are in the process of verifying our 2022/23 footprint with the Carbon Trust to maintain our accreditation. The Group continues to report to the Carbon Disclosure Project ('CDP') each year which means our climate change information is publicly accessible. CDP requests information about climate change from companies on behalf of investors and scores each company on the quality and completeness of their responses. In 2022, the Group received a CDP rating of A- and we were recognised as a Supplier Engagement Leader.

Hafren Dyfrdwy Carbon Footprint kt CO2e

Our GHG emissions are reported in tonnes of carbon dioxide equivalent ('tCO2e'), for the period 1 April 2022 to 31 March 2023. Our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard. We have included only emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary. We have reported on additional categories of Scope three emission sources in line with our APR and guidance from Ofwat, as well as our intention to disclose improved data. Also shown in our avoided emissions table, is the carbon benefit of the renewable electricity which we export to the grid. We use the proceeds to invest in our research and development programme to reduce Scope 1 emissions.

Our total gross emissions have increased due to the change in emission factors for process emissions, and inclusion of additional categories notably and waste. We report both location-based and market-based emissions separately in the table below.

Operational Greenhouse Gas Emissions	Location Based	Market Based
Scope 1 Emissions (Combustion of fossil fuel on site)	22	22
Scope 1 Emissions (Process emissions)	1030	1030
Scope 1 Emissions (Transport Fleet)	622	622
Scope 2 Emissions (Electricity Purchased for own use)	3972	0
Scope 3 purchased electricity; extraction, production, transmission and distribution	1400	856
Scope 3 Purchased heat; extraction, production, transmission and distribution	2.51	2.51
Scope 3 Purchased fuels; extraction, production, transmission and distribution	150	150
Scope 3 Chemicals	998	998
Disposal of Waste	511	511
Total Annual Gross Operational Emissions	8708	4192

Additional Scope 3 Emissions	**tCO2e**
Capital projects	4193
Purchased goods and services (excluding chemicals provided in table above)	2897

Avoided Emissions – Hydro Generated Electricity	**tCO2e**
Estimated emissions benefit of the renewable electricity we report	454

Annual Performance Report for Hafren Dyfrdwy Cyfyngedig

The Annual Performance Report for Hafren Dyfrdwy Cyfyngedig is prepared and sent to Ofwat. A copy of this will be available on the website of Hafren Dyfrdwy or on request to the Company Secretary. There is no charge for this publication.

By order of the Board

James Jesic
Managing Director

13 July 2023

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the Principal Risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 10 July 2023 and is signed on its behalf by order of the Board:

John Coghlan	**James Jesic**
Chair	**Managing Director**
13 July 2023	13 July 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAFREN DYFRDWY CYFYNGEDIG

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Hafren Dyfrdwy Cyfyngedig (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • valuation of the provision for trade and other receivables; and • classification of capital programme expenditure.

	Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used in the current year was £753,000 (2022: £700,000) which was determined on the basis of c.2% of revenue.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There are no changes in our approach in the current year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- understanding the nature of the company, its business model and related risks including the impact of the cost of living and affordability crisis;
- evaluating the underlying data and key assumptions used in the directors' assessment and evaluating the directors' plans for future financing;
- evaluating the funding available through the company's credit facilities, including their maturity period, the group's ability to provide such funding to support the company's forecasted future cash flows, future commitments, and the net current liability position at the balance sheet date;
- challenging the assumptions used in the cash flow forecasts, including testing for consistency with board approved budgets and future plans for AMP (Asset Management Plan) 7, and performing sensitivity analysis relating to these assumptions;
- assessing the headroom under both the base case and sensitised forecasts considering the possibility of reduced facilities available from the immediate parent; and
- reviewing the appropriateness of the disclosures provided in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the company has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of the provision for trade and other receivables

Key audit matter description	Hafren Dyfrdwy Cyfyngedig supplies water to residential customers in the UK and the provision represents the portion of household customers who do not, or cannot, pay their bills. Management makes estimates regarding the expected future loss rate for current receivables when calculating the appropriate level of bad debt provision. The bad debt provision recorded as at 31 March 2023 was £6.9 million (31 March 2022: £6.0 million), which incorporates management's estimate of the future impact of external economic factors on customers' ability to pay their outstanding bills to the company. The provision is based on the historical cash collection of debt invoiced seven to nine years ago, which is considered by management to be representative of collection risk, using data relating to both Hafren Dyfrdwy Cyfyngedig's customers for the Powys region and Severn Trent Water Ltd's customers for the Wrexham region. This historical collection performance is then adjusted for actual current cash collection. The final step is to adjust the provision for future economic conditions, for which management has considered the correlation between forecast cash collection and gross disposable household income (GDHI). We identified a key audit matter relating to the valuation and accuracy of the bad debt provision, in particular the appropriateness of management's use of Severn Trent Water Limited provision rates to calculate the company's provision, specifically in Wrexham, and the additional provision recorded to recognise the risk arising from the impact of cost of living crisis on the economy. Due to the high degree of estimation uncertainty associated with the recoverability of trade receivables, we have determined that there was a potential for fraud through possible manipulation of this balance. The Audit and Risk Committee also considered this as a significant issue as discussed in the Audit and Risk Committee Report on page 80. The accounting policy for the provision for trade receivables is disclosed in note 1(m) and trade and other receivables are disclosed in note 15 to the financial statements.

How the scope of our audit responded to the key audit matter	Our procedures to address the key audit matter included the following: • obtaining an understanding of relevant controls over the determination of the bad debt provision, including over the supporting data and assumptions; • testing the completeness and accuracy of the data included within the bad debt provision calculation; • testing the allocation of cash received in the current year to debt aged between seven and nine years; • use of data analytics to reconcile the debtor ageing for each debt category used in the bad debt provision model using source data from the billing system; • challenging the appropriateness of Hafren Dyfrdwy Cyfyngedig basing its bad debt provision on the collection rates experienced by Severn Trent Water Ltd for the area of Wrexham for debtors aged less than five years and for specific localised collection in Powys; • evaluating the reasonableness of economic data (both forecast and historical) used within the calculation, and performing a sensitivity analysis; • evaluating management's assumptions used in the calculation of the bad debt provision and challenging whether this represents lifetime expected credit loss, including review of cash collection data and historical trends; and • assessing the appropriateness of the disclosures provided relating to the key assumptions, and the range of sensitivities disclosed.
Key observations	We are satisfied that the assumptions applied in assessing the expected credit losses, are reasonable and that Hafren Dyfrdwy Cyfyngedig bad debt provision has been appropriately calculated using relevant data, in accordance with IFRS 9.

5.2. Classification of capital programme expenditure

Key audit matter description	The company has a substantial capital programme which has been agreed with the regulator ("Ofwat") and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. During the year the company invested £15.3 million (2022: £12.2 million) in capital expenditure projects out of total additions of £15.9 million (2022: £13.4 million) disclosed in note 11. As the determination of whether expenditure is capitalised or expensed in the period directly affects the company's reported financial performance, we identified a key audit matter relating to the classification of capital expenditure, whether caused by changes to the company's capital expenditure policy implementation guidance or by incorrect application of this guidance. Due to the level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance. The Audit and Risk Committee also considered this a significant issue as discussed in the Audit Committee Report on page 80. Management has included this as a critical accounting judgement in note 2a to the financial statements.

How the scope of our audit responded to the key audit matter	Our procedures to address the key audit matter included the following: • assessing management's capitalisation policy and implementation guidance to understand any changes in the current year and to determine compliance with the relevant accounting standards; • obtaining an understanding of, and testing, relevant controls over the application of the policy regarding expenditure incurred on projects within the capital programme during the year; and • for a sample of projects, assessing whether the capitalisation policy has been applied to the costs incurred by reviewing the business cases, making direct enquiries of project managers and inspecting invoices.
Key observations	Management's capitalisation policy and implementation guidance is consistent with the prior financial year. We are satisfied that management has appropriately applied their capitalisation policy and implementation guidance in determining the expenditure to be capitalised.

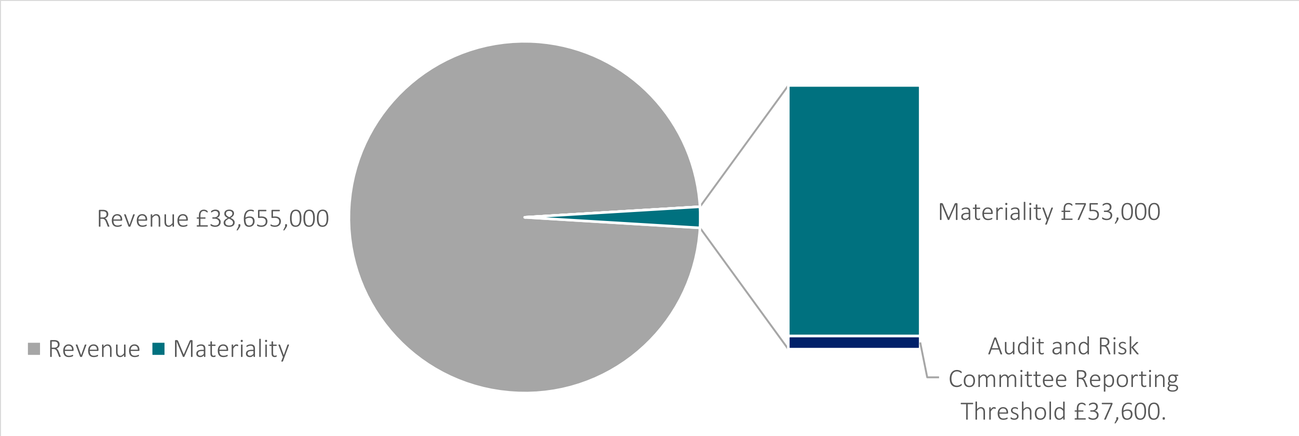
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£753,000 (2022: £700,000)
Basis for determining materiality	Materiality has been determined based on 2% of revenue for the year (2022: 2% of revenue).
Rationale for the benchmark applied	Revenue has been used as the benchmark as it is a key driver of financial performance.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality we considered our ability to rely on general information technology controls, our assessment of the control environment, and the continuity of the business year on year. We also considered the value of uncorrected misstatements identified in previous years. Taking these factors in to consideration led us to keep the performance materiality consistent with prior year being at 70% of materiality.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £37,600 (2022: £35,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the company and its environment, including internal control, and assessing the risk of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

The company uses SAP, a financial accounting software platform for recording transactions.

With the involvement of our Information Technology specialists, we obtained an understanding of, and relied on, relevant General Information Technology Controls within the Company financial accounting software platform, including access controls, change management controls and controls around segregation of duties.

We tested the relevant controls on a sample basis by either observing or reperforming each step of the control and obtaining the relevant supporting evidence.

7.3. Our consideration of climate-related risks

The company has assessed the risk and opportunities relevant to climate change and has included this risk as a principal risk as set out on page 19 as consistent with previous years.

As part of our audit procedures, we have obtained management's climate-related risk assessment and held discussions with management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the company's financial statements. While management has acknowledged that the transition and physical risks posed by climate change have the potential to impact the medium to long term success of the business, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2023 as explained in note 2(a)(iii)).

We reviewed management's climate change risk assessment and evaluated the completeness of the identified risks and impact on the financial statements. We also considered climate change within our audit risk assessment process in conjunction with our assessment of the balances and did not identify any additional risks of material misstatement.

Our audit procedures also included:

- Reading disclosures included in the Strategic Report and considered whether they are materially consistent with the financial statements and our knowledge obtained in the audit; and
- Evaluating financial statement disclosures to assess whether climate risk assumptions were appropriately disclosed.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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.

10.Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- valuation of the provision for trade and other receivables; and
- classification of capital programme expenditure.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation, tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of the provision for trade and other receivables and the classification of capital programme expenditure as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, the audit and risk committee, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat and other regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12.Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13.Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 28;

- the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 28;
- the directors' statement on fair, balanced and understandable set out on page 92;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 16;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 87; and
- the section describing the work of the Audit and Risk Committee set out on pages 73 to 81.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Marianne Milnes

Marianne Milnes FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

13 July 2023

Hafren Dyfrdwy Cyfyngedig

Income statement
For the year ended 31 March 2023

	Note	**2023** **£'000**	2022 £'000
Turnover	3	**38,655**	35,044
Operating costs before charge for bad and doubtful debts	4	**(44,355)**	(36,440)
Charge for bad and doubtful debts	4	**(1,388)**	(1,130)
Total operating costs		**(45,743)**	(37,570)
Loss before interest and tax		**(7,088)**	(2,526)
Finance income	7	**1,802**	1,301
Finance costs	8	**(1,378)**	(943)
Net finance income		**424**	358
Loss before taxation		**(6,664)**	(2,168)
Current tax	9	**2,553**	1,120
Deferred tax excluding exceptional deferred tax	9	**(2,235)**	(1,435)
Exceptional deferred tax	9	**-**	(4,781)
Taxation on loss on ordinary activities		**318**	(5,096)
Loss for the year		**(6,346)**	(7,264)

All results are from continuing operations in both the current and preceding year.

Hafren Dyfrdwy Cyfyngedig

Statement of comprehensive income
For the year ended 31 March 2023

	Note	**2023**	2022
		£'000	£'000
Loss for the year		**(6,346)**	(7,264)
Net actuarial (losses)/gains	12	**(12,100)**	200
Deferred tax on net actuarial losses/(gains)	9	**3,025**	(50)
Deferred tax arising on rate change	9	**-**	(699)
		(9,075)	(549)
Total comprehensive loss for the year		**(15,421)**	(7,813)

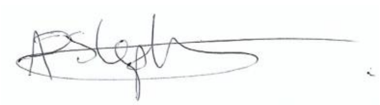
Hafren Dyfrdwy Cyfyngedig

Balance sheet

At 31 March 2023

	Note	2023 £'000	2022 £'000
Non-current assets			
Intangible assets	10	**5,110**	6,022
Property, plant and equipment	11	**226,534**	217,870
Right-of-use assets		**69**	3
Retirement benefit Surplus	12	**5,700**	17,500
		237,413	241,395
Current assets			
Inventory	13	**893**	649
Biological assets	14	**72**	158
Trade and other receivables	15	**35,785**	32,884
Current tax receivable		**4,324**	-
Cash and cash equivalents		**-**	565
		41,074	34,256
Current liabilities			
Trade and other payables	16	**(23,180)**	(43,742)
Borrowings	17	**(346)**	(300)
Provisions for liabilities	18	**(1,464)**	(4,222)
Current tax payable		**-**	(1,790)
		(24,990)	(50,054)
Net current assets / (liabilities)		**16,084**	(15,798)
Non-current liabilities			
Borrowings	17	**(63,848)**	(36,441)
Trade and other payables	16	**(14,739)**	(14,179)
Deferred tax	19	**(23,490)**	(24,319)
Provisions for liabilities	18	**(1,824)**	(680)
		(103,901)	(75,619)
Net assets		**149,596**	149,978
Equity			
Called up share capital	20	**168,051**	153,051
Other reserves		**614**	614
Fair value reserve		**11,685**	11,685
Total retained earnings		**(30,754)**	(15,372)
		149,596	149,978

The financial statements were approved by the Board of Directors on 10 July 2023. They were signed on its behalf by:



Adam Stephens
Director
13 July 2023

Hafren Dyfrdwy Cyfyngedig

Company Number: 03527628

Statement of changes in equity

For the year ended 31 March 2023

	Note	Share capital £'000	Other reserves £'000	Fair value reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2021		153,051	614	11,685	(7,559)	157,791
Loss for the year		-	-	-	(7,264)	(7,264)
Deferred tax arising on rate change	9	-	-	-	(699)	(699)
Net actuarial gains	9	-	-	-	200	200
Deferred tax on net actuarial gains	9	-	-	-	(50)	(50)
Total comprehensive loss for the year		-	-	-	(7,813)	(7,813)
At 1 April 2022		153,051	614	11,685	(15,372)	149,978
Loss for the year		-	-	-	(6,346)	(6,346)
Net actuarial losses	12	-	-	-	(12,100)	(12,100)
Deferred tax on net actuarial losses	9	-	-	-	3,025	3,025
Total comprehensive loss for the year		-	-	-	(15,421)	(15,421)
Share issue	20	15,000	-	-	-	15,000
Deferred tax on share based payments	9	-	-	-	39	39
At 31 March 2023		**168,051**	**614**	**11,685**	**(30,754)**	**149,596**

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements

1. Accounting policies

a) Accounting convention

The Company operations are described in the Directors' Report.

The financial statements have been prepared on the going concern basis (see Strategic report) under the historical cost convention as modified by the revaluation of certain financial assets and liabilities at fair value, and in accordance with applicable United Kingdom Accounting Standards and comply with the requirements of the Companies Act 2006. The principal accounting policies, which have been applied consistently in the current and preceding year are set out below.

Hafren Dyfrdwy Cyfyngedig (the Company) is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is domiciled in the United Kingdom. The address of its registered office is Packsaddle, Wrexham Road, Rhostyllen, Wrexham, Clwyd, LL14 4EH.

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

b) Basis of preparation

(i) General

The Company is a wholly owned subsidiary of Severn Trent Draycote Limited and of its ultimate parent, Severn Trent Plc. It is included in the consolidated financial statements of Severn Trent Plc, which are publicly available. The address of the ultimate parent's registered office disclosed in note 23 to the financial statements.

The Company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements. Accordingly, the Company has elected to apply FRS 101 Reduced Disclosure Framework. Therefore, the recognition and measurement requirements of IFRS have been applied, with amendments where necessary in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as these are Companies Act 2006 accounts.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the Group financial statements of Severn Trent Plc which are available to the public and can be obtained as set out in note 23.

(ii) New accounting policies and future requirements

At the balance sheet date, no Standards or Interpretations were in issue but not yet effective that are expected to have a material impact on the Company's financial position.

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies (continued)

c) Revenue recognition

Revenue includes turnover and interest income.

Turnover represents the fair value of consideration receivable, excluding value added tax, trade discounts and inter-company sales, in the ordinary course of business for goods and services provided.

Turnover is not recognised until the service or goods has been provided to the customer.

Water and waste water revenue is recognised when the service is provided and includes an estimate of the amount of mains water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

Amounts received from developers for diversions activity is recognised as turnover when the service to divert the infrastructure has been completed.

Commission income is earned on amounts billed on behalf of other water companies for the sewerage services they provide to the Company's customers. Commission is recognised when the bill is sent to the customer.

Revenue from energy sales is recognised when the electricity is delivered to the national grid. Green energy incentives are recognised when the Company becomes entitled to them.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

d) Exceptional items

Exceptional items are income or expenditure, which individually or, if of a similar type, in aggregate should, in the opinion of the Directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view.

e) Taxation

Current tax payable is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Current and deferred tax are recognised in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future to utilise it.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies (continued)

f) Intangible assets

Intangible assets acquired separately are capitalised at cost. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

	Years
Software	3-10

Amortisation charged on intangible assets is taken to the income statement through operating costs.

Finite life intangible assets are reviewed for impairment where indicators of impairment exist (see note j below).

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Such assets are reviewed for impairment at least annually and where indications of impairment exist.

Development expenditure is capitalised as an intangible asset and written off over its expected useful economic life where the following criteria are met:

- it is technically feasible to create and make the asset available for use or sale;
- there are adequate resources available to complete the development and to use or sell the asset;
- there is the intention and ability to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably.

Research expenditure is expensed when it is incurred.

g) Property, plant and equipment

Property, plant and equipment is held at cost less accumulated depreciation. Expenditure on property, plant and equipment relating to research and development projects is capitalised and depreciated over the expected useful life of those assets.

The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Expenditure which results in enhancements to the operating capability of the infrastructure networks is capitalised.

Where items of property, plant and equipment are transferred to the Company from customers or developers, the fair value of the asset transferred is recognised in the balance sheet. Fair value is determined based on estimated depreciated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation, the corresponding credit is recognised immediately in turnover. Where the transfer is considered to be linked to the provision of ongoing services the corresponding credit is recorded in deferred income and released to operating costs over the expected useful lives of the related assets.

Where assets take a substantial period of time to get ready for their intended use, the borrowing costs directly attributable to the acquisition, construction or production of these assets are added to their cost.

Property, plant and equipment is depreciated, using the straight-line method, to its estimated residual value over its estimated useful life, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The estimated useful lives are:

Fixed asset category	Type of asset	Estimated useful life
Land and buildings	Buildings	30 – 80 years
Infrastructure assets	Impounding reservoirs	250 years
	Raw water aqueducts	250 years
	Water mains	80 – 150 years
	Sewers	150 – 200 years
Fixed plant and equipment	Fixed plant	20 – 40 years
	Equipment	20 – 40 years
	Mobile plant and vehicles	2 – 15 years

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies (continued)

h) Leases

Where the Company enters into a contract that contains a lease, it recognises a right-of-use asset and a lease liability. The right-of-use asset is measured at cost, which includes: the amount of the initial measurement of the lease liability (see below); any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs incurred by the Company; and an estimate of any remediation or similar costs required by the lease contract.

At the commencement date the lease liability is measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or, if that cannot be readily determined, the Company's incremental borrowing rate. Lease liabilities are included in borrowings.

Lease payments are treated as consisting of a capital element and a finance charge; the capital element reduces the lease liability and the finance charge is written off to the income statement at a constant rate over the period of the lease in proportion to the capital amount outstanding. Depreciation of the right-of-use asset is charged over the shorter of the estimated useful life and the lease period unless ownership is expected to transfer to the Company at the end of the lease, in which case the right-of-use asset is depreciated to the end of the useful life of the underlying asset.

Where the lease term is less than one year or the underlying asset is low value, the Company does not recognise a right-of-use asset or lease liability. Payments under such leases are charged to operating costs.

i) Grants and contributions

Grants and contributions received in respect of non-current assets, including certain charges made as a result of new connections to the water and sewerage networks, are treated as deferred income and released to operating costs over the useful economic life of those non-current assets.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in operating costs in the period that they become receivable.

j) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment, or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

For regulated businesses we use the WACC from Ofwat's latest price review adjusted for market changes since this date where appropriate.

Impairment reviews are also carried out if there is an indication that an impairment may have occurred, or, where otherwise required, to ensure that non-current assets are not carried above their estimated recoverable amounts.

Impairments are recognised in the income statement.

k) Inventory

Inventory is stated at the lower of cost and net realisable value.

Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies (continued)

l) Biological Assets

The Company's biological assets are standing timber which is measured at fair value less costs to sell. Gains or losses arising on initial recognition or on changes in fair value less costs to sell are recognised in Turnover in the period to which they relate. Costs include felling, processing, transportation, commissions, site management including rent and contractual profit sharing with forestry partners.

The fair value is determined using discounted expected future cashflows.

m) Loans receivable

Loans receivable are measured at fair value on initial recognition, less issue fee income received. All loan receivables are held for collection of contractual cash flows, which represent solely payments of principal and interest. After initial recognition, loans receivable are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue fee income are credited to the income statement and added to the carrying value of loans receivable at a constant rate in proportion to the loan amount outstanding.

The Company assesses on a forward-looking basis the expected credit losses associated with its loans receivable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the loan receivable.

n) Trade receivables and accrued income

Trade receivables and accrued income are measured at fair value on initial recognition. If there is objective evidence that the asset is impaired, it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense in operating costs.

The Company applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade receivables. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the Company's historical experience of trade receivable write-offs and reasonable, supportable forward-looking information which is available without undue cost or effort.

o) Retirement benefits

(i) Defined benefit schemes

The difference between the value of defined benefit pension scheme (the scheme) assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset.

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices. For scheme assets with no quoted price, the fair value is derived by using quotations from independent third parties or by using applicable valuation techniques at the end of each reporting period. Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability.

Service cost, representing the cost of employee service in the year, is included in operating costs. Net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net obligation.

Changes in the retirement benefit obligation that arise from:

- differences between the return on scheme assets and interest income included in the income statement;
- actuarial gains and losses from experience adjustments; and
- changes in demographic or financial assumptions,

are classified as re-measurements, charged or credited to other comprehensive income and recorded in the statement of comprehensive income in the period in which they arise.

(ii) Defined contribution scheme

Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due.

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies (continued)

p) Provisions

Provisions are recognised where:

- there is a present obligation as a result of a past event;
- it is probable that there will be an outflow of economic benefits to settle this obligation; and
- a reliable estimate of this amount can be made.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability where the effect is material.

q) Borrowings

Borrowings are initially recognised at fair value less issue costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue costs are charged to the income statement and added to the carrying value of borrowings at a constant rate in proportion to the capital amount outstanding.

Index-linked debt is adjusted for changes in the relevant inflation index and changes in value are charged to finance costs.

r) Share based payment

The Company operates a number of equity-settled share based compensation plans for employees. The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant.

The fair value of employee services is determined by reference to the fair value of the awards granted, calculated using an appropriate pricing model, excluding the impact of any non-market vesting conditions. The number of awards that are expected to vest takes into account non-market vesting conditions including, where appropriate, continuing employment by the Company. The charge is adjusted to reflect shares that do not vest as a result of failing to meet a non-market condition.

Share based compensation plans are satisfied in shares of the ultimate parent company.

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

2. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, the Company is required to make certain judgments, estimates and assumptions that it believes are reasonable based on the information available. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

a) Critical accounting judgments

i) Classification of costs between operating expenditure and capital expenditure

Hafren Dyfrdwy's business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgments to be made. The judgments are made based on objective criteria that the Company has developed to facilitate the consistent application of its accounting policies. The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Total infrastructure renewal expenditure during the year was £5,193,000 (2022: £4,148,000). Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised and amounted to £15,916,000 (2022: £13,440,000).

ii) Income from connections to water and waste water networks

The Company receives income from developers and domestic customers for new connections to the water and waste water networks either in the form of infrastructure assets or cash. The more significant examples of these transactions are:

- Developers transfer to the Company's infrastructure assets that they have installed in a new development. Usually there is no monetary consideration exchanged when the Company adopts assets in this manner.
- When new properties are connected to the network, the Company is permitted, under the Water Industry Act, to obtain a contribution from the developer towards the cost of reinforcing its network to meet the additional demands arising from the new connections. These are referred to as Infrastructure charges and the charges are a standard amount per property and are not linked to specific reinforcement expenditure.
- When developers require properties to be connected to the Company's network, the Company installs a meter and connection to each property but retains ownership of the assets and responsibility for their maintenance.

Assessing whether this income is received in relation to the provision of the connection to the Company's infrastructure networks or is to facilitate the ongoing provision of water and waste water services to the properties in question requires judgment about the nature of the ongoing relationship between the Company and the customer. During the period the Company received infrastructure charges amounting to £336,000 (2022: £303,000) and other charges relating to the provision of infrastructure amounting to £14,000 (2022: £74,000).

The Company considers that the purpose of these transactions is to facilitate the ongoing provision of water and waste water services to the properties in question and they are inextricably linked to that ongoing service. There is a transferable right to receive an ongoing water and waste water service that passes from customer to customer when the property is bought and sold during the life of the property and, without the ongoing water and waste water service, the transactions have no value. Therefore, in line with our accounting policies the amounts received are held on the balance sheet and released to turnover in the income statement over the life of the related assets.

iii) Climate Change

The Company continues to develop its assessment of the impact that climate change may have on the amounts recognised in the financial statements. The natural environment in which the Company operates is continually changing, and the expected impact on the Company from climate change is set out within the 'We reduce our carbon footprint' section of the Directors' report 'Our approach to climate change' section of the Strategic Report on pages 29 to 30. We have considered the impact of the climate change related risks to which the Company is exposed in the preparation of these financial statements. The risks are long term in nature, and whilst they will provide a need for investment in the future, we conclude that there is no material impact on the carrying amount of assets or liabilities recognised in the financial statements, nor do they lead to any additional key sources of estimation or judgment.

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Notes to the financial statements (continued)

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

b) Sources of estimation uncertainty

i) Depreciation and carrying amounts of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the Company's experience of similar assets. Details are set out in note 1 g). The average useful life of property, plant and equipment by asset category is detailed as follows:

	Average useful economic life (years)
Land and buildings	36.0
Infrastructure assets	107.8
Fixed plant and equipment	17.1

The impact on the annual depreciation expense of a 10 per cent increase and decrease in useful economic life ('UEL') of property, plant and equipment by asset category is detailed as follows:

Impact on annual depreciation	10 per cent increase in UEL £'000	10 per cent decrease in UEL £'000
Land and buildings	(114)	139
Infrastructure assets	(118)	144
Fixed plant and equipment	(428)	523

ii) Retirement benefit obligations

Determining the amount of the Company's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long-term interest rates, inflation and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Company makes assumptions concerning these matters with the assistance of advice from independent, qualified actuaries. Details of the assumptions made and associated sensitivities are set out in note 12 to the financial statements.

iii) Provision for impairment of trade receivables

Expected credit losses for trade receivables are based on the historical credit losses experienced and reasonable forecasts of the future impact of external economic factors on the Company's collection of trade receivables. A number of economic factors such as high inflation, rising interest rates and reduction of Government support for domestic energy bills might impact household disposable income and therefore the expected credit losses on trade receivables.

We based our assessment of the future impact of these economic factors on the most recent forecast of real disposable household incomes ('RDHI') from the Office for Budget Responsibility ('OBR'), which was released in March 2023. This forecasts a 2.0% reduction in RDHI in 2023/24, with a return to pre-crisis levels not expected until 2026.

The previous OBR assessment RDHI in March 2022 had forecasted a decline in RDHI for 2022/23 of 2.2%, 1.5% lower than the latest forecast's output of 3.7% which contains around nine months of actual data. If our assessment of the reduction in RDHI in 2023/24 was 1.5% lower than the latest OBR forecast, the expected credit loss in the year would have been £165,000 lower. Similarly, if our assessment of the future change in RDHI had been 1.5% higher, the expected credit loss in the year would have been £273,000 higher.

Details of the amounts provided and charged to the income statement are set out in note 15.

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Notes to the financial statements (continued)

3. Revenue

The Company's activities are solely based in the UK.

	2023 £'000	2022 £'000
Water and waste water services	**35,220**	32,767
Commission	**1,616**	1,386
Timber income	**999**	314
Renewable energy	**820**	577
	38,655	35,044

4. Operating costs

	2023 £'000	2022 £'000
Wages and salaries	**6,851**	4,939
Social security costs	**728**	523
Pension costs	**539**	267
Total employee costs	**8,118**	5,729
Power	**5,867**	3,908
Raw materials and consumables	**3,041**	1,677
Rates	**2,970**	2,991
Charge for bad and doubtful debts	**1,388**	1,130
Services charges	**561**	837
Depreciation of tangible fixed assets	**7,252**	7,184
Depreciation of right-of-use assets	**25**	-
Amortisation of intangible fixed assets	**973**	1,000
Hired and contracted services	**10,456**	8,767
Hire of plant and machinery	**376**	371
Infrastructure maintenance expenditure	**5,193**	4,148
Ofwat licence fees	**144**	86
Other operating costs	**7,642**	6,571
Other operating income	**(57)**	(273)
	53,949	44,126
Own work capitalised	**(8,206)**	(6,556)
	45,743	37,570

During the year the following fees were charged by the auditor:

	2023 £'000	2022 £'000
Fees payable to the Company's auditor for:		
- the audit of the Company's annual accounts	**77**	71
Total audit fees	**77**	71
Fees payable to the Company's auditor and its associates for other services:		
- other assurance services	**36**	33
Total non-audit fees	**36**	33

Other assurance services also include certain agreed upon procedures performed by Deloitte in connection with Hafren Dyfrdwy's regulatory reporting.

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Notes to the financial statements (continued)

5. Employee numbers

The average monthly number of employees (including Executive Directors) during the year was:

	2023 Number	2022 Number
Direct staff	**179**	133

6. Directors' remuneration

	2023 £'000	2022 £'000
Non-executive director remuneration	**100**	94

Details of directors' remuneration are set out in the Directors' Remuneration Report.

The Executive Directors do not receive remuneration for their services to the Company. The emoluments of the Executive Directors are paid by other companies within the Severn Trent Group. A recharge is made to the Company in respect of a proportion of their time for duties carried out by the Executive Directors on behalf of the company.

7. Finance income

	2023 £'000	2022 **£'000**
Other financial income	**2**	1
Interest income on defined benefit scheme assets (note 12)	**1,800**	1,300
Total interest income	**1,802**	1,301

8. Finance costs

	2023 £'000	2022 £'000
Interest charged on:		
Finance leases	**30**	35
Bank and other loans	**48**	8
Interest cost on defined benefit scheme liabilities (note 12)	**1,300**	900
Total interest expense	**1,378**	943

Borrowing costs of £2,259,000 (2022: £1,304,250) incurred funding eligible capital projects have been capitalised at an interest rate of 4.6% (2022: 3.0%). Tax relief of £429,000 (2022: £248,000) was claimed on these costs, which was credited to the income statement, offset by a related deferred tax charge of £565,000 (2022: £326,000).

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Notes to the financial statements (continued)

9. Taxation

a) Analysis of tax (credit)/charge in the year

	2023	2022
	£'000	£'000
Current tax at 19% (2022: 19%)		
Current year	**(2,669)**	(1,340)
Prior year group relief	**116**	220
Total current tax credit	**(2,553)**	(1,120)
Deferred tax		
Origination and reversal of temporary differences:		
- current year	**2,217**	1,325
- prior year	**18**	110
Exceptional deferred tax arising on change of rate	**-**	4,781
Total deferred tax charge	**2,235**	6,216
	(318)	5,096

b) Factors affecting the tax (credit)/charge in the year

The tax assessed for the current year is higher (2022: lower) than the standard rate of corporation tax in the UK of 19% (2022: 19%).

The differences are explained below:

	2023	2022
	£'000	£'000
Loss before taxation	**(6,664)**	(2,168)
Tax at the standard rate of corporation tax in the UK 19% (2022: 19%)	**(1,266)**	(412)
Tax effect of depreciation on non-qualifying assets	**137**	96
Other permanent differences	**145**	(17)
Adjustment in respect of prior years	**134**	330
Current year impact of higher rate for deferred tax	**532**	318
Exceptional deferred tax arising on rate change	**-**	4,781
Total tax (credit)/charge	**(318)**	5,096

Deferred tax is provided at 25%, the rate that is expected to apply when the asset or liability is expected to be settled. Further details are provided in note 19.

c) Tax charged directly to equity

	2023	2022
	£'000	£'000
Deferred tax		
Tax on actuarial (losses)/gains	**(3,025)**	50
Tax on share based payment	**(39)**	-
Tax arising on rate change	**-**	699
	(3,064)	749

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Notes to the financial statements (continued)

10. Intangible assets

	Computer Software £'000
Cost	
At 1 April 2022	9,741
Additions	61
At 31 March 2023	**9,802**
Depreciation	
At 1 April 2022	(3,719)
Amortisation for the year	(973)
At 31 March 2023	**(4,692)**
Net book value	
At 31 March 2023	5,110
At 31 March 2022	6,022

11. Property, plant and equipment

	Land and buildings	**Infrastructure assets**	**Fixed plant and equipment**	**Assets under construction**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost					
At 1 April 2022	45,869	132,895	78,732	20,173	277,669
Additions	1,259	1,139	1,741	11,777	15,916
Transfers on commissioning	570	5,677	190	(6,437)	-
At 31 March 2023	**47,698**	**139,711**	**80,663**	**25,513**	**293,585**
Depreciation					
At 1 April 2022	(4,593)	(20,525)	(34,681)	-	(59,799)
Charge for the year	(1,250)	(1,296)	(4,706)	-	(7,252)
At 31 March 2023	**(5,843)**	**(21,821)**	**(39,387)**	**-**	**(67,051)**
Net book value					
At 31 March 2023	**41,855**	**117,890**	**41,276**	**25,513**	**226,534**
At 31 March 2022	41,276	112,370	44,051	20,173	217,870

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £723,000 (2022: £644,000) and provisions for works in response to legally enforceable undertakings to regulators amounting to £1,144,000 (2022: £3,902,000).

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Notes to the financial statements (continued)

12. Retirement benefit schemes

a) Defined benefit pension scheme

(i) Background

The Company participates in the Water Companies Pension Scheme, a defined benefit pension scheme in the UK. This is a sectionalised scheme and the Company participates in the Dee Valley Water Limited section of the scheme. The scheme funds are administered by trustees and are independent of the Company's finances. Contributions are paid to the scheme in accordance with recommendations of an independent, qualified actuarial advisor. The section has a history of raising pensions in line with inflation, and these increases are reflected in the measurement of the obligation. The section is closed to new entrants.

The Trustees are required to act in the best interests of the schemes beneficiaries. A formal actuarial valuation of the scheme is carried out on behalf of the trustees at triennial intervals by an independent, professionally qualified actuary. Under the defined benefit pension scheme, members are entitled to retirement benefits calculated by reference to their pensionable service and pensionable salary history, with inflationary pension increases applying in line with the scheme rules.

The UK defined benefit pension scheme and the date of the last completed formal actuarial valuation as at the accounting date is as follows:

	Date of last formal actuarial valuation
Water Companies Pension Scheme – Dee Valley Water Limited Section (DVWS)	31 March 2020

During March 2023, the Company completed the bulk annuity buy-on of the Dee Valley Water Pension Scheme (DVWS). As a result of the buy-in, whilst the legal obligation to pay the employee benefits as they fall due remains with the Company, the right to reimbursement of such amounts to the Company has been obtained under the insurance policy.

(ii) Amount included in the balance sheet arising from the Company's obligations under the defined benefit pension scheme

	2023	2022
	£'000	£'000
Fair value of assets	**40,800**	64,100
Present value of the defined benefit obligations	**(35,100)**	(46,600)
Net asset recognised in the balance sheet	**5,700**	17,500

	2023	2022
	£'000	£'000
Fair value of scheme assets		
Annuity policies	**34,476**	-
Liability-driven investment funds (LDI)	**-**	37,300
High-yield bonds	**-**	25,800
Cash	**6,324**	1,000
	40,800	64,100

The majority of assets are now primarily invested in bulk annuity insurance contracts with Just, an insurance company, with a small residual amount of invested assets remaining.

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Notes to the financial statements (continued)

12. Retirement benefit schemes (continued)

Movements in the fair value of the scheme assets were as follows:

	2023	2022
	£'000	£'000
Fair value at 1 April	**64,100**	65,103
Interest income on scheme assets	**1,800**	1,300
Contributions from the sponsoring companies	**200**	241
Contributions from scheme members	**-**	(44)
Return on plan assets (excluding amounts included in finance income)	**(22,500)**	700
Scheme administration costs	**(300)**	(200)
Benefits paid	**(2,500)**	(3,000)
Fair value at 31 March	**40,800**	64,100

Movements in the present value of the defined benefit obligations were as follows

	2023	2022
	£'000	£'000
Present value at 1 April	**(46,600)**	(48,000)
Service cost	**(100)**	(200)
Interest cost	**(1,300)**	(900)
Actuarial gains/(losses) arising from changes in demographic assumptions	**300**	(200)
Actuarial gains/(losses) arising from changes in financial assumptions	**12,600**	1,200
Actuarial losses arising from experience adjustments	**(2,500)**	(1,500)
Benefits paid	**2,500**	3,000
Present value at 31 March	**(35,100)**	(46,600)

(iii) Amounts recognised in comprehensive income in respect of defined benefit pension scheme

The amounts recognised in the income statement are as follows:

	2023	2022
	£'000	£'000
Current service cost	**(100)**	(200)
Scheme administration costs	**(300)**	(200)
Interest income on scheme assets	**1,800**	1,300
Interest cost	**(1,300)**	(900)
Total amount credited to the income statement	**100**	–

The amounts recognised immediately in other comprehensive income are as follows:

	2023	2022
	£'000	£'000
Net actuarial gains/(losses) in the year due to:		
- Changes in financial assumptions	**12,600**	1,200
- Changes in demographic assumptions	**300**	(200)
- Experience adjustments on defined benefit obligations	**(2,500)**	(1,500)
- Actuarial (losses)/gains on assets relative to interest on assets	**(22,500)**	700
(Loss)/gain recognised in other comprehensive income	**(12,100)**	200

Actuarial gains and losses have been reported in the statement of comprehensive income.

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Notes to the financial statements (continued)

12. Retirement benefit schemes (continued)

(iv) Actuarial risk factors

The scheme typically exposes the Company to actuarial risks such as investment risk, inflation risk and longevity risk.

Investment risk

The Company's contributions to the scheme are based on actuarial calculations which make assumptions about the returns expected from the scheme's investments. If the investments underperform against these assumptions in the long-term, then the Company might need to make additional contributions to the scheme in order to fund the payment of accrued benefits.

Each plan's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made to both the maturity of liabilities and the funding level of that plan. A number of further strategies are employed to manage underlying risks, including liability matching asset strategies, diversification of asset portfolios and interest rate hedging.

The investment strategy is set by the Trustee of the Section. Currently they are now primarily invested in bulk annuity insurance contracts with just with a small residual amount of invested assets remaining.

Inflation risk

The benefits payable to members of the scheme are linked to inflation measured by the RPI or CPI, subject to caps. The Company's contributions to the scheme are based on assumptions about the future level of inflation. If inflation is higher than the levels assumed in the actuarial calculation, as a result of the buy-in, whilst the legal obligation to pay the employee benefits as they fall due remains with the Company, the right to reimbursement of such amounts to the Company has been obtained under the insurance policy.

Longevity risk

The Company's contributions to the scheme are based on assumptions about the life expectancy of scheme members after retirement. If scheme members live longer than assumed in the actuarial calculations then the Company may need to make additional contributions to the scheme in order to fund the payment of accrued benefits.

(iv) Actuarial assumptions

The major financial assumptions used in the accounting valuation of the obligations for the Company were as follows.

	2023	2022
	% pa	% pa
Price inflation – RPI	**3.3**	3.6
Price inflation – CPI	**2.3**	2.6
Discount rate	**4.8**	2.8
Pension increases in payment	**3.3**	3.6

The assumption for RPI price inflation is derived with reference to the difference between the yields on longer term fixed rate gilts and on index-linked gilts. RPI is expected to be more closely aligned with CPI from 2030 onwards, which is reflected in the corresponding assumption for CPI inflation.

In setting the discount rate, we construct a yield curve. Short dated yields are taken from market rates for AA corporate bonds. Long dated yields for the curve are based on the average yield available on all long dated AA corporate bonds. We project the expected cash flows of the Schemes and adopt a single equivalent cash flow weighted discount rate taking account of this constructed yield curve.

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Notes to the financial statements (continued)

12. Retirement benefit schemes (continued)

The mortality assumptions are based on those used in the latest triennial funding valuation. The mortality assumptions adopted at the year end for accounting purposes and the life expectancies at age 60 implied by the assumptions are as follows:

	2023		2022	
	Men	**Women**	Men	Women
Mortality table used	**S3PMA**	**S3PfA_M**	S3PA_L	S3PA_M
Mortality table compared with standard table	**98%**	**91%**	112%	95%
Mortality projections	**CMI 2021**	**CMI 2021**	CMI 2021	CMI 2021
Long-term rate of future improvement per annum	**1.0%**	**1.0%**	1.0%	1.0%
Remaining life expectancy for members currently aged 60 (years)	**25.8**	**28.6**	26.5	28.5
Remaining life expectancy at age 60 for members currently aged 40 (years)	**26.9**	**29.8**	27.6	29.7

The calculation of the Scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation (capped, where relevant) and mortality. The following table summarises the estimated impact on the Company's obligations from changes to key actuarial assumptions whilst holding all other assumptions constant.

Assumption	**Change in assumption**	**Impact on disclosed obligations**
Discount rate[1]	Increase/decrease by 0.1% pa	Increase/decrease by £0.4 million
Price inflation[2]	Increase/decreased by 0.1% pa	Increase/decrease by £0.3 million
Mortality[3]	Increase in life expectancy by 1 year	Increase by £1.4 million

1 A change in discount rate is likely to occur as a result of changes in bond yield and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the Scheme.

2 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.

3 The change in assumption is based on triennial valuations and reflect the fact that life expectancy rates are expected to increase.

(v) Effect on future cash flows

Contribution rates are set in consultation with the Trustees for the Section and each participating employer.

The average duration of the benefit obligation from the Section at the end of the year is 12 years (2022: 14 years).

(b) Defined contribution pension schemes

The Company also operates a defined contribution scheme. The pension cost charge for the period represents contributions payable by the Company to the Scheme and amounts to £330,000 (2022: £228,000).

There were no outstanding or prepaid contributions either at the beginning or end of the financial year.

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Notes to the financial statements (continued)

13. Inventories

	2023 £'000	2022 £'000
Consumables	**648**	481
Timber stock	**245**	168
Total	**893**	649

14. Biological assets

	2023 £'000	2022 £'000
Standing Timber	**72**	158
	72	158

Reconciliation of carrying amount:

	Standing Timber at Lake Vyrnwy £'000
At 1 April 2022	158
Change in fair value of biological asset	(86)
At 31 March 2023	**72**

At 31 March 2023, standing timber comprised approximately 152 hectares of Larch tree plantations and 112 hectares of mixed (including Larch) plantations (2022: 152 hectares of Larch tree plantations and 112 hectares of mixed (including Larch) plantations), which ranged from newly established plantations to plantations that were 100+ years old that require active felling under Statutory Public Health Notices as set out by Natural Resources Wales.

The Company is responsible for the management and maintenance of the forest, collecting the income, incurring the relative costs. Natural Resources Wales have an advisory role under the afforestation scheme agreement and are due 50% of the operating profit each financial year.

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Notes to the financial statements (continued)

15. Trade and other receivables

	2023	2022
	£'000	£'000
Current assets		
Trade receivables	**24,152**	19,102
Bad debt provision	**(6,905)**	(6,040)
Net trade receivables	**17,247**	13,062
Amounts receivable from group undertakings	**10,927**	10,940
Other amounts receivable	**165**	253
Prepayments and accrued income	**474**	580
Accrued income	**6,972**	8,049
	35,785	32,884

The carrying values of trade and other receivables are reasonable approximations of their fair values.

Credit risk

Trade receivables and accrued income.

The Company has a statutory obligation to provide water and waste water services to domestic customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables from these services and the credit quality of its customer base reflects the wealth and prosperity of all of the domestic households within its region.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables and contract assets.

A collective provision is recorded for expected credit losses against assets for which no specific provision has been made. Expected credit losses for trade receivables are based on the historical credit losses experienced and reasonable forecasts of the future impact of external economic factors on the Company's collection of trade receivables.

Debts are written off when there is no realistic expectation of further collection and enforcement activity has ceased. There were no amounts outstanding on receivables written off and still subject to enforcement activity (2022/21: nil).

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Notes to the financial statements (continued)

15. Trade and other receivables (continued)

Expected credit loss allowance

The expected credit loss at 31 March 2023 and 2022 for trade receivables and accrued income, was set out below. The expected loss rate disclosed is calculated as the expected loss on the total amount originally billed for each age category.

2023	**Expected loss rate %**	**Gross carrying amount £'000**	**Loss allowance £'000**	**Net carrying amount £'000**
Not past due	3	15,408	(447)	14,961
Up to 1 year past due	19	4,427	(861)	3,566
1 – 2 years past due	37	2,805	(1,048)	1,757
2 – 3 years past due	49	1,996	(980)	1,016
3 – 4 years past due	73	1,551	(1,129)	422
4 – 5 years past due	63	1,458	(923)	535
5 – 6 years past due	37	1,610	(594)	1,016
6 – 7 years past due	47	904	(426)	478
7 – 8 years past due	50	471	(237)	234
8 – 9 years past due	50	467	(233)	234
More than 9 years past due	100	27	(27)	-
		31,124	(6,905)	24,219

2022	Expected loss rate %	Gross carrying amount £'000	Loss allowance £'000	Net carrying amount £'000
Not past due	3	13,637	(429)	13,208
Up to 1 year past due	23	3,507	(792)	2,715
1 – 2 years past due	39	2,548	(990)	1,558
2 – 3 years past due	62	1,851	(1,147)	704
3 – 4 years past due	61	1,664	(1,023)	641
4 – 5 years past due	37	1,752	(646)	1,106
5 – 6 years past due	46	1,037	(473)	564
6 – 7 years past due	46	572	(263)	309
7 – 8 years past due	46	545	(250)	295
8 – 9 years past due	48	21	(10)	11
More than 9 years past due	100	17	(17)	-
		27,151	(6,040)	21,111

Movements on the expected credit loss allowance were as follows:

	2023 £'000	2022 £'000
At 1 April	**6,040**	5,354
Charge for bad and doubtful debts	**1,388**	1,130
Amounts written off during the year	**(523)**	(444)
At 31 March	**6,905**	6,040

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

16. Trade and other payables

	2023 £'000	2022 £'000
Current liabilities		
Trade payables	**3,311**	3,557
Amounts owed to fellow subsidiary undertakings	**7,119**	26,189
Social security and other taxes	**304**	218
Other payables	**6,834**	7,333
Deferred income	**163**	163
Accruals	**5,449**	6,282
	23,180	43,742
Non-current liabilities		
Deferred income	**14,739**	14,179
	37,919	57,921

17. Borrowings

	2023 £'000	2022 £'000
Current		
Bank overdraft	**127**	-
Other loans	**-**	106
Lease liabilities	**25**	-
Loans due to fellow subsidiary undertakings	**194**	194
	346	300
Non-current		
Other loans	**106**	-
Loans due to ultimate parent undertaking	**29,875**	3,450
Loans due to parent company	**33,806**	32,987
Lease liabilities	**61**	4
	63,848	36,441
	64,194	36,741

Loans due to parent and ultimate parent undertakings comprises of the following:

	2023 £'000	2022 £'000
Index-linked	**33,806**	32,987
Floating rate loan	**29,875**	3,450
	63,681	36,437

The loan principal on the index-linked loan is adjusted annually by changes in the Retail Prices Index. Interest on the loan is charged on the indexed principal at 3.635% per annum. The loan matures on 29 September 2032.

The Company has a revolving credit facility of £30 million with the ultimate parent company, Severn Trent PLC. Amounts drawn under this facility bear interest at 1.7% above Bank of England Base Rate. The loan facility matures on 8 March 2026. Facility drawn is £29.9 million (2022: £3.5 million).

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Notes to the financial statements (continued)

18. Provisions

	Decommissioning £'000	Regulatory £'000	Total £'000
At 1 April 2022	1,000	3,902	4,902
Utilised in the year	(134)	(2,758)	(2,892)
Charge to the income statement	1,278	-	1,278
At 31 March 2023	**2,144**	**1,144**	**3,288**

	2023 £'000	2022 £'000
Included in		
Current liabilities	1,464	4,222
Non-current liabilities	1,824	680
	3,288	4,902

Decommissioning provision relates to the estimated cost of discontinuing a reservoir. The associated outflows are estimated to arise over a period of up to three years from the balance sheet date.

Regulatory comprises provisions for works in response to legally enforceable undertakings to regulators, all of which are capital projects. The associated outflows are estimated to arise over a period of up to two years from the balance sheet date.

19. Deferred tax

An analysis of the movement in the deferred tax liabilities and assets recognised by the Company is set out below:

	Accelerated tax depreciation £'000	Retirement benefit surplus £'000	Fair Value on loan £'000	Total £'000
At 1 April 2021	15,830	3,248	(1,724)	17,354
Charge to income	1,217	51	167	1,435
Charge/(credit) to income arising from rate change	4,999	326	(544)	4,781
Charge to equity	–	50	–	50
Charge to equity arising from rate change	–	699	–	699
As at 31 March 2022	22,046	4,374	(2,101)	24,319
Charge to income	1,602	76	557	2,235
Credit to equity	–	(3,025)	(39)	(3,064)
As at 31 March 2023	**23,648**	**1,425**	**(1,583)**	**23,490**

Deferred tax is provided at the rate that is expected to apply when the asset or liability is expected to be settled. Deferred tax assets and liabilities are measured at the rate of 25%.

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Notes to the financial statements (continued)

20. Share capital

	2023	2022
	£'000	£'000
Total issued and fully paid share capital		
168,051 ordinary shares of £1 each (2022: 153,051)	**168,051**	153,051

The Company has one class of ordinary shares which carry no right to fixed income.

On 28 June 2022 the Company approved the issue of 15 million ordinary shares of £1 each to its parent company, Severn Trent Draycote Limited in exchange for cash.

21. Capital commitments

At 31 March 2023 the Company had capital commitments as follows:

	2023	2022
	£'000	£'000
Contracted for but not provided in the financial statements	**4,761**	2,192

22. Related party transactions

During the year £99,656 (2022: £93,675) was paid to non-executive directors of the Company. There have been no other transactions with the Directors of the Company.

In accordance with the exemption allowed by FRS 101, no disclosure is made of transactions with other wholly owned subsidiary companies which are consolidated into the Severn Trent Plc Group.

23. Ultimate parent undertaking

The immediate parent undertaking is Severn Trent Draycote Limited.

The ultimate parent undertaking and controlling party is Severn Trent Plc, which is the parent undertaking and controlling party of the smallest and largest group to consolidate these financial statements. Copies of the Severn Trent Plc consolidated financial statements can be obtained from Severn Trent Plc's registrars at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.