
OUR APPROACH TO BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

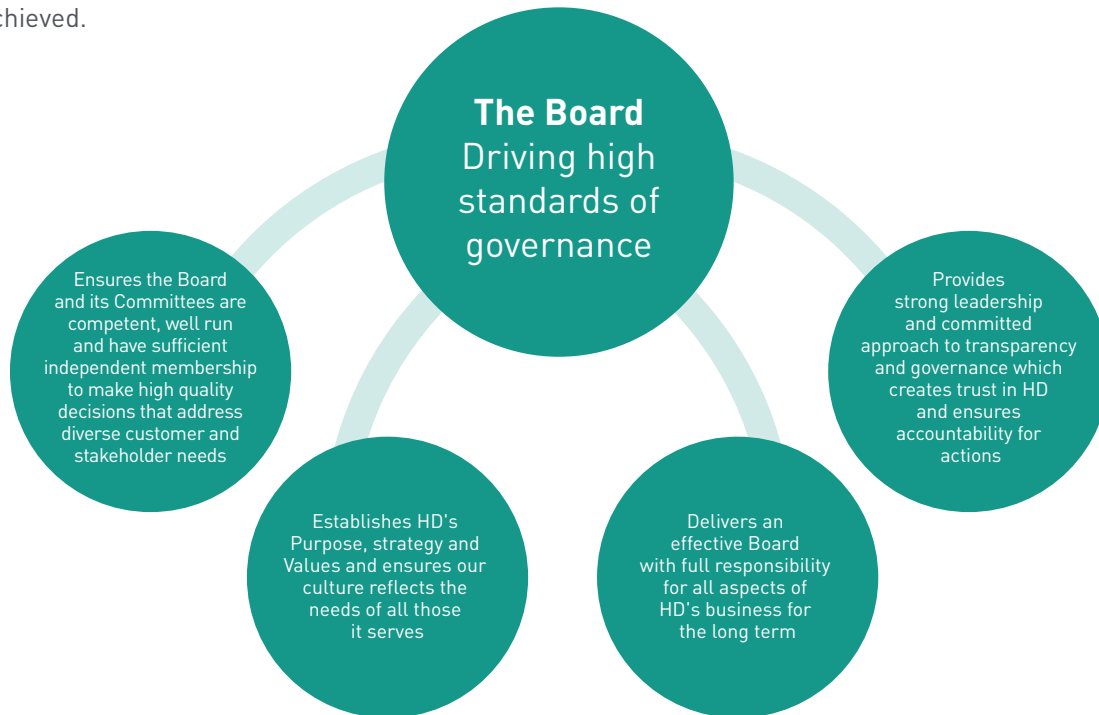
OUR APPROACH TO BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

The Board welcomed Ofwat’s revision of its principles for Board leadership, transparency and governance (the ‘Framework’), which came into effect in April 2019 and reinforced the important role of effective corporate governance and strong board leadership in driving high standards and securing the proper discharge of functions.

Hafren Dyfrdwy’s Licence requires the Company to meet the Framework objectives and explain in an effective, accessible and clear manner how this has been achieved.

We regularly review how we report on matters relating to Board leadership and governance, to identify ways that this can be further enhanced, and feedback from stakeholders is welcomed.

The Board is satisfied that all objectives under the Framework have been met during 2021/22 and this section provides detail on how this has been achieved and outlines how the Company continues to deliver for its customers and other stakeholders.



Throughout this section we reference a number of different documents and reports that provide further detail to support our statements. You can find more detailed information on both our Hafren Dyfrdwy and Severn Trent Group policies on our websites.

We provide relevant cross references to these documents throughout this section and the Annual Performance Report.

Reports that we reference within this Annual Performance Report:

- Hafren Dyfrdwy Cyfyngedig Annual Report and Accounts
- Severn Trent Plc Annual Report and Accounts

Documents available at [hdcymru.co.uk](https://www.hdcymru.co.uk)

- Detailed information about the Hafren Dyfrdwy Cyfyngedig Board and Matters Reserved to the Board
- Articles of Association
- Charter of Expectations
- Our Assurance Summary
- [Hafren Dyfrdwy Code of Practice](#)

Documents available at [severntrent.com](https://www.severntrent.com)

- Group Company Structure
- Our Code of Conduct, Doing the Right Thing
- Group Conflicts of Interest Policy

1.

OBJECTIVE: THE BOARD OF THE APPOINTEE ESTABLISHES THE COMPANY'S PURPOSE, STRATEGY AND VALUES, AND IS SATISFIED THAT THESE AND ITS CULTURE REFLECT THE NEEDS OF ALL THOSE IT SERVES.

- A. The Board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.
- B. The Board makes sure that the company's strategy, values and culture are consistent with its purpose.
- C. The Board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.
- D. Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.

The Board, supported by the Executive Team, 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.

PURPOSE, VALUES AND CULTURE

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 reflects why we do what we do
Our strategy provides us with what we do
Our Values determine how we deliver our Purpose and strategy – they are the principles that guide our behaviour and they are what makes us Hafren Dyfrdwy
Our Purpose and Values set the cultural tone of the Company – this is what makes us Hafren Dyfrdwy

Taking care of one of life's essentials

The Board considers progress against the Company's strategy at every meeting, taking into consideration our Purpose and the potential impact on a wide range of stakeholders.



Doing the right thing

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**’ and we are guided by our Values:

- **Having courage** – speaking up when we believe things are wrong, even if it means stepping out of our comfort zones.
- **Embracing curiosity** – willing to learn ‘safer, better, faster’ ways of doing things, to prevent and resolve issues for customers.
- **Showing care** – treating everyone as we ourselves would want to be treated, keeping promises to customers and enhancing our environment.
- **Taking pride** – doing our best to make a positive difference for our customers every day.

Our Purpose and Values were formulated following extensive consultation with colleagues across the Severn Trent Group – from the frontline of our operations to our Board – to ensure that they both reflect our role as a provider of an essential public service and are meaningful and inspiring to our workforce, customers and the communities in which we live and operate.

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 so that we can ensure everyone who works for us adheres to the same responsible business practices.

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 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 applies 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 management present and 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 8.7 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.

Details of how the Board monitors culture and engages with employees are set out on pages 26 to 36 of the Hafren Dyfrdwy Annual Report and Accounts 2021/22.

SETTING ASPIRATIONS AND PERFORMING FOR ALL THOSE WE SERVE

Our PR19 business plan, for the current 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 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 makes sure that the Company’s strategy, Values and culture are consistent with our Purpose. The Hafren Dyfrdwy Annual Report and Accounts 2021/22 demonstrates how our Purpose runs through everything we do. For further information and explanation of our approach, we would refer in particular to the Strategic Report pages 3 to 44 and our description of governance pages 45 to 79.

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.



Our Purpose

Taking care of one of life's essentials



Considering the needs of those we serve

Stakeholder Engagement

The Well-being of Future Generations (Wales) Act 2015:
Wellbeing Goals

1. A prosperous Wales
2. A resilient Wales
3. A healthier Wales
4. A more equal Wales
5. A Wales of more cohesive communities
6. A Wales of vibrant culture and thriving Welsh language
7. A globally responsible Wales

Serving our customers - Listening carefully to the views of our customers to develop our PR19 Business Plan which, over an 18-month period, involved:

- 4,000 customers
- 25 locations
- Telephone surveys
- Face-to-face interviews
- Research and co-creation



Setting our aspirations

Hafren Dyfrdwy PR19 Business Plan: Customer Outcome Commitments

- Ensure water is good to drink and always there when customers need it, and take waste water away safely every day.
- Protect and create a thriving environment, whilst engaging with our communities and making a positive difference for the benefit of current and future generations.
- Ensure customers receive an outstanding customer experience, which is centred around providing a personalised service for everyone whatever their unique needs.
- Ensure we charge the lowest possible bills that are affordable for all.
- Demonstrate that we are a company you can trust, who has controls, checks and balances in place to ensure we make the best decisions for our customers.



Delivering for customers through our collective culture

Our Values

'having courage'

'showing care'

'embracing curiosity'

'taking pride'

Our Code of Conduct

Doing the right thing

STAKEHOLDER ENGAGEMENT

Stakeholder engagement is central to the formulation and execution of our strategy and is critical to achieving long-term sustainable success. The needs of our different stakeholders, as well as associated long-term impacts on our stakeholders as a consequence of Board decisions, are considered in depth by the Board in its decision-making processes. Whilst it is not always possible to provide positive outcomes for all stakeholders, and the Board sometimes has to make decisions based on competing priorities, the unwavering commitment to our enduring Purpose means that the best course of action is selected to maintain our high standards of business and delivering for our customers.

The graphic on page 21 provides examples of how the Board engages with our stakeholders to understand what matters to them. This enables the Board to take into account differing views in its decision making and fully consider the various consequences of the actions it takes.

We believe our Purpose, strategy, vision and Values will promote the long-term sustainable success of the Company, further customers' interests, create value for shareholders and take account the needs of other stakeholders. Additionally, as individual Directors, the Board is mindful of the statutory duty to act in the way each of them considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the Section 172 Statement (1) (a-f) of the Companies Act 2006. Further detail can be found in our dedicated Section 172 Statement on pages 40 to 42 within the Hafren Dyfrdwy Annual Report and Accounts 2021/22.

WORKING WITH OUR REGULATORS

We are subject to regulation of our price and performance by economic, quality and environmental regulators, as outlined below. We work closely with our regulators to shape our industry and help ensure the right outcomes for customers and the environment.



Welsh Government - Welsh Government provides strategic and policy direction for the industry and our regulators.



Ofwat - Ofwat is the economic regulator for the industry in England and Wales. Ofwat principally exercises its duty to protect the interests of customers through periodic reviews of charges ('price reviews') every five years.



Drinking Water Inspectorate ('DWI') - The DWI independently checks that water supplies in England and Wales are safe and that drinking water quality is acceptable to consumers.



Natural Resources Wales ('NRW') - NRW is the environmental regulator in Wales. It oversees how the country's natural resources are maintained, improved and used, both now and in the future.



Consumer Council for Water ('CCW') - The CCW speaks on behalf of water consumers in England and Wales. It provides advice to consumers and takes up complaints on their behalf.

Customer engagement

In serving our customers, we provide both value and a great experience.

- Customer delivery performance is discussed at every Board meeting.
- The Board reviews and approves the APR, which updates customers on progress against our AMP7 Business Plan.
- The Board oversees the provision of additional support to customers who are vulnerable or may need help paying their bills.

Community engagement

Our aspiration is to be a force for good in the communities we serve and, in doing so, create value for all our stakeholders.

- The Board supported the establishment of the HD Community Fund during the year, which has received extensive interest and resulted in over £52,000 being donated to seven local projects to date.
- Environmental matters are regularly considered by the Board, including in relation to river health.
- 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 services in Wales.

The Board oversees the delivery of the **Company's long-term strategy**, which is underpinned by our **Purpose**, formulated by **stakeholder engagement** and embedded in our **culture**.

Employee engagement

Our greatest asset is our experienced, diverse and dedicated workforce. Our relationship with our colleagues is open and honest, and they are appropriately supported, developed and rewarded so that they can be their best in all they do.

- Employee voice and workforce engagement are discussed at Board meetings, including the annual QUEST survey results and steps taken to address feedback.
- 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, without management present.
- The Board undertakes site visits to meet colleagues in person and discuss their experiences first-hand.

Regulatory and Government engagement

We work closely with our regulators to shape our industry and help ensure the right outcomes for customers and the environment.

- During the year, the Board met with representatives from regulatory stakeholder groups, including Natural Resources Wales, the Consumer Council for Water, the Drinking Water Inspectorate and Ofwat.
- The Board has also met representatives from the Welsh Government and Local Authorities.
- Regulatory matters and consultation updates are regularly considered by the Board.



WHISTLEBLOWING

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 line managers, senior management and via our confidential and independent whistleblowing helpline, 'Safecall'.

All investigations are carried out independently with findings being reported directly to the Audit and Risk Committee. The Board as a whole also monitors and reviews the effectiveness of the whistleblowing arrangements annually, to ensure it has sufficient oversight of whistleblowing to support its works on culture, risk and stakeholder engagement. All significant whistleblowing matters are reported directly to the Board.

The Board has reviewed our whistleblowing arrangements again during the year, noting the proposed improvements to the process, and is satisfied that the arrangements in place are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

WELCOMING INNOVATION

We are constantly exploring new innovations and technology to deliver efficiencies and continuously improve our processes and services to customers.

The Board considered innovation during the year, with a dedicated update on the innovation portfolio in place across the Company, including the AVK sensor trial – where sensors were being installed on the Wrexham Ring Main to provide flow, pressure, temperature and operational data which could then be analysed to inform decision making and drive improvements in water quality and supply interruptions performance.



CELEBRATING OUR WELSH HERITAGE

The Company was launched in 2018 to provide water and waste water services solely to customers in Wales. Hafren Dyfrdwy is Welsh for 'Severn Dee' and represents the two major rivers in the Welsh region that we proudly serve. Adopting a Welsh name was the first of many steps we have taken to truly embed the Company in the Welsh communities we operate in.

This year we have established a dedicated hub in Powys, with the majority of customer contact and customer engagement activity now operating from this site. We have also given colleagues the opportunity to learn or improve their Welsh language skills by offering a series of online courses, which give those enrolled the flexibility to broaden their knowledge at a time that is convenient for them.

The Board also considered our diversity and inclusion ambitions and priorities during the year. Our ambition is to have a workforce reflective of the communities we serve and, in order to achieve this, we are targeting areas of the workforce where this is not yet the case: 16-24 year olds, females, ethnic minorities and people with disabilities. A programme has been developed to help us achieve our ambitions in the short to medium term, including offering placements on the #10000BlackInterns programme and committing to increase the number of apprenticeships within the Company.



HELPING THE ENVIRONMENT TO THRIVE

We recognise how important our natural environment is to the wellbeing of our employees and customers and are committed to environmental leadership, including embracing the long-term approach to sustainable management of natural resources in Wales.

We serve a comparatively small area of Wales, but 60% of that area is on land that is protected as either Sites of Special Scientific Interest ('SSSI') or Special Areas of Conservation ('SAC'). Legislation looks to us to actively enhance the environment, not simply to prevent deterioration, and we seek to collaborate to achieve this shared vision.

One partner we continue to work closely with is RSPB Cymru and so far this AMP, we have delivered over 390 hectares of habitat improvements across the Lake Vyrnwy estate and completed two areas of peatland restoration on Allt Forgan and Cerniau, utilising funding from Natural Resources Wales's National Peatland Action Programme, in addition to our own capital expenditure funding.



2.

OBJECTIVE: THE APPOINTEE HAS AN EFFECTIVE BOARD WITH FULL RESPONSIBILITY FOR ALL ASPECTS OF THE APPOINTEE'S BUSINESS FOR THE LONG TERM.

- A. The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.
- B. Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.
- C. The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.

STANDALONE REGULATED COMPANY

Hafren Dyfrdwy has been part of the Severn Trent Group since 2018. The Board confirms that there are no items or topics relating to the strategy or regulated activities of Hafren Dyfrdwy contained within the Severn Trent Plc Board's schedule of matters reserved.

The Hafren Dyfrdwy Board therefore has full responsibility for all aspects of its business as an Appointee and meetings of the Board focus on our Purpose of taking care of one of life's essentials, with attention given to how this is being delivered to ensure the long-term success of the Company.

Separate, dedicated Board meetings are held for Hafren Dyfrdwy and standing items at Board meetings include an overview of operational and financial performance – including performance against operational and financial key performance indicators ('KPIs'), customer and colleague updates, and regulatory matters. The Board also receives updates on these topics in the months where no formal Board meetings are scheduled, through written briefings from the Managing Director. These standing items and regular briefings allow the Board to stay fully apprised of the Company's performance and updates on any matters requiring Board discussion and decision making.

Hafren Dyfrdwy represents approximately 2% per cent of Severn Trent Plc's revenues and, as such, decisions taken for Hafren Dyfrdwy have potential to conflict with those of Severn Trent Plc and Severn Trent Water Limited (also part of the Severn Trent Group).

There are currently three Directors that serve on our Board who also serve on the Boards of Severn Trent Plc and Severn Trent Water Limited. These Directors fully comprehend that the two regulated companies (Hafren Dyfrdwy and Severn Trent Water) are distinct legal entities and they are operated as such. It is unlikely that decisions taken in the best interests of Hafren Dyfrdwy would conflict with those taken by the Severn Trent Plc and Severn Trent Water Limited Boards. However, if that were to be the case, the Directors would be responsible for taking decisions on behalf of each entity in accordance with Section 172 of the Companies Act 2006, by acting in the way they consider, in good faith, would be the most likely to promote the success of the Company.

The Board is supported by the Company Secretary, to whom all Directors have access for advice and corporate governance services, including the commission of independent advice should it be necessary for the Board to seek this on any matter.

There is a Conflicts of Interest Policy in place, supported by an established process to manage Conflicts of Interest should they present. Conflicts of Interest are considered as part of the Director appointment process and any potential conflicts of interest are declared at the start of every meeting. This includes reviewing all other appointments held by Directors and the findings of the annual Board Effectiveness evaluation. Should the Board determine that any Director has a conflict of interest in relation to any matter under its consideration, the Director in question would recuse themselves from any involvement in that particular item.

GOVERNANCE IN ACTION: MANAGING CONFLICTS OF INTEREST

During 2021/22, Hafren Dyfrdwy re-tendered its sludge disposal service, which had to date been provided by Severn Trent Water. The competitive tender process was overseen by both the Legal and Internal Audit Teams to ensure RAG 5 compliance with complete separation between the respective teams acting for Hafren Dyfrdwy and Severn Trent Water. Additionally, no Director of Hafren Dyfrdwy was involved with the tender submission from Severn Trent Water, including the Executive Directors who sit on the Severn Trent Plc Executive Committee and the Independent Non-Executive Directors who also sit on the Severn Trent Water Limited Board.

The Board was kept updated on the progress of the tender and, following assessment under the OJEU process, authorised the award of the tender to a provider outside of the Severn Trent Group. The new provider is based in Wales, demonstrating the Board's independence and commitment to further support local business with all Hafren Dyfrdwy sludge now treated within the country.

BOARD COMMITTEES

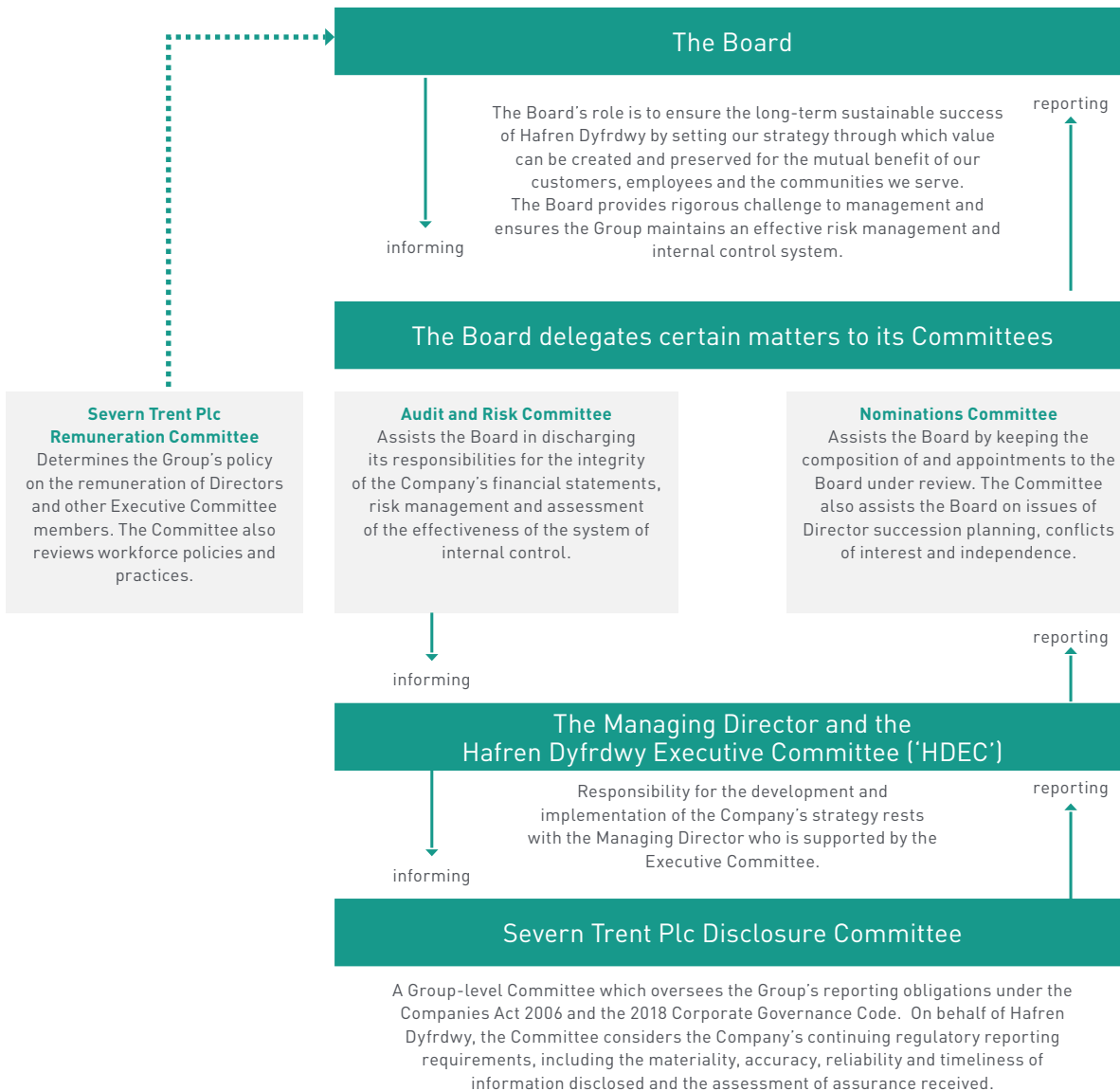
The Board delegates certain roles and responsibilities to its two Board Committees: the Nominations Committee and the Audit and Risk Committee. The Committees assist the Board by discharging their duties effectively, reporting to the Board on decisions and actions taken, and making any necessary recommendations to the Board in line with their respective Terms of Reference. The Board reserves for its own determination matters of strategic and regulatory importance and reviews the Terms of Reference for each Committee on a regular basis.

The Severn Trent Plc Group Remuneration Committee (the 'Remuneration Committee') operates on behalf of Hafren Dyfrdwy and all Group companies. This arrangement has been in place since the acquisition of Dee Valley Limited in 2018 and is reviewed annually to ensure its continued effectiveness.

The Remuneration Committee is wholly comprised of Independent Non-Executive Directors of Severn Trent Plc. Additionally, two members of the Remuneration Committee also serve as Non-Executive Directors on the Board of Hafren Dyfrdwy and one member also serves as Chair of the Hafren Dyfrdwy Audit and Risk Committee.

We consider that the governance arrangements in respect of the Remuneration Committee are appropriate as Hafren Dyfrdwy is part of the Severn Trent Plc Group of companies and employee pay is part of a unified remuneration structure and consistent policy framework. Central to the Group's remuneration policy is the use of measurable targets against which payments can be made. These governance arrangements ensure that the Remuneration Committee has access to wide ranging data and information on the overall performance of the Company.

The Board has a dedicated schedule of Matters Reserved to the Board and the Terms of Reference for the Board's Audit and Risk and Nominations Committees are available on our website. The schematic overleaf summarises the governance framework for Hafren Dyfrdwy.



3.

OBJECTIVE: THE BOARD OF THE APPOINTEE'S LEADERSHIP AND APPROACH TO TRANSPARENCY AND GOVERNANCE ENGENDERS TRUST IN THE APPOINTEE AND ENSURES ACCOUNTABILITY FOR THEIR ACTIONS.

- A. An explanation of group structure;
- B. An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);
- C. An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;
- D. The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast; and
- E. An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.

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

GROUP STRUCTURE

Hafren Dyfrdwy is an operating subsidiary of the FTSE100 listed company Severn Trent Plc, which means we operate at the high standards expected of a publicly listed company. In addition to the objectives under Ofwat's Framework, Hafren Dyfrdwy has chosen to apply the principles of the 2018 UK Corporate Governance Code (the '2018 Code') to its governance arrangements where appropriate and reasonably practicable to do so. Further details of how the Code principles and provisions were applied during the year are set out in the Hafren Dyfrdwy's Annual Report and Accounts 2021/22, available on our website.

A detailed explanation of the structure of Hafren Dyfrdwy within the Severn Trent Group can be found on the Severn Trent Plc website.

DIVIDEND POLICY

No dividends have been paid by Hafren Dyfrdwy since its creation in 2018 and the Company Dividend Policy is set out on page 72. This AMP we are investing significantly in our network and the environment in Wales, which is leading to significant Regulatory Capital Value ('RCV') growth. We therefore need to manage this in a sustainable way, ensuring we maintain a sustainable financing structure and stable gearing. To that end we have invested >£100m equity in Hafren Dyfrdwy so far this AMP and do not plan to pay any dividends during AMP7.

RISK MANAGEMENT

The Principal Risks and uncertainties to the success of the business and the ways in which these risks are managed, monitored and mitigated are set out on pages 61 to 66 of the Severn Trent Plc Annual Report and Accounts 2021/22 and pages 13 to 17 of the Hafren Dyfrdwy Annual Report and Accounts 2021/22.

BOARD AND COMMITTEE MEMBERSHIP

The table below sets out details of the membership of the Hafren Dyfrdwy Board and its Committees as at 31 March 2022, alongside the number of scheduled meetings attended and the maximum number of meetings that could have been attended during the 2021/22 year.

Committee Member	Role	Board Meetings Attended During 2021/22	Audit and Risk Committee Meetings Attended During 2021/22 ²	Nominations Committee Meetings Attended During 2021/22 ³
John Coghlan	Chair ¹	5/5	N/A	0/0
Ann Beynon	Independent Non-Executive Director	5/5	1/1	0/0
Christine Hodgson	Independent Non-Executive Director ¹	5/5	N/A	N/A
James Jesic	Managing Director	5/5	N/A	N/A
Sally Jones-Evans	Independent Non-Executive Director	5/5	1/1	0/0
Mohammed Mehmet	Independent Non-Executive Director	5/5	1/1	0/0
Helen Miles	Chief Financial Officer	5/5	N/A	N/A
Sharmila Nebhrajani ⁴	Independent Non-Executive Director ¹	3/5	1/1	0/0

¹ These Directors also sit on the Board of Severn Trent Plc, however, they are still considered to be Independent Non-Executive Directors by virtue of the independence circumstances set out in the 2018 Code.

² The Audit and Risk Committee was constituted in July 2021. The Committee has met twice following year end, including one meeting to consider this Annual Performance Report.

³ The Nominations Committee did not meet during the year. However, it met once following year end to discuss the composition of the Board and to recommend the appointment of Sally Jones-Evans as Chair of the Audit and Risk Committee.

⁴ Sharmila Nebhrajani was unable to attend the June and November 2021 Board meetings due to illness and extended hospitalisation.

EXECUTIVE PAY POLICY

Executive pay is subject to rigorous scrutiny from the Severn Trent Plc Remuneration Committee that operates on behalf of all Group companies, including Hafren Dyfrdwy, as outlined earlier in this section. The Remuneration Committee is advised by appointed independent advisors, PwC, and their decisions are published as part of the Severn Trent Plc Annual Report and Accounts and matters of relevance to Hafren Dyfrdwy are disclosed within the dedicated Hafren Dyfrdwy Annual Report and Accounts 2021/22 on pages 70 to 71, ensuring full transparency about our Executive pay decisions for our customers and wider society. As a key part of our approach to demonstrate transparency, any targets are measurable so that our performance against them can be independently verified.

ANNUAL BONUS SCHEME ('ABS')

Our overall ABS is structured so that most (51%) of the reward is based on ODI performance and a health and safety measure, with the remainder being based on Profit Before Interest and Tax ('PBIT'). The bonus scheme design operates consistently throughout the business so that all of our people are aligned to the same measures. Base pay awards are also aligned with the wider workforce.

The two Executive Directors of Hafren Dyfrdwy are also Executive Committee members of Severn Trent Plc. As such, a proportion (3%) of their potential ABS award, consistent with the size of the Company within the Group, is attributed to Hafren Dyfrdwy performance and split equally between earnings and ODIs.

The annual bonus performance measures and weightings for the two Executive Directors for 2021/22 financial year are as follows:

- Group Profit Before Interest and Tax – 47.50%
- **HD EBITDA – 1.5%**
- Customer and Environment ODIs – 33.5%
 - Minimise disruption to customers
 - Prevent failure in our network and our sites
 - Improve the environment we live in
- **HD ODIs – 1.5%**
- Customer Experience – 8%
- Health and Safety (Lost Time Incidents) – 8%

Each year, as well as reviewing the calculated outturn of the incentive schemes, the Remuneration Committee uses its broad experience to assess 'performance in the round' and determine whether the proposed remuneration outcomes are in line with our Purpose, Values, and wider business goals and whether they drive long-term sustainable performance for the benefit of all our customers and wider stakeholders. This assessment looks at several factors, including environmental compliance, treatment of the wider workforce, and wider societal matters and is supported by an independent market assessment report prepared by PwC. Furthermore, the Company's regulators are invited to attend our Board meetings, further details of which can be found on page 21 and in the Hafren Dyfrdwy Annual Report and Accounts 2021/22 on page 33. Our regulatory stakeholders are explicitly asked about our performance and where we can improve.

In response to the ongoing focus on river health, the Board has considered how it can link Hafren Dyfrdwy's River Pledges to future annual bonus arrangements. Adding this element to the ABS will reinforce the importance that the Company places on river health and emphasise the pivotal role we know we play in contributing towards and advocating for river water quality.

Where the Remuneration Committee feels that the formulaic performance does not reflect broader performance, they can exercise discretion to increase or decrease the bonus attributable to Hafren Dyfrdwy. There have been no adjustments to any incentive plan during the tenure of the current leadership team. Additional detail on Executive remuneration can be found within the Directors' Remuneration Report of the Hafren Dyfrdwy Annual Report and Accounts 2021/22 on pages 70 to 71.

The Severn Trent Group's Remuneration Policy is aligned to our Purpose and strategy, thereby incentivising great customer service and the creation of long-term value for all our stakeholders. Details of the Group's Remuneration Policy are set out within the Regulatory Statements Section from page 70. This section explains how the criteria for awarding short and long-term performance elements are substantially linked to stretching delivery for customers and are rigorously applied.

4.

OBJECTIVE: THE BOARD OF THE APPOINTEE AND THEIR COMMITTEES ARE COMPETENT, WELL RUN, AND HAVE SUFFICIENT INDEPENDENT MEMBERSHIP, ENSURING THEY CAN MAKE HIGH QUALITY DECISIONS THAT ADDRESS DIVERSE CUSTOMER AND STAKEHOLDER NEEDS.

- A. Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.
- B. Independent non-executive directors are the largest single group on the board.
- C. The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.
- D. There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.
- E. There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.
- F. To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.
- G. There is a majority of independent members on the audit, nomination and remuneration committees.

BOARD COMPOSITION AND INDEPENDENCE

The Hafren Dyfrdwy Board and Board Committees have the appropriate balance of skills, experience, and knowledge to take complete responsibility for setting the long-term strategy of the Company and oversee its implementation. Our Board is a diverse and effective team, focused on ensuring that the Company's Purpose continues to reflect the needs of those we serve and is delivered by colleagues who fully embrace our culture and Values. The matrix below shows some of the key skills and experience that our Directors possess, gained from a wide range of organisations and industries. Full biographies for each of our Directors can be found on pages 46 to 50 of the Hafren Dyfrdwy Annual Report and Accounts 2021/22, available on our website.

Board skills	Ann Beynon	John Coghlan	Christine Hodgson	James Jesic	Sally Jones-Evans	Mohammed Mehmet	Helen Miles	Sharmila Nebirajani
Strategy	✓	✓	✓	✓	✓	✓	✓	✓
M&A		✓	✓				✓	
Corporate finance/ Treasury		✓	✓				✓	✓
Accounting		✓	✓		✓		✓	✓
Regulation	✓	✓	✓	✓	✓	✓	✓	✓
Technology/ Innovation/ Cyber	✓	✓	✓	✓	✓	✓	✓	✓
Customer	✓		✓	✓	✓	✓	✓	
Brands	✓		✓		✓	✓		
Engineering/ Science				✓				✓
Utility sector	✓	✓	✓	✓	✓	✓	✓	✓
Sustainability, including climate change	✓		✓	✓			✓	✓
People management	✓	✓	✓	✓	✓	✓	✓	✓
Commercial procurement	✓	✓	✓		✓	✓	✓	
Construction/ Infrastructure delivery	✓	✓		✓		✓	✓	
Large capital programmes		✓	✓	✓		✓	✓	
Political affairs	✓		✓		✓	✓		✓

As detailed in the table on page 28, as at 31 March 2022, the Hafren Dyfrdwy Board comprised eight Directors, and this remains the case as at the date of this APR. Of the eight Directors, two are Executive Directors and six are Independent Non-Executive Directors.

There is clear division between Executive and Non-Executive responsibilities, which ensures accountability and oversight. The Chair and the other Independent Non-Executive Directors meet routinely without the Executive Directors, and individual Directors undertake site visits to gain first-hand experience of our operations and engage with our workforce.

Of the six Independent Non-Executive Directors currently serving on the Hafren Dyfrdwy Board, three Directors also sit on the Board of Severn Trent Plc as indicated in the table on page 28. 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, all three Directors retain independence in relation to both Boards, and therefore the Independent Non-Executive Directors form the largest single group on the Hafren Dyfrdwy Board (75%).

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 will reduce the Board's membership to seven Directors, three of whom are Independent Non-Executive Directors, as defined by Ofwat, and together they will 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, as defined by Ofwat, form the majority of the membership of both the Audit and Risk and Nominations Committees, with no Executive Directors serving on either Committee. Following the resignation of Sharmila Nebhrajani from the Board, the Audit and Risk Committee will be chaired by Sally Jones-Evans, an Independent Non-Executive Director with recent and relevant financial experience.

The Board would like to thank Sharmila Nebhrajani for her commitment and valuable contribution to the Company during her tenure.

CHAIR INDEPENDENCE

John Coghlan was appointed to the Board in February 2017 and became Chair in April 2018. John has been an Independent Non-Executive Director of Severn Trent Plc since May 2014 and, as such, when appointed to the Hafren Dyfrdwy Board, he had been a member of the Severn Trent Plc Board for three years. When assessed against the circumstances set out in the 2018 Code, the Board considers that the Chair was independent on appointment and remains independent from management. The roles of Chair and Managing Director are separately held and their responsibilities are well defined, set out in writing and regularly reviewed by the Board.

The Chair's appointment to other Boards within the Severn Trent Group has the capacity to raise conflicts of interest and both the Chair and his fellow Board members are cognisant of this. Potential conflicts of interest are considered by the Board at the start of every meeting and the Board formally reviews the Conflicts of Interest Register every six months. Further detail on our robust procedures in relation to potential conflicts of interest can be found on page 25.

Should the Board determine that the Chair has a conflict of interest in relation to any matter under its consideration, precautions would be put in place which may include the Chair having to recuse himself for that particular item, with another Independent Non-Executive Director temporarily assuming the role of Chair. However, given the strong alignment of Purpose and culture across the whole Severn Trent Group, it is not envisaged that conflicts of interest would arise frequently.

BOARD EFFECTIVENESS

An evaluation of the Board's effectiveness is undertaken and conducted in accordance to the guidance set out in the Framework, 2018 Code and Financial Reporting Council's Guidance on Board Effectiveness.

Our Board evaluation provides the Board and its Committees with an opportunity to consider and reflect on both the composition (the balance of skills, experience, independence, knowledge, diversity) and performance (quality and effectiveness of its decision making, how stakeholder needs are addressed, whether the Company's purpose has been achieved) of the Board. Each member is also asked to consider their own contribution and performance.

A Board Effectiveness evaluation was not conducted during 2021/22, as this process has been deferred to August 2022 to enable the effectiveness of the newly constituted Audit and Risk Committee to be evaluated following approval of the Company's Annual Report and Accounts and Annual Performance Report.

BOARD DIVERSITY

When undertaking any recruitment, the Board ensures that the recruitment processes are in line with the Severn Trent Group Board Diversity Policy (the 'Policy', available on the Severn Trent Plc website) to include candidates from diverse backgrounds and those with non-listed company 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.

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.

In reviewing the Policy, recognition was given to the importance and benefits of greater diversity, including gender diversity, social and ethnic backgrounds and cognitive and personal strengths, throughout the Group, including on the Boards themselves. The objectives and targets of the Policy, and an update against each of them in respect of Hafren Dyfrdwy, are set out on the next page.



POLICY OBJECTIVES

Policy objectives	Implementation	Progress against objectives
Ensure the Board comprises an appropriate balance of skills, experience and knowledge required to effectively oversee and support the management of the Company.	Annual review of the Board's composition with particular consideration being given to the balance of skills, experience and independence of the Board. The Board Effectiveness evaluation specifically considers the composition of the Board and the contribution, commitment and independence of individual Directors.	A formal review was undertaken in June 2022 with regards to the composition of the Board and the performance, contribution and commitment of individual Directors. No concerns were raised in relation to the composition of the Board.
Ensure consideration is given to candidates for Non-Executive Director Board appointments from a wide pool. Ensure Board appointment 'long lists' include diverse candidates, including diversity of social and ethnic backgrounds and cognitive and personal strengths.	The Board recognises the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself.	All recommendations in respect of Board appointments will be conducted in full consideration of the Policy, 2018 Code and additional relevant guidance. Board appointments made during the year were as follows: • 1 April 2021 – Independent Non-Executive Director – Sharmila Nebhrajani
Ensure the Board only engages executive search firms that have signed up to the voluntary code of conduct on gender diversity and best practice.	The Company only engages with executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.	We continue only to engage with executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.
Ensure focus is given to the development of a pipeline of diverse high calibre candidates for Board level roles and report annually on the diversity of the Executive pipeline as well as the diversity of the Board.	Regular Board consideration of the importance and benefits of greater diversity including gender diversity, social and ethnic background and cognitive and personal strengths. This includes representation of these cohorts in the Company's talent pipeline and on the Board itself.	Consideration was given during the year to diversity and inclusion within the Company.

POLICY TARGETS

Policy Targets for 2021/22	Progress against Target	Policy Targets for 2022/23
Maintain at least 40% female Directors on the Board over the short to medium term.	62.5% female representation on our Board as at 31 March 2022.	Maintain at least 40% female Directors on the Board over the short to medium term.
Maintain at least 10% Directors from a minority ethnic background on the Board over the short to medium term.	25% minority ethnic representation on our Board as at 31 March 2022.	Maintain at least one female in the Chair and Senior Independent Director roles on the Board and/or maintain at least one female in the Chief Executive and Chief Financial Officer roles in the Company. Maintain at least 10% Directors from a minority ethnic background on the Board over the short to medium term.

BOARD APPOINTMENTS AND INDUCTION

Any new appointments to the Board result from a formal, rigorous and transparent procedure, responsibility for which is overseen by the Nominations Committee with the decision on appointments remaining a matter reserved to the Board. All Nominations Committee members are Independent Non-Executive Directors of the Company. Further details of the activities of the Nominations Committee can be found within pages 66 to 69 of the Hafren Dyfrdwy Annual Report and Accounts 2021/22.

All proposed appointees meet with Ofwat as part of the pre-appointment process to ensure there is a clear understanding of the responsibilities attached to being a Non-Executive Director in the water sector.

Following appointment to the Board, 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 Company Secretary, along with other members of senior management. New Non-Executive 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 culture. We continually enhance the Board's induction programme, building in feedback from new Non-Executive Directors and the Board Effectiveness evaluation.

Sharmila Nebhrajani joined the Board with effect from 1 April 2021. No additional appointments to the Board were made during 2021/22.

An aerial photograph showing a dark river winding through a vibrant green landscape. The river flows from the bottom left towards the right, then curves back towards the left. The surrounding area is a mix of dense forest with tall, thin trees and large, flat wetland areas with various shades of green and brown vegetation. The overall scene is a lush, natural environment.

BOARD STATEMENTS

RISK AND COMPLIANCE STATEMENT

Having taken into consideration the information contained within the sections titled 'Our approach to Board Leadership, transparency and governance' and 'Improving Clarity and Transparency' the Board approves the Annual Performance Report ('APR'), the associated APR data tables, and the noted departures. The Board confirms that:

- We have a full understanding of, and we meet all of our relevant statutory, licence and regulatory obligations in all material respects except where indicated on page 64.
- We have taken appropriate steps to understand and meet customer expectations.
- We have sufficient processes and internal systems of control to fully meet our obligations.
- We have appropriate systems and processes in place to identify, manage, mitigate and review our risks.
- We meet the Ofwat objectives on board leadership, transparency and governance and ensure that we explain clearly how we meet those objectives.
- We have reviewed our governance to ensure we conduct the regulated company as if it were a public limited company separate from any other business.
- COVID-19 impacts have been considered when making our declaration

Signed for and on behalf of the Board:



James Jesic
Managing Director
Hafren Dyfrdwy Cyfyngedig



John Coghlan
Chair
Hafren Dyfrdwy Cyfyngedig



Ann Beynon
Independent Non-Executive Director
Hafren Dyfrdwy Cyfyngedig

14 July 2022



DEPARTURES FROM THE STATEMENT

There are three departures proposed for inclusion in this year's Risk and Compliance Statement.

Two relate to areas where we will be re-stating data previously submitted - supply interruptions and reduction in the number of void supply points. Details are presented in the 'Improving Clarity and Transparency' section of our APR.

We also note an error in relation to the HD Scheme of Charges model which arose as a consequence of a data transfer error whereby a Severn Trent trade effluent entry in the Severn Trent Charges model was inadvertently copied into the HD model. The financial impact associated with the error that will be recovered in 2024/25 through the Revenue Forecasting Incentive ('RFI') model. To mitigate future risk a dedicated Hafren Dyfwdry charges model has been implemented supported by additional bolstering of the assurance checks.

In all cases, the impact materiality has been assessed as low with reference to financial or wider customer impact. However, in accordance with our internal procedures we have chosen to include these to ensure the highest levels of transparency. All departures regardless of materiality are reviewed and scrutinised by our Disclosure Committee before it is endorsed by our Board prior to publication - ensuring that all levels of the business are made aware of any significant risks or issues.



STATEMENT FROM NON-FINANCIAL ASSURER - JACOBS

Jacobs**Challenging today.
Reinventing tomorrow.**7th Floor, 2 Colmore Square
38 Colmore Circus, Queensway
Birmingham, B4 6BN
United KingdomT +44 (0)121 237 4000
www.jacobs.com

20 June 2022

Attn: FAO Hafren Dyfrdwy Cyfyngedig Board

Project name: 2021-22 Assurance Services
Project no: B2349301**Subject: Independent Technical Assurance Statement**

Jacobs has been appointed by Hafren Dyfrdwy (HDD) to provide independent technical assurance of the data that feeds into their regulatory submissions. For the Annual Performance Report 2022 (APR22) submission we were asked to review the 2021-22 performance commitments (Part 3) and non-financial data (within Parts 2-8 and 11) on a risk-based approach.

Through a series of meetings and information exchanges, we have reviewed and tested the methodologies and processes on which the relevant statements in the APR22 are based, and we have considered the material accuracy of the performance data presented. Our findings have been discussed with management and were presented to the ST Plc Disclosure Committee on 27th June 2022.

On the basis of our audit work, we are satisfied that the information we reviewed which supports, and is included within, the APR22 has been assembled using appropriate methodologies and processes and that the data provides a reliable representation of Company performance. Performance commitment reporting is in line with the guidance and exclusions have been correctly applied. There is also good evidence of engagement from the teams involved in producing the performance data and of governance and programme management. We note that the Board has included issues we noted during our review in its' declared departures from compliance statement.

Yours sincerely,

Alexandra Martin
Director of Operations+44(0) 121 237 4000
alexandra.martin@jacobs.com

ACCURACY AND COMPLETENESS OF DATA AND INFORMATION STATEMENT

As a provider of one of life's essentials we understand that we must assure customers, regulators and wider stakeholders that we are doing the right things in the right way. We want customers to have confidence in what they get from us – be that the quality of water they drink from their taps, or the information we publish.

The data in our publications provide transparent insight into our performance and critical information to direct and drive future improvements across the sector. With that in mind, the assurance process we apply to the information and data we publish is vital to ensure that it can be trusted by all.

We have an established, rigorous and robust assurance and performance reporting framework to support the Board when approving the publication of data and information contained within regulatory documents. The assurance approach builds on best practice from external organisations. It ensures that managers, senior leaders and Directors are responsible and accountable for delivering high quality data through robust processes and methodology.

BOARD ASSURANCE APPROACH

Robust Assurance:

We operate an established and robust three lines of assurance model, which is explained in greater detail in our APR assurance approach from page 171, our [Regulatory Reporting and Assurance document](#) and our [ARA](#). Using a risk-based approach we provide an effective programme of assurance which ensures we can continually reassess our assurance activity as risk changes or new risks emerge. Data and information are approved by data owners, senior leaders and Directors. Following which, the Audit and Risk Committee applies scrutiny and challenge ahead of publication.

Effective Governance:

Hafren Dyfrdwy is an operating subsidiary of the FTS100 listed company Severn Trent Plc, which means we operate at the highest standards expected of a publicly listed company. The Board is supported by the Severn Trent Plc Governance Framework, which comprises the Board, Executive Committee and their respective Committees. In line with the 2018 UK Corporate Governance Code (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 and by: 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 Governance Framework is also subject to periodic review to ensure that it remains appropriate. The Governance Framework is explained in greater detail on pages 52 to 53 of the Annual Report and Accounts and page 26 of the APR.

Specific examples where the Board utilised individual Directors and Committees in carrying out its activities are listed below. More information on the work of the Board Committees can be found on pages 58 to 79 of the Hafren Dyfrdwy Annual Report and Accounts.

Hafren Dyfrdwy Audit and Risk Committee	<p>Reviewed the proposed audit plan for the 2021/22 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 2021/22 audit.</p> <p>Reviewed the integrity of the regulatory reporting process relating to the Annual Performance Report, and other regulatory submissions.</p> <p>Reviewed the HD 2021/22 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 for stakeholders to assess the Company's position, performance, business model and strategy'.</p> <p>Reviewed the effectiveness of the Enterprise Risk Management ('ERM') processes and procedures and internal control systems, prior to making a recommendation to the Board. The Committee also reviewed the risk appetite statement prior to making a recommendation to the Board.</p>
Severn Trent Plc Treasury Committee	<p>Consideration of ongoing impacts of COVID-19 and geopolitical events in Ukraine, including financing structures for the Group's Green Recovery submission.</p> <p>Review of the Group's treasury policies in relation to: financing; liquidity; hedging of market risks (interest rates; inflation; currency and energy hedging); financial counterparty credit risk and credit ratings.</p>
Hafren Dyfrdwy Corporate Sustainability Committee	<p>Oversaw the approach of environmental standards, particularly those where the Group has the most significant impacts, for example, energy management and climate change, water quality, resource productivity (including leakage and waste), and biodiversity and land use.</p>

OUR BOARD ENGAGES AND CHALLENGES THE ASSURANCE APPROACH TAKEN

To support our Governance Framework, we also have an established, rigorous and robust assurance and reporting framework. The assurance processes we use build on sector-wide best practice and ensure that managers, senior managers and Directors are responsible for delivering high quality data. Our assurance plan for this financial year, builds on the high standard processes we have developed and implemented in previous years to provide accurate data.

Our assurance plan aligns to our AMP7 commitments and provides details of the structure and types of assurance applied including Internal Audit and external assurance providers, aggregated Licence to Operate and Enterprise Risk Management ('ERM') risks recorded, outputs of the effectiveness of assurance undertaken, and the findings of the assurance undertaken. The Board received a tailored presentation of the AMP7 assurance map in June 2022 and the Board is provided with an update every six months.

For all regulatory publications we have a detailed regulatory forward plan and proof-point process that provides assurance to the Board and Audit and Risk Committee that an appropriate level of assurance activity has been undertaken, and findings discussed with the Board.

Throughout this activity, we ensure that high standards of governance, in line with our regulatory framework, as well as market practice for audit committees, are maintained. A twelve-month forward view of the regulatory forward plan and proof-point process is provided at every Audit and Risk Committee meeting. The Audit and Risk Committee ensures that regular updates are provided to the Board under their Terms of Reference. Ongoing progress updates relating to a variety of submissions, are provided at Board level through Director reports.

New submissions and Board requirements, or amendments to the assurance process, are reviewed, discussed, and approved in advance of submissions.

As an example, this year we will be submitting a Board Statement to accompany the draft Drainage and Wastewater Management Plan ('DWMP'). This submission will be owned at an individual Director level, with the Executive Committee, Audit and Risk Committee and Board all being engaged throughout the process. This enables them to test and challenge the progress, including risks, mitigations, the assurance approach and the Board statements themselves, including the proof point process.

The Board takes action to ensure exceptions and weaknesses in the assurance approaches have been addressed and is satisfied that the approaches have appropriately identified and addressed any risks to the provision of accurate and complete data and information in particular areas.

Our AMP7 assurance map was externally assured by Ernst & Young in October 2020. They concluded that the approach was 'comprehensive and robust'.

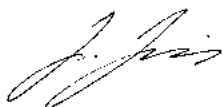
We are confident the assurance map supports the identification of potential weaknesses using a holistic view of assurance activities and RAG status, and all areas at a minimum of satisfactory rating are targeted for improvement.

Our annual [Regulatory Reporting and Assurance document](#) is a key regulatory publication that considers a range of factors to determine and shape our assurance plan and ensure that weaknesses in assurance approaches are improved. Customer and stakeholder engagement, internal assessments including Licence to Operate, ERM and emerging risks and trends across the sector help to determine where we need to focus the assurance we apply to our regulatory reporting. We also make sure that regulator feedback is incorporated, and we welcome feedback from stakeholders following publication on our website. We explain in detail our assurance and governance frameworks and link outputs of the assessments to the planned assurance activities and approach for the financial year ahead. The assurance plan is grouped into two areas, core assurance activities and focus assurance activities, which are updated and reflect current risk and/or areas of importance in reporting.

CONSIDERATIONS OF THE BOARD

The Board considers that the Company has applied the governance and assurance frameworks described both in this APR, the ARA, and the Regulatory Reporting and Assurance Approach. Following reasonable and relevant enquiries, it is believed the processes and internal controls have been applied in a manner which has enabled it to satisfy itself, to the extent that it is able to do so from the information available, that the data and information provided to Ofwat in the reporting year and information published in our role as a water and waste water undertaker is accurate and complete, except where indicated on page 64.

Signed for and on behalf of the Board.



James Jesic
Managing Director
Hafren Dyfrdwy Cyfyngedig



John Coghlan
Chair
Hafren Dyfrdwy Cyfyngedig



Ann Beynon
Independent Non-Executive Director
Hafren Dyfrdwy Cyfyngedig

14 July 2022

Hafren Dyfrdwy Cyfyngedig
Packsaddle
Wrexham Road
Rhostyllen
Wrexham
Clwyd
LL14 4EH

hdcymru.co.uk

RHAGOROL O'R TAP
WONDERFUL ON TAP



severn dee