Hafren Dyfrdwy Cyfyngedig

Annual report and financial statements for the year ended 31 March 2021

Company number: 03527628

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Hafren Dyfrdwy Cyfyngedig

Company information

Company number	03527628
Directors	J B Coghlan A Beynon J Bowling (resigned on 14 July 2020) O R Garfield (resigned on 14 July 2020) C M Hodgson (appointed on 1 April 2020) J Jesic (appointed on 15 July 2020) S Jones-Evans M Mehmet H M Miles (appointed on 15 July 2020) S Nebhrajani (appointed on 1 April 2021)
Secretary	H Woodall-Pagan
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 Four Brindley Place Birmingham B1 2HZ

Gofalu am un o hanfodion bywyd

Taking care of one of life's essentials

Strategic Report

What we do

As one of the 11 regulated water and sewerage companies in England and Wales, Hafren Dyfrdwy provides Mid and North East Wales with world-class water services at the most affordable price in the country.

When Hafren Dyfrdwy was launched in 2018, we knew our enduring focus would be on Wales and on delivering for Welsh customers, both now and for generations to come. This thinking was behind our chosen name – Hafren Dyfrdwy means 'Severn Dee', representing the two major rivers in our region.

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 2021.

Highlights

Turnover
£32.9 million

(2019/20: £32.4 million)

Litres of drinking water supplied each day
61 Ml/d

(2019/20: 59 Ml/d)

Loss before interest and tax
£5.3 million

(2019/20: £3.7 million)

Litres of waste water treated
6,649 Ml/y

(2019/20: 6,838 Ml/y)

Households and businesses served
107,684
(2019/20: 107,000)

Employees[1]
132 (2019/20: 135)

[1] Average during 2020/21 see note 5 to the financial statements

Our Strategic Framework

Our Purpose – Taking care of one of life's essentials / Gofalu am un o hanfodion bywyd
We believe our clear social purpose helps drive the right strategic decisions for our business, our stakeholders and the environment we depend on. It is underpinned by our strong Values and borne out in our culture which governs how we think and behave, from fostering a diverse and inclusive working environment to rewarding all of our people fairly. Hafren Dyfrdwy Cyfyngedig focuses on the delivery of nine outcomes designed with our customers to meet their needs and those of wider society:

STRATEGIC OUTCOMES

1. A company you can trust

2. A positive difference

3. Lowest possible bills

4. A service for everyone

5. An outstanding experience

6. Good to drink

7. Water always there

8. Waste water safely taken away

9. A thriving environment

SUSTAINABILITY PILLARS

Taking care of the environment
- Ensuring a sustainable water cycle
- Enhancing our natural environment
- Making the most of our resources
- Mitigating climate change

Helping people to thrive
- Delivering an affordable service for everyone
- Providing a fair, inclusive and safe place to work
- Investing in skills and knowledge
- Making a positive difference in the community

Being a company you can trust
- Living our Values
- Balancing the interests of all our stakeholders
- Running our company for the long term
- Being open about what we do and sharing what we know

OUR VALUES

Culture
Our culture is focused on nurturing and promoting the health of the natural environment and the wellbeing of our customers, colleagues and communities.

Stakeholder engagement
Effective stakeholder engagement is a priority for every member of our team, from the frontline to the Board. Our emphasis is on tracking the outcomes of our engagement, encouraging a two-way dialogue and making sure this helps inform our decision making.

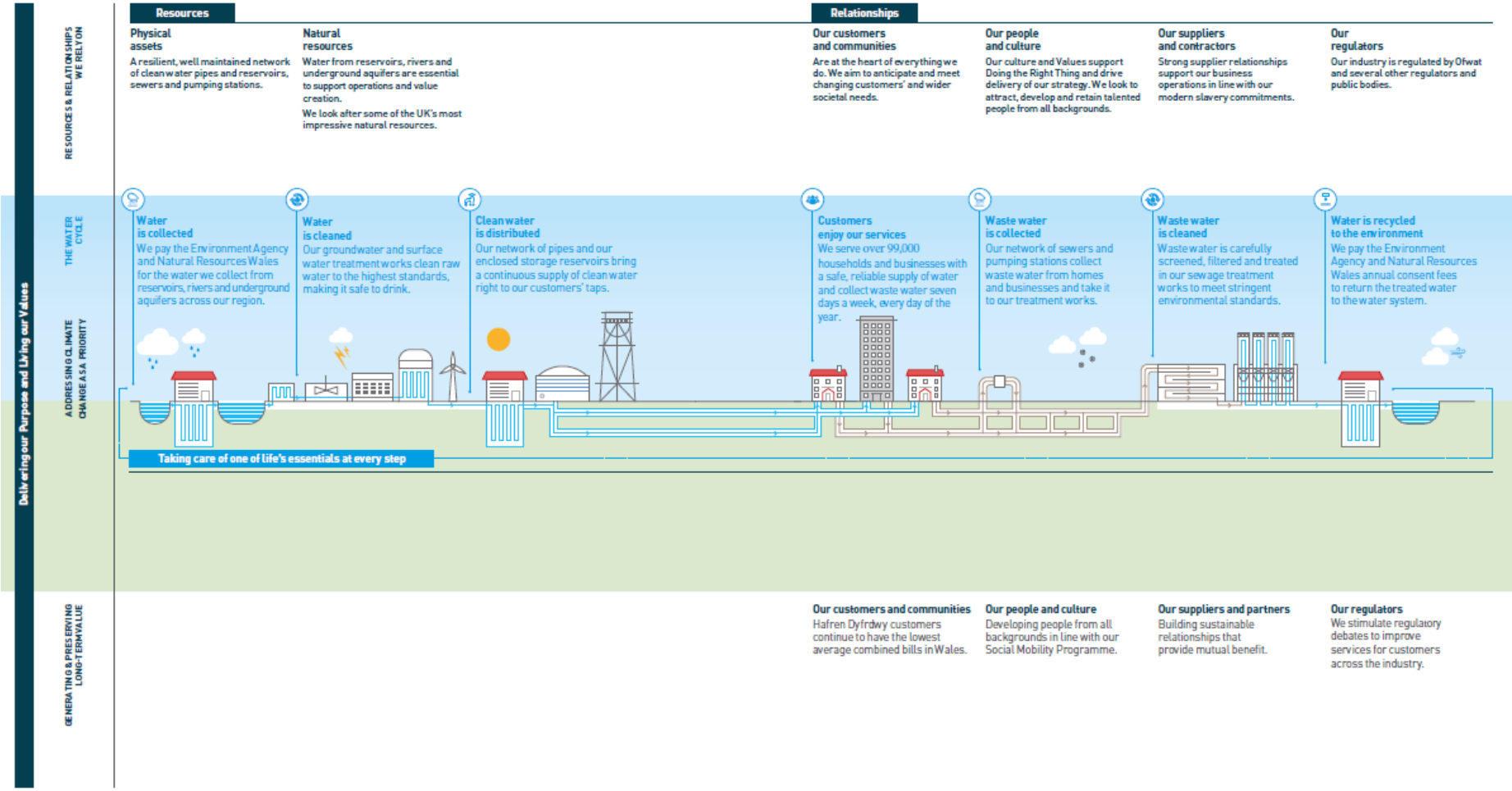
Rewarding our people
We are committed to rewarding all of our people fairly, sharing rewards with our communities through our Community Fund and returning value to our wider stakeholders.

Business Model

Running an **Efficient Water Business**

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

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



Our Social Purpose

At Hafren Dyfrdwy, we believe that being a socially purposeful company is a core principle. 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 are proud of the way we have set out our socially purposeful ambitions and want to 'lock in' our approach for the benefit of future generations. Our dedicated Social Purpose document, published in Welsh and English, sets out what it means to be a socially purposeful company, how our stakeholders can hold us to account in applying these principles whilst supporting wider society.

Enshrining social purpose at the heart of our decision making

A socially purposeful company must have social purpose at the heart of its decision making. For us, this means making decisions for the long term; adding value for our customers, the communities we serve and the environment; and treating all of our employees and other stakeholders fairly. Our social purpose was developed in full consideration of the Well-being of Future Generations (Wales) Act 2015 and is aligned to the Act's ambitions to improve Wales's social, cultural, environmental and economic wellbeing. Through actively thinking about, and considering, the long-term impact of our decisions on our employees and communities, we can make a long-lasting, positive change to current and future generations.

Our social purpose measures

A clear purpose is important, but it is also necessary to have a broader package of measures to support its effective delivery. A detailed update on these measures can be found in our Social Purpose document (available on our website) and is summarised below:

Deliver excellent core services

Our core job is to deliver excellent water and waste water services for our customers. In line with our regulatory commitments, we publish a plan every five years setting out priorities and service commitments - commitments driven by what customers tell us are most important to them. We also publish independently assured reports every year setting out how we are performing against the core performance commitments to ensure our performance is transparent to all stakeholders.

A powerful voice for customers, employees and stakeholders

As a socially purposeful company, we engage with customers, employees and other stakeholders to understand their views and priorities in order to factor these into our strategic priorities and decision making.

We recognise the value and importance of our Welsh identity for our customers and are committed to delivering the Welsh language standards and communicating with customers who have Welsh as their preferred language. We provide Welsh language courses for employees and include Welsh language as a desirable / essential skill on job descriptions for new employees. We report on our compliance with the Welsh Language Standards.

Working in partnership to do more for our communities

We seek to maximise the benefits to local communities through working in partnership with other organisations to deliver environmental and societal benefits. For example, we are working with the Newtown Go Green Consortium and have a long standing partnership with the RSPB at Lake Vyrnwy. We have also put in place comprehensive support for any customers struggling with their water bill, implemented an education programme for local schools and we encourage every colleague to spend at least two days a year volunteering in company time.

Striving to be an exemplary employer

We strive to be an exemplary employer and are accredited as a real Living Wage employer. In the next five years we will extend our commitment to paying the real Living Wage to people who work in our supply chain, not just our direct employees. We will specifically:

- Support every employee with mental and physical wellbeing – with particular focus applied throughout the COVID-19 pandemic;
- Provide first-class training opportunities – giving everyone the opportunity to make the most of their talent;
- Promote diversity and inclusion;
- Ensure employees are rewarded fairly and are treated with respect – engaging with them through our annual QUEST survey; and
- Commit to promoting social mobility through recruitment and development.

Operating to clear ethical principles

When Hafren Dyfrdwy was launched in 2018, we adopted the Group-wide Code of Conduct, Doing the Right Thing. Doing the Right Thing supports the creation of long-term value for the mutual benefit of our employees, customers and communities and provides a consistent framework for responsible business practices. The Board recognises the importance of building and promoting a culture of integrity and openness, where inclusion and diversity are valued.

Align company interests behind those of customers

We invest more in order to deliver for customers in areas they say are most important to them and Outcome Delivery Incentives ('ODIs') mean we can fund these improvements. If we fail to deliver for customers, we suffer a financial penalty. For customers who may be in difficult circumstances and need additional support, we have worked in partnership with organisations such as Powys Association of Voluntary Organisations, Warm Wales and Newydd and Mid-Wales Housing. This collaboration has helped us reach more customers that were struggling to pay their bills.

Transparent and accountable

Transparency is at the heart of what it means to be a socially purposeful company and we have committed to:

- Publishing annual, audited reports setting out our operational and financial performance;
- Ensuring that our senior management are accessible to customer groups, the Group Forum and other stakeholders; and
- Maintaining the very highest standards of corporate governance through our commitment to Ofwat's principles for Board leadership, transparency and governance.

As Hafren Dyfrdwy is not a listed company, it is not required to comply with the 2018 UK Corporate Governance Code (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. See page p39 for further information.

Our Response to COVID-19

The impacts of COVID-19 are still being felt across the globe and as a socially purposeful company, we have carefully considered how we can make a positive impact for the good of our stakeholders and for wider society.

This section provides a snapshot of how we have approached the COVID-19 pandemic since mid-March 2020; from managing our operational response, to mitigating as much risk as possible, while still providing the widest range of support possible to our stakeholders. It also directs you to sections of the Annual Report where you can find more detail on each of the matters below. Our Group-level Strategic Incident Team, on which our Managing Director and Chief Financial Officer sit, led the swift implementation of plans and we continued to provide services to customers while keeping our people safe and well. All of our sites were confirmed COVID-secure, so our employees and supply chain could continue working safely throughout the pandemic.

Supporting our customers

COVID-19 has had a global impact and we are acutely aware that some of our customers will be experiencing affordability pressures. We have provided extra support for our customers in need through our vulnerability schemes including WaterSure and our Priority Services Register. Assistance is also available online through 'Here2Help', our social tariff which has helped 1,382 customers access the support they need.

We have been working closely with the Welsh Government, the Consumer Council for Wales and other companies in our region (such as Dŵr Cymru) to understand the impacts of COVID-19 on customers and look at the additional support we can offer where needed. Partnerships have been established with Wrexham Borough Council, Powys and Wrexham Citizens Advice and Warm Wales to sign-post customers to the support we can offer.

We have kept customers reassured and informed throughout the COVID-19 pandemic through regular content across several channels, including emails, social media, TV and radio.

Helping to make a difference to our communities

In 2020, in addition to helping our customers directly, the Severn Trent Group established a £1 million COVID-19 Emergency Fund with £30,000 reserved for grant-making in our region. We worked with Community Foundation Wales, Powys County Council and Wrexham County Borough Council to identify which organisations were most in need of support.

We launched a virtual education zone to help parents with home-schooling – through activities, games and stories to inspire the next generation of water users.

Ensuring the long-term success of our Company

The Board and Strategic Incident Team have continually monitored the situation to ensure early detection of any deteriorating trends. Plausible and extreme scenarios to determine expected impacts have been modelled in order to test the Company's financial resilience. Read more in our Viability Statement on page 21. We continue to monitor the impact of the COVID-19 pandemic across all areas of our business as part of our established Enterprise Risk Management ('ERM') processes].

Working with our suppliers and contractors

Throughout the year we have supported our supply chain by moving to immediate processing of payments for small and medium-sized enterprises ('SME's). This policy has helped many of them through the pandemic with crucial cash flow. We are working closely and collaboratively with our whole supply chain to provide support in respect of their underlying COVID-19 plans and

continuing to invest in our capital construction projects. This is an important focus given the role of our supply chain as key employers in our region.

Taking care of our colleagues

Our priority remains the safety and wellbeing of our people and customers. We are supporting our key workers with the processes, personal protective equipment ('PPE') and other equipment they need to continue to deliver our essential services and all of our buildings were confirmed as COVID-secure early in the pandemic.

In 2020 we announced that we would not be making any redundancies or furloughing any of our employees as a result of COVID-19 and we are maintaining our all-employee bonus in recognition of our colleagues' hard work over the last year. In 2019/20 we agreed an annual pay increase of 2.3% for the next three years to provide certainty and security for our employees and their families. In April 2020 we launched the 'Caring for our Colleagues' campaign, providing support with mental and physical wellbeing, and supported individual care plans for our people living in a vulnerable situation. In February 2021 we launched 'Share a Smile', an eight-week campaign of exclusive employee events to help give our colleagues and their families something to look forward to during lockdown. We hosted four virtual events - a Comedy Night, a Pub Quiz, Bingo and Rockaoke. We also created weekly activity packs with a host of ideas for our employees to do in their own time. Colleagues shared their experiences via our dedicated 'Share a Smile' intranet hub.

Business Overview

Hafren Dyfrdwy is a wholly owned subsidiary of Severn Trent Water Limited. The Company is one of 11 water and waste water companies operating in England and Wales, providing services at the most affordable price in the UK to c.107,684 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 (Wales) Act 2015, aspiring to always operate in a way that is socially and environmentally sustainable.

This Strategic Report covers the year ended 31 March 2021, which represents the first year of our five-year regulatory period (known as 'AMP7'). We are pleased to present our progress against the delivery of our customer outcomes. We met 71% of our measures in 2020/21, a step change improvement from 2019/20. Our performance improvement reflects our teams' hard work, developing collaborative partnerships and embedding the culture of a local Company whilst also embracing the synergies of being part of a larger Group Company.

During the year changes have been made to support delivery of our business plan for AMP7, starting with the appointment of James Jesic as Managing Director and Helen Miles as Chief Financial Officer. Building on these appointments, we constituted dedicated Steering Groups to oversee strategy, capital governance and financial performance to improve performance and drive cost efficiencies. As a result, we have been able to improve operational performance and invest in the operational health of our network and its future capability to provide sustainable services for future generations.

This report covers our progress in our first year of AMP7, including our progress in delivering our customer outcomes, service commitments, and financial and environmental performance.

Operational Review

Our Purpose is **"Gofalu am un o hanfodion bywyd" / "Taking care of one of life's essentials"** - focused on the delivery of outcomes for the benefit of our customers and wider society.

We are pleased to present our progress against the delivery of our customer outcomes for the first year of AMP7. The Key Performance Indicators (KPIs) discussed below represent financial and non-financial measures we use to track our performance as we deliver our Purpose and the Business Plan outcomes we have committed to our customers and communities.

We have achieved 71% of our performance measures in 2020/21, delivering a step change improvement from 51% in 2019/20. This reflects the hard work of our employees and the development of collaborative partnerships – such as our successful delivery of the lead replacement programme with Wrexham Council.

As a company that covers a highly rural area, with a relatively small population base, it can be challenging to achieve our stretching industry comparative targets, many of which are set in line with larger sewerage companies and more urban water only companies. This section of our Annual Report outlines the improvements we've made in the current year in this context.

Improving core service in waste and water

In water, we've delivered strongly on the measures of importance to our customers, including an industry leading CRI score of 0.1, exceeding our lead pipe replacement target four times over and delivering a 6.6% leakage reduction.

As a result of a major supply interruption incident in Wrexham in early May we're reporting a total performance penalty of £0.52 million. We are committed to identify more innovative and efficient ways of improving services for our customers and have already demonstrated the learning from this incident with an improved response to a similar incident later in the year.

In waste, we've targeted our specific assets, undertaking in-depth investigations when problems are reported on our network and we have engaged with our customers and businesses in relation to what not to flush. As a result of this activity, we've seen a 28% reduction in blockages and beaten our pollutions target by 28%.

Supporting our customer and communities

We have the lowest average combined bill in England and Wales. Recognising just how difficult the COVID-19 pandemic has been for our region, we have proactively engaged with customers and worked with local partners, such as Wrexham Borough Council, Newydd Housing and Mid-Wales housing, to promote our support schemes – WaterSure and Here2Help. This has resulted in a 20% year-on-year increase in customers receiving financial support through bill reductions.

We've also improved the well-being of our customers, supporting 100% of customers that need it during an incident, and engaged with our communities - collecting 1,286 customer commitments to change behaviour through our education programme and supporting the thriving Welsh language in line with the Welsh Language Standards.

Enhancing the natural environment

Our ambition is for Hafren Dyfrdwy to be an environmental leader in land and water management, showcasing Lake Vyrnwy as an exemplar site.

We’ve made positive progress against our biodiversity commitments, with more than 200ha of biodiversity improved and full delivery of the National Environment Programme (‘NEP’).

Financial Performance

Our financial performance is reflective of the challenging year we have just faced but demonstrates the resilience of our people and operational teams to deliver excellent service despite a one-off event in Wrexham during the year.

In the first year of the AMP, it was important that we delivered against our new customer commitments, including our enhanced capital investment programme. We are delighted that we delivered £12.3 million of capital investment during the year.

The Wrexham ring main event led to a maximum ODI penalty on supply interruptions and was the primary factor behind our £0.52 million net penalty. Excluding this event, we delivered our best supply interruptions performance.

Turnover increased marginally in the year by 1.5% to £32.9 million (2019/20: £32.4 million). The key components of the year-on-year movement were increased domestic usage during the national lockdowns and the dry summer period coupled with inflationary bill increases offset by lower consumption from commercial customers. In addition, there was a £0.2 million increase from the reclassification of deferred income releases and diversions income (previously credited to operating costs and infrastructure renewals expenditure – see note 1 of the financial statements) that is PBIT neutral.

Customers continue to pay the lowest combined average bills in England and Wales, and the vast majority of customers saw price increases below 5%.

Operating costs increased by 5.8% to £38.2 million (2019/20: £36.1 million).

Our labour costs increased by 6.1% to £5.9 million (2019/20: £5.6 million) driven by insourcing of activity to improve services to customers and our commitment to not furlough any employees.

The charge for bad and doubtful debts increased by 92.8% to £2.1 million (2019/20: £1.1 million) as a result of:

- A top up provision of £0.2 million on legacy debt acquired with Dee Valley that has not been collected to date;
- Reduced in-year cash collection driven by socio-demographic conditions in our region; and
- A £0.4 million forecast increase in the provision based on future losses driven by the Bank of England unemployment forecast for next year, likely resulting in more customers falling into arrears.

During the year we received an historic cumulo rates rebate of £2.2 million dating from 2010 as a one-off correction, relating solely to the cost incurred in when the company operated under the name Dee Valley. The loss before interest and tax was £5.3 million (2019/20: £3.7 million).

Net finance income for the year was £0.3 million (2019/20: £0.5 million). Due to low forecast RPI, the accounting unwind for our RPI linked debt was lower than in prior year, resulting in a larger finance cost this year, reducing net finance income.

Capitalised interest of £1.5 million was lower year-on-year due to the lower level of capital activity compared to last year.

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, Apprenticeship Levy and environmental taxes such as Climate Change Levy that are charged in our income statement.

The loss for the year was £4.3 million (2019/20: £4.3 million).

Our defined benefit pension scheme surplus was £17.1 million (2020: £21.3 million). The funding level remains strong at 136% (2020: 149%).

We finished the year with a strong balance sheet, net assets of £157.8 million (2020: £145.8 million), net current liabilities of £9.4 million (2020: assets £3.6 million) and RCV gearing of 45.6% (2020: 77.5%).

Risk Management

Our approach to risk
We think of risk as those things that could prevent us delivering our strategic objectives. Risk manifests itself in both negative and positive impacts. In identifying and categorising risk, we consider the causes, including people, process, assets, external factors and the control environment. The successful delivery of the Company's strategic objectives depends on the effective identification, understanding and mitigation of risk.

Risk Landscape
This year has seen some long-term risks manifest, as a consequence of the UK's Brexit negotiation process, and short-term shocks, such as the COVID-19 pandemic. The EU-UK Trade and Cooperation Agreement, signed on 30 December 2020, avoided a no-deal Brexit, but there remains some additional risk associated with the movement of goods between the EU and UK. The implications for our supply chain, particularly in relation to chemical supplies, have been carefully managed, with dedicated working groups continually reviewing market conditions and monitoring demand against market availability. We have also approved new framework agreements for our capital supply contracts to provide additional flexibility and prevent excessive supplier concentration.

Overseeing risk
Our approach to risk management is designed to enable the business to deliver its strategic objectives while managing the inherent uncertainty that can manifest itself as both opportunities and threats to these outcomes.

The well-established Severn Trent Plc Enterprise Risk Management ('ERM') approach has been implemented within Hafren Dyfrdwy to manage and mitigate risks.

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 accept risk that is appropriate to achieving our strategic objectives.

Risk reporting
The ERM process is operated by the Central ERM Team and underpinned by a standardised methodology to ensure consistency.

ERM Champions and Co-ordinators operate throughout Hafren Dyfrdwy, with support and challenge from 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 strategies to optimise controls or implement additional controls.

Our significant risks form our Group risk profile which is reported to the Executive Committee for review and challenge. This is then reported to the Severn Trent Plc Audit Committee and Hafren Dyfrdwy Board on a six-monthly basis. The report provides an assessment of the effectiveness of controls over each risk and action plans to improve controls where necessary.

Our Principal Risks
The Directors have carried out a robust assessment of the Principal Risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, 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.

There may be additional risks that emerge in the future and we undertake regular horizon scanning to identify and report these to the Board. Risks can present significant value-creation and possibilities for innovation.

CYBER SECURITY & TECHNOLOGY RESILIENCE **RISK 1** **Cyber threats cause interruptions to key infrastructure assets, core systems or data loss results in a negative reputation, operations, regulatory (including GDPR) or financial impact.**
Risk Mitigations
We continue to commit significant resources and financial investment to maintain the integrity and security of our assets and data. We have a dedicated Information Security Team and Data Privacy Officer responsible for monitoring information security and cyber threat. We follow guidance from the National Cyber Security Centre and have defence through multiple layers of software and processes including web gateways, filtering, firewalls, intrusion and advanced threat detection. We have 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. We have 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.

HEALTH & SAFETY **RISK 2** **Due to the nature of our operations, we could endanger the health and safety of our people, contractors and members of the public.**
Risk Mitigations
The Group's Goal Zero policy clearly sets out our target that no one should be injured or made unwell by what we do. Well-established Health, Safety and Wellbeing 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. Monitoring of our supply chain through Site Manager Forums and on-site inspections, including Health and Safety Reviews to ensure compliance. Health and safety bulletins are cascaded to key employees, including our supply chain partners. Dedicated Health, Safety and Wellbeing toolkit, called Safety Net, that allows real time data recording to capture, analyse and report on all HS&W incidents and implement targeted interventions in a timely manner.

SERVICE FAILURE & ASSET RESILIENCE

RISK 3
Failure to provide a safe and secure supply of drinking water to our customers and the potential for negative impact on public confidence in water supply.

Risk Mitigations

Comprehensive resilience plans, such as, our Water Resources Management Plan and Drought Plan, feed into our capital investment programme and business plans.

Portfolio Risk Assessment process covering a comprehensive range of potential risks that could impact reservoirs to prioritise resources and inform the capital programme. This activity is supported by a robust inspection and surveillance programme undertaken by the supervising engineer and dedicated reservoir safety team and Emergency Action Plans for each site, reviewed annually by the supervising engineer.

Key operational employees are required to complete mandatory Water Quality Competency training.

Investment in in-house capability to bolster response teams and facilitate accelerated response to reactive issues to maintain supplies whilst repairs are undertaken.

24/7 control centre monitoring of our operations and assets,
including real time telemetry.

Robust monitoring systems to record, manage and mitigate operational risk to assets supported by proactive investment and upgrade strategies.

Strategic modelling continually assesses potential changes to supply and demand on our water network and the impact of climate change.

Regular updates to processes, standards and operation procedures.

SERVICE FAILURE & ASSET RESILIENCE

RISK 4
Failure to effectively transport and treat waste water and the potential for negative impact on public confidence.

Risk Mitigations

Strategic modelling continually assesses potential changes to supply and demand on our waste network, to reduce service issues or potential damage to the environment.

Robust monitoring systems, to record, manage and mitigate operational risk to assets, supported by proactive investment and upgrade strategies.

24/7 control centre monitoring of our operations and assets, including real time telemetry coverage.

Key operational employees are required to complete mandatory training programmes to ensure continued competency with evolving standards.

Educational programmes with customers to promote safe use of the waste-water system, including ensuring appropriate disposal of wet wipes.

POLITICAL, LEGAL AND REGULATORY

RISK 5
Regulatory reform or policy changes from Welsh Government.

Risk Mitigations

Our policies and procedures ensure compliance with the 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 & BIODIVERSITY

RISK 6
Our climate change strategy does not enable us to respond to the shifting natural climactic environment and maintain our essential services.

Risk Mitigations

Scenario modelling and data reviews, to develop an understanding of the impacts climate change could have on our essential services.

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.

Strong engagement with our supply chain to drive environmental leadership

CLIMATE CHANGE, ENVIRONMENT & BIODIVERSITY
RISK 7 **We fail to positively influence natural capital in our region.**

Risk Mitigations
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. Use of catchment management approaches to work with landowners in our region to mitigate the effect of pesticides, fertilisers and organic nutrients on the environment and biodiversity. Modelling to estimate the increasing pressures on nature, for example, from climate change, such as, drought or extreme weather events and biodiversity loss that has potential to impact ecosystems. In-house ecology expertise to enhance the Group's capability to work towards enhancing biodiversity.

Internal Audit and Internal Controls

Internal Audit is an independent assurance function available to the Board, Audit Committee and all levels of management and is supported by three main co-sourcing partners, PricewaterhouseCoopers, Ernst and Young and BDO. These 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.

The role of Internal Audit is to provide assurance that the Company's risk management and internal control systems are well designed and operate effectively and that any corrective action is taken in a timely manner. Each year, Internal Audit develops an annual risk-based audit plan for approval by the Audit Committee; this is supported by regular reporting that enables the Committee to monitor delivery of the audit plan. The Committee's role is to 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.

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. 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.

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. To ensure continued efficiency, we carried out a review of the effectiveness of the Internal Audit function in March 2021 in consideration of guidance outlined within the Chartered Institute of Internal Auditors Internal Audit Code of Practice and the FRC Guidance on Audit committees. The review concluded that the Internal Audit function is operating efficiently and effectively, and in line with good practice. The Chartered Institute of Internal Auditors ('CIIA') guidance states that audit committees should obtain an independent and objective external quality assessment at least every five years. The last independent review was undertaken in February 2019 and concluded that the Internal Audit function was fit for purpose, had a clear remit and a desire to support the business. We consider it prudent to carry out external effectiveness reviews every three years and as such the next independent review is planned for February 2022.

Risk Management

The Company has a risk management 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 and has delegated responsibility for review of the risk management methodology and effectiveness of internal controls to the Audit Committee. We review the processes for, and outputs from, the ERM process, through which our principal risks and related controls are identified. We also review the effectiveness of the risk management system on behalf of the Board and keep under review ways in which we can enhance the control and assurance arrangements.

Viability Statement

Assessment of current position and long-term prospects

The Directors' assessment of the Company's current financial position is set out in the Financial Performance on pages 13 to 14.

The Company operates a regulated long-term business characterised by multi-year investment programmes and stable revenues. The water industry in England and Wales 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 Periods (AMPs) 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 Ofwat's determination. We have based our assessment of prospects for the next four years on these plans, subject to modifications resulting from the impacts of the COVID-19 pandemic (see below).

When considering the Company's prospects beyond 2025, it is necessary to make assumptions about the price review process for the period 2025-30 ('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;
- The Company's financial structure, which is close to the Ofwat notional capital structure and our plan to retain this; and
- The Company'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.

The Company has significant investment programmes that are largely funded through intra-group borrowing under multi-year agreements and facilities. The tenor of the facilities is set out in note 16 to the financial statements. There are no financial covenants included in these agreements.

The Company's strategic funding objectives reflect the long-term nature of its business and the Company seeks to obtain a balance of securing long-term funding at the best possible economic cost and maintaining financial ratios that would support an investment grade credit rating. The Directors have concluded that the Company's financial ratios at 31 March 2021 would support such a rating.

The Severn Trent Group's Treasury Policy requires that it maintains sufficient liquidity to cover cash flow requirements for a rolling period of at least 18 months in order to mitigate the risk of restricted access to capital markets. The Company's refinancing requirements are managed within the Group Treasury department to spread the timing of refinancing requirements and to enable such requirements to be met under most market conditions. The weighted average maturity of debt at the balance sheet date was ten years.

The Company has an established process to assess its prospects. The Board undertakes a detailed assessment of the Company's strategy on an annual basis and the output from this assessment sets the framework for the Company's medium-term plan, which is updated annually.

The Company's medium-term plan assesses its prospects and considers the potential impacts of the Principal Risks and uncertainties. Stress tests are performed to assess the potential impact of combinations of those risks and uncertainties. The plan also considers mitigating actions that the Company might take to reduce the impact of such risks and uncertainties, and the likely effectiveness of those mitigating actions.

Impact of COVID-19 on the Company's prospects

The Office for Budget Responsibility has identified the water industry as likely to be amongst the least affected by the COVID-19 pandemic. But we are not immune to the impacts on the wider economy and in the last year we have, as expected, seen a reduction in consumption from non-household customers following the restrictions implemented by the Government. We have thankfully seen only limited changes in household customer payment behaviour but recognise that there may be a lag between the change in household financial circumstances (for example unemployment) and the change in cash collections. We have increased the availability of our range of social tariffs to help mitigate this. There was also a sharp reduction in inflation during 2020 and 2021 that will impact our revenue in financial year 2021/22 and continued low inflation in 2021 would impact revenue in 2022/23. We have updated our model of the likely impacts of COVID-19 on our medium-term plan and developed an updated assessment of our prospects allowing for the anticipated impacts of COVID-19 based, inter alia, on Government advice and water sector specific guidance from our regulator Ofwat. We have applied our stress tests, including a 'third wave' of COVID-19, to this adjusted plan.

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 impacts of the COVID-19 pandemic increase the uncertainty inherent in our financial projections. We have an established planning and forecasting process and the Board considers that the assessment of the Company'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 England and Wales, the Board has determined that seven years is an appropriate period over which to assess the Company's prospects and make its Viability Statement.

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 ERM process, which is described on page 15, and from the key assumptions in the financial model. Where the risk occurs at a point in time we have assumed that it occurs at the point in the plan with the lowest headroom.

The scenarios tested are described below.

Scenario Tested	Related Principal Risk	Mitigating Actions
1. A severe impact from the COVID-19 outbreak resulting from a prolonged 'lockdown' period resulting in lower economic activity, higher unemployment and lower inflation.		The regulatory model includes mechanisms to adjust future revenues to balance out any under recovery when compared to the original price review. The application of these mechanisms would not necessarily take into account

The adjustments that we have made to our medium-term plan to reflect a possible new variant of COVID-19 are based on a number of assumptions and experience gained over the last 12 months. We have modelled a further period of 'lockdown' and restrictions which might result in more severe impacts on total revenues and household bad debts, together with a larger and longer reduction in inflation, and an impact on ODIs earned.		affordability of customers' bills and therefore might be spread into the next AMP period. Reduce discretionary expenditure to mitigate the impact of lower revenue in the affected years.
2. The Company experiences a severe climate event or other exceptional event with a very significant financial impact. The Company's ERM process has identified a number of risks including extreme weather events and failure of key assets that might have a significant impact on the Company's operational and financial performance. We have assessed the effects of an incident with an impact of £150 million.	Risk 1: Cyber threats cause interruptions to key infrastructure assets, core systems or data loss results in a negative reputation, operations, regulatory (including GDPR) or financial impact. Risk 3: Failure to provide a safe and secure supply of drinking water to our customers and the potential for negative impact on public confidence in water supply. Risk 4: Failure to effectively transport and treat waste water and the potential for negative impact on public confidence. Risk 6: Our climate change strategy does not enable us to respond to the shifting natural climactic environment and maintain our essential services.	Reduce discretionary expenditure to cover any extra costs resulting from the event. In the medium term implement a cost reduction programme to deliver sustainable cost savings and efficiencies to bring costs back in line. Secure additional debt or equity finance from the Severn Trent Group.
3. The Company underperforms against its performance commitments. The Company operates under a regulatory model that encourages	Risk 3: Failure to provide a safe and secure supply of drinking water to our customers and the potential for negative impact on public	Reduce discretionary expenditure to cover any extra costs resulting from penalties.

companies to deliver what customers want, using performance related rewards and penalties. Failure to deliver performance at the committed level can lead to significant penalties. We have assessed the impact of a penalty equivalent to 3% of Return on Regulated Equity (RoRE).	confidence in water supply. Risk 4: Failure to effectively transport and treat waste water and the potential for negative impact on public confidence.	
4. The Company incurs higher costs than planned that are not funded. Significant overspending could result in a deterioration in financial metrics and performance, which might adversely impact the Company's solvency. We have assessed the impact of a 10% overspend on capital and operating expenditure in each year of the plan.		Reduce discretionary expenditure in the short term. In the medium term implement a cost reduction programme to deliver sustainable cost savings and efficiencies to bring costs back in line with regulated allowances. Secure additional debt or equity finance from the Severn Trent Group.
5. The Company incurs a financial penalty for non-compliance with legislation. The Company operates in a regulatory and legal environment that is complex and changing. Failure to keep pace with changes in legislation or regulation could lead to non-compliance and result in financial penalty of 3% of one year's revenue.	Risk 5: Regulatory reform or policy changes from Welsh Government	Reduce discretionary expenditure to cover any extra costs resulting from penalties.
6. A combination of scenarios 3-5	See above	Reduce discretionary expenditure in the short term. Reduce working capital to support cash flow. Secure additional debt or equity finance from the Severn Trent Group.

The combined scenario represents a situation where several of the severe but plausible scenarios occur simultaneously. In this situation, the same mitigating actions would be available but their application would be deeper.

The Company has significant funding requirements for the Company's capital programme. Since the Company's principal source of funding is the Severn Trent Group, the Company has considered the outcome of the Severn Trent Group's assessment of viability in making its own assessment. The Company has also considered its parent company's willingness and ability to provide additional funding when required.

Under all scenarios considered, the Company would remain solvent and have access to sufficient funds in normal market conditions. The Group's Treasury Policy requires that it retains sufficient liquidity to meet its forecast obligations, including debt repayments for the next 18 months.

In making its assessment, the Board has made the following key assumption:

- Any period in which the Group is unable to access capital markets to raise finance during the period under review will be shorter than 18 months.

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 Severn Trent Plc Audit Committee supports the Board in performing this review. Details of the Committee's activity in relation to the Viability Statement are set out in the Severn Trent Plc Audit Committee report in the Severn Trent Plc Annual Report.

This statement is subject to review by Deloitte, our external auditor. Their Audit Report is set out on pages 60 to 69.

Assessment of viability

The Board has assessed the viability of the Company over a seven year period to March 2028, 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 2028.

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 liability position of £9.4m at 31 March 2021 and the financing facilities available to the Company.

As at 31 March 2021, the Company has drawn down £3.3m of the £30m revolving credit facility ('RCF') from its parent company, Severn Trent Water and £nil of the £30m RCF from its ultimate parent company, Severn Trent Plc. These facilities mature on 08 March 2022 and 01 July 2022 respectively. Subsequent to the year end, the Company accepted the extension of the £30 million revolving credit facility from its ultimate parent company Severn Trent Plc. The facility was extended to 31 January 2023, bearing interest at 1.7% above LIBOR as set out in note [XX].

In making this assessment, the Directors have considered the minimum headroom available, including under a scenario where the Severn Trent Water facility is not renewed, 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.

Sustainability at the Heart of our Approach

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 on all three for decades to come.

The Welsh Government has long made its intentions clear declaring a climate emergency in 2019 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 more closely 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.

Last year, we formally launched our 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 well-being. 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 Sustainability Framework:

- Keeping our bills the lowest in Wales;
- Improving our core water, water and retail services even further; and
- Doing more to improve the environment.

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

Engagement with Our Stakeholders

This section provides some insight into how the Board engages with our stakeholders to understand what matters to them and inform the Board's decision making and the actions taken as a consequence. You can read more in our formal s.172 Statement on page 35, 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, they are 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 on page 39.

This section also includes high-level detail of stakeholder engagement below Board level, how we have delivered on feedback received and signposts where further information is provided throughout this Annual Report.

Customers	**Communities**	**Employees**	**Suppliers and Contractors**	**Regulators and Government**
In serving our customers, we want to provide both value and a great experience.	Our aim is to be a force for good in the communities we serve and, in doing so, create value for all our stakeholders.	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.	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.	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.

What matters to them	**What matters to them**	**What matters to them**	**What matters to them**	**What matters to them**
• Customer service and performance. • Leakage and supply reliability. • Affordability and value for money. • Assistance in times of need. • Responsible investment.	• Operational impact and disruption. • Local employment. • Economic contribution. • Protection of the environment.	• Health, safety and wellbeing. • Diverse and inclusive .workplace. • Opportunities to reach full potential. • Open and honest environment • Fair pay and reward.	• Fair engagement and payment terms. • Collaboration. • Responsible supply chain.	• Outcomes for customers, the environment and long-term resilience. • Performance against regulatory targets. • Trust and transparency. • Governance and compliance. • Environmental impact.
How we engage at Board Level	**How we engage at Board Level**	**How we engage at Board Level**	**How we engage at Board Level**	**How we engage at Board Level**
• Customer Delivery performance is discussed at every Board meeting. • Customers are kept informed on progress of our AMP7 business plan. • The Board met with members of Powys County Council to discuss Welsh language standards and impacts on customers. • Our engagement in partnership with organisations such as Powys Association of Voluntary Organisations, Warm Wales and Newydd and Mid-Wales Housing has helped us reach more	• Members of the Board met with representatives from Natural Resources Wales to receive feedback on the status of the Lake Vyrnwy Lottery Heritage Funding application. • Employees who live and work in our communities met members of the Board during the year. • Board members met with CBI Wales Council to discuss COVID-19 and green recovery measures in Wales. • Environmental matters are regularly considered by the Board. • Members of the Board engaged with CBI Wales in respect of the Company's COVID-19	• Employee voice and workforce engagement are discussed at Board meetings. • Diversity and inclusion are regularly considered by the Board. • Company purpose and culture discussed at Board meetings. • Board considers QUEST survey results and steps taken to address feedback. • The Board shared a message of thanks to all employees in recognition of their exceptional work throughout the COVID-19 pandemic.	• Commercial performance discussed at Board meetings, including updates on relationships with suppliers where appropriate. • The Board met with the Welsh Government to discuss water contract matters and alternative supply considerations.	• To deepen Board level understanding of our regulators, our Chair and Non-Executive Directors formally met with Ofwat during the year. • Regulatory matters are regularly considered by the Board, including Water Resources Management Plan and Scheme of Wholesale Charges. • Regulatory stakeholders attend Board meetings and events, including from Welsh Government and Natural Resources Wales during the year. • Regulatory consultation updates are considered by the Board. • The Board met with Natural Resources Wales, representatives from Ofwat and Welsh Government to discuss future collaborative working relationships. • Annual attendance at the Wales Water Forum with representatives

customers struggling to pay their bills.	Emergency Fund and grants made within the region to organisations most in need of support.			from the Welsh Government as well stakeholders from CCW, Natural Resources Wales and the Drinking Water Inspectorate. • Members of the Board met with the Chair of the Consumer Council for Water to discuss future engagement opportunities. • Members of the Board attended a meeting with Denbighshire County Council to discuss growth opportunities in Wales. • The Board developed a targeted stakeholder engagement plan during the year to include engagement with Local Authority representatives, regulatory stakeholders and charities. • Representatives from Ofwat and the Welsh Government attended operational site visits during the year. • Representatives from Natural Resources Wales attended a Board meeting.
How we engage across the Company	**How we engage across the Company**	**How we engage across the Company**	**How we engage across the Company**	**How we engage across the Company**
• Regular meetings with CCW Wales and the Welsh Government at management level discussing issues such as water sector security and resilience, customer experience and affordability and COVID-19 response. • Engagement with Community Foundation Wales, Powys County	• Regular meetings with Natural Resources Wales and other key stakeholders to discuss environmental regulation matters. • Regular attendance at the Wales Land Management Forum, Agri-Pollution sub forum with Natural Resources Wales and other key water sector	• Employee engagement survey ranked us in the top 5% of global utility companies this year. • Continual internal communication to employees on COVID-19 impacts and mental and physical health awareness. • At our 'Bouncing Back Stronger' event at Carsington Water in September 2020, we took our senior managers	• Regular meetings with our suppliers, including training on Modern Slavery, and our Code of Conduct Doing the Right Thing.	• Regular meetings with our regulators at management level including, Welsh Government, Natural Resources Wales and Ofwat. • Regular engagement with Government officials and elected representatives on water and environment related issues. • Management attended Ofwat's 'Our Vision for Wales: PR24 and Beyond', with members of the

Council and Wrexham County Borough Council to identify organisations in need of support as a result of COVID-19. • Frequent discussion and consultation with our online customer community. • Quarterly tracking of customer perceptions against key indicators including trust and satisfaction. • Created new online self-service options for customers and made it easier to check for and report problems through our 'Check My Area' app and 'Report a Problem' services. • Ensured customers could contact us 24/7.	organisations to discuss Agri-pollution regulations. • Regular engagement with Government officials and elected representatives on water and environment related issues. • Engagement with CBI Wales Council to discuss the Company's COVID-19 response and activity being taken to support the communities we serve. • Engagement with North Wales Wildlife Trust to discuss engagement opportunities in the Dee Catchment. • Our people volunteer, when safe to do so, through our Community Champions programme, working to improve our communities and environment. • Our Education Team launched free live online lessons for children in our region.	through our approach to bouncing back stronger from the impacts of COVID-19. • Our Executive Directors and senior leaders led our 'Share a Smile' campaign, providing four virtual events for everyone in the Company, with the aim of lifting spirits throughout the COVID-19 pandemic.		Welsh Government and Natural Resources Wales.

Our People

Our people are fundamental to taking care one of life's essentials and we believe our culture is what makes us special. 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: who we are, our culture, and how we work together as one community – a community which supports each other to succeed, recognises and rewards each other's contributions, and listens and talks to each other.

Keeping our people safe and well

We believe passionately that no one should be hurt or made unwell by what we do, and our people have done a great job of keeping themselves and those around them safe. Our colleagues have been remarkable throughout the pandemic and we have continued to support them through a comprehensive approach to health, safety, mental wellbeing and financial security. Our IT infrastructure has proved to be stable and resilient which has allowed over half our workforce to work safely from home so we can be there for our customers 24 hours a day, seven days a week.

Following the success of our wellbeing campaign, 'Caring for our Colleagues', in February 2021 we launched our eight week 'Share a Smile' initiative, providing four virtual events for everyone in the Company, as well as their families, to help keep spirits high throughout the third lockdown. Read more on page 9.

Supporting the NO MORE campaign

The safety and wellbeing of our colleagues is of the upmost importance to us and we're on hand to support our colleagues regardless of whether their need for support stems from their personal or working lives. We understand that 75% of women who experience abuse are targeted at work and no matter how small the likelihood of this happening within our business is, we know it's important we're aware and able to spot the signs. The NO MORE campaign began in March 2021 to help create a culture of safety, equality and respect in our communities and provide practical advice as to how our colleagues can support each other, and their friends and families.

Impact of COVID-19 on our employees

Our priority remains the safety and wellbeing of our people and customers and we ensured that all our key worker employees had access to the correct personal protective equipment ('PPE') and that our IT infrastructure enabled our non-key worker employees to work safely from home. This approach was supported by robust health and safety protocols, that operated effectively throughout the COVID-19 pandemic. We have worked with the Health and Safety Executive, sharing data to compare positive cases, and as a result of our robust protocols, we have not had any instances of COVID-19 being transmitted within the workplace.

Providing a diverse and inclusive place to work

Our ambition is to have a workforce that reflects the communities we serve and build an inclusive organisation where everyone feels able to bring their whole self to work, fulfil their potential and perform at their best. An inclusive environment is the foundation of a truly diverse organisation, with all of the rewards that brings. We also know that diverse teams make better decisions and help us to better deliver for our customers and communities. As such, we are ensuring that we provide managers with diverse candidate shortlists at every opportunity.

Recognising that leadership is fundamental to creating an inclusive workplace, this year we focused on maintaining our diverse and inclusive culture and improving how we embed this into our policies and procedures. All of our senior management participated in a diversity and inclusion training session with personal insight from employees in ethnic minority and LGBTQ+

groups. We have also introduced our 'Include me in Inclusion', a campaign to educate our colleagues, re-affirm our zero-tolerance stance on discrimination, and outline our new diversity and inclusion ambition.

During the year, four out of seven Board members were female, representing 57% of Directors. Following the appointment of Sharmila Nebhrajani on 1 April 2021, female representation on the Board increased to 62.5%. 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, and were pleased that, as at 1 April 2021 two members of the Board (25%) identified as belonging to an ethnic minority background.

There are currently no employees within Hafren Dyfrdwy that fall under the 2018 UK Corporate Governance Code (the '2018 Code') and Companies Act 2006) definition of 'Senior Manager', therefore we cannot report ethnicity and gender data in this regard. Page 54 sets out a gender breakdown of Directors, Senior Managers and employees of the Company.

Fairly rewarding our people
At the start of the COVID-19 pandemic, we committed to no furloughing, no redundancies, honouring our all-employee bonus and agreeing a 2.3% annual pay increase for three years for our front-line teams, with 2021 being the second year of the three-year pay deal.

We understand that financial wellbeing is as important as mental and physical wellbeing for many of our colleagues and, as part our benefits offering, in 2021 we launched our financial workshop tool, Money Hub, offering each of our colleagues the opportunity to learn more about managing their finances. Within our LearnAnytime area of the Severn Trent Group Academy, colleagues are also able to access specific financial and wellbeing resources at a time to suit them.

Electric vehicles
In January 2021, we announced our new and exciting employee benefit, our electric vehicle ('EV') salary sacrifice scheme giving our people the chance to drive a brand-new electric car as part of a monthly 'all inclusive' cost to suit their budget. For our colleagues who cycle, we also increased our Cycle 2 Work scheme, where all employees can make savings of up to £1,500 on purchasing a bike.

Developing our people
In February 2021 we were delighted to celebrate the official opening of the Severn Trent Group Academy (the 'Academy') at Hawksley Park, part of a wider £10 million investment in our learning and development offering. Opening the Academy supports our ambition to be a socially purposeful company 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. The Academy is a thriving hub offering a range of physical and experimental learning opportunities, as well as more traditional classroom training in a collaborative environment (from technical rigs through to virtual reality). When we're not using the facility for our core learning offer, we'll be welcoming local schools and trade bodies to give them the opportunity to learn about our industry, as well as giving the communities we serve the chance to take advantage of our learning offer.

Through our QUEST and Academy learner surveys, our people have told us they want more support on mentoring, and so this year we re-designed our mentoring programme, to ensure our people can grow and develop whilst with us. Our mentoring opportunities are split into two categories – how we're supporting our colleagues and how we're supporting our communities, through our new talent and community offering, including our Kickstart programme, schools careers guidance and employability schemes. We've created a selection of workshops for mentees and mentors to help them get the most from mentoring as well as dedicated networking sessions offering a chance for our mentors and mentees to meet up, up-skill and learn from each other.

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 the Board engages with employees throughout the year, including meeting employees at site visits, both during and outside of the Board meeting calendar. Earlier this year the Board shared a message of thanks to all employees in recognition of their dedication throughout the COVID-19 pandemic, meeting customers, solving problems and working tirelessly to keep our services running smoothly 24 hours a day, seven days a week. The response from our employees has been extremely positive.

Our annual employee engagement survey, QUEST, helps us to understand what's going well and where we can improve across the Company. QUEST is conducted by an independent research company to ensure the results are anonymous and the results are reported to the Board. We're delighted with our QUEST score of 8.6 which places us in the top quartile of all UK businesses and in the top 5% of Energy and Utility companies globally. Our score is up by 0.6 from the previous year and when we review the 14 specified drivers of engagement, all 14 are up year-on-year and above benchmark. Our overall score on diversity and inclusion is 9.1 compared to a benchmark of 8.8 and we have been working with our provider over the last year to develop a set of questions on diversity and inclusion and health and wellbeing.

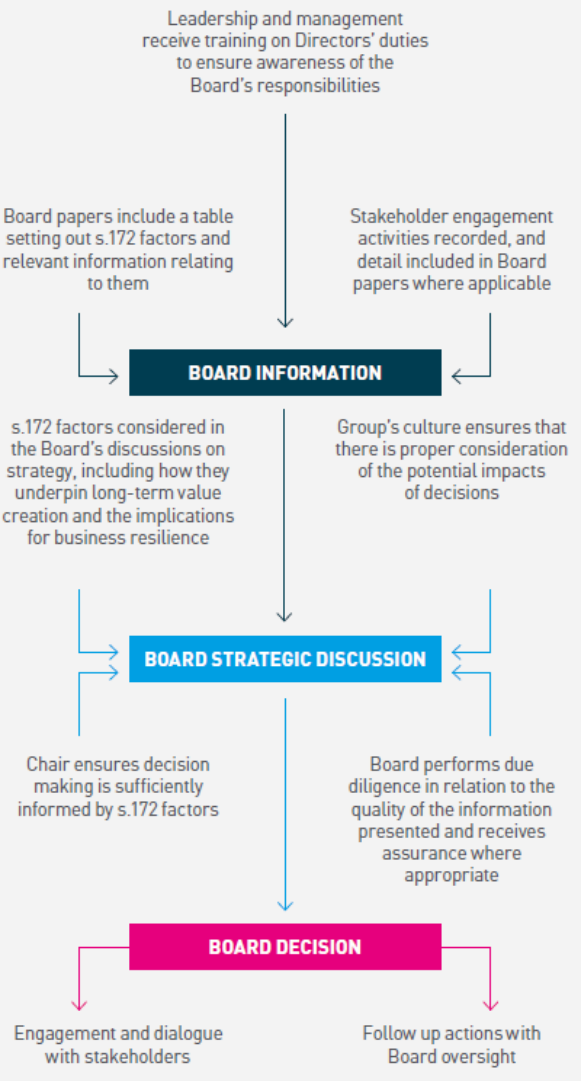
Section 172 Statement

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

The principles underpinning s.172 are not something that are only considered at Board level, they are part of our culture and 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 2020/21, the Directors have had regard to the matters set out in Section 172(1) of the Companies Act 2006.

Principal decisions in 2020/21

The principal decisions taken by the Board in the year are detailed on pages 48-49 of the Governance Report. Our approach below sets out how the Board is supported in considering all the relevant factors that leads to their selection of the best course of action to ensure the long-term success of the Company:



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
- = the interests of the Company's workforce
- = the need to foster relationships with suppliers, customers and others
- = impact of operations on the community and environment
- = high standards of business conduct
- = the need to act fairly between members of the Company

Key Decisions made in 2019/20	s.172 Considerations	Consideration of s.172 impacts by the Board in its Decision Making	Outcomes and impact on the long-term sustainable success of the Company
Environmental Leadership in Wales		In June 2020 the Board considered and reviewed the Company's Environmental Strategy, setting out the actions taken and future commitments to ensure that the Company maintains and enhances the natural environment and associated benefits that could result for the Company's stakeholders. Customers - In the development of its 2020-25 Business Plan, proposals for environmental improvements were supported by customers who recognised the importance of protecting and improving their local environment. A key factor in all Board decisions is ensuring customer bills remain affordable and customer bill impacts were considered in the Company's development of its Environmental Plan and Natural Environment Programme. Regulators - The Board recognises the importance of working with the Welsh Government and regulators in development of its plans in order to deliver benefits for multiple stakeholders whilst also enhancing the quality of the natural environment. Workforce - The Board encourages employees to volunteer as Community Champions and engage in environmental improvement projects within the Company's region, when possible. The Board considered the feedback from employees in respect of Community Champion participation, noting that this supported high engagement levels in the Company's QUEST survey. Environment and the Community - The Board considered feedback from the community on environmental matters and the work already underway with Natural Resources Wales, local wildlife trusts, the RSPB, Open Newtown and neighbouring water companies to maximise benefits to the local environment and local communities from its investment. Suppliers - The Board considered the benefits of working in partnership with industry partners to pool resources to maximise benefits for stakeholders and increase the resilience of eco-systems in response to climate change. The Board listened to the views of partners and local communities, who were focused on enhancing biodiversity at publicly accessible sites and factored these views in Board discussions.	The Board agreed that the Environmental Strategy was vital to support the Welsh Government's development of a clear vision for the wellbeing of the people of Wales and the future management of natural resources in the region.

Adapting our work for COVID-19		**Context -** As the COVID-19 pandemic unfolded, the Board increased its interactions to maintain continual dialogue on the potential impact on our customers, communities and colleagues and ensure effective Board oversight of the Company's response to the pandemic. **Customers -** The Board considered the impact of the pandemic on customers and reviewed the additional measures put in place to support them. The Board was particularly focused on support for the Company's vulnerable customers – with targeted communications and support provided through the Priority Services Register. The Board acknowledged the importance of maintaining contact with all customers throughout the pandemic and oversaw enhancements to the Company's digital channel capability during the year. **Employees -** The Board oversaw the development of a comprehensive approach to health, safety, mental wellbeing and financial security – committing to no furloughing, no redundancies, honouring the all employee bonus and agreeing a 2.3% annual pay increase for the next three years. The Company ensured that all key worker employees had access to the correct PPE and our IT infrastructure enabled our non-key worker employees to work safely from home so we could be there for our customers 24 hours a day, seven days a week. **Environment and the Community -** The wellbeing and safety of our visitors, communities and colleagues is of significant importance and, as such, the difficult decision to close all visitor sites was made early in the pandemic to limit the risk of the spread of COVID-19. The continuation of education programmes was recognised by the Board as key and a virtual education zone was established to help parents with home-schooling and to inspire the next generation of water users. **Government -** The Government designated all of our employees as key workers. However, the Board felt it important to identify which employees were absolutely essential to providing our services in order to keep as many people at home as possible in line with Government advice and to ensure we didn't take up more school spaces than was absolutely necessary. As such, 50% of our employees were identified as key workers. Additionally, the Board did not take Government support in terms of the furlough scheme, a decision which was influential with the rest of the sector. **Trade Unions -** The Board was kept updated on communication with Trade Unions, including the measures in place to ensure the health, safety and wellbeing of all colleagues. **Suppliers -** The Board recognised the opportunity to help SME suppliers by moving to immediate processing of payments for three months, meaning that payment to the supply chain continued to flow into households. The scheme was originally targeted for three months; however, the decision was taken to extend the scheme through 2021 so that the Company could continue to provide this essential support.	The Board's continued oversight of the Company's COVID-19 response is a key factor in the high quality management of potential impacts on our customers, communities, colleagues and wider stakeholders.

Non-Financial Information Statement

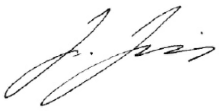
This section of the Strategic Report constitutes the non-financial information statement of Hafren Dyfrdwy Cyfyngedig, produced to comply with sections 414CA and 414CB of the Companies Act. The information listed in the table below is incorporated by cross reference.

Reporting requirement	Policies and standards which govern our approach	Additional information and risk management
STAKEHOLDERS	• Customer policy • Group data protection policy • Group commercial policy	Stakeholder Engagement, **pages 28-31** s.172 Statement, **pages 35-37** Board Activities, **pages 48-49**
ENVIRONMENTAL MATTERS	• Group environment policy	Sustainability Report, available at severntrent.co.uk.
EMPLOYEES	• Group health, safety and wellbeing policy • Group speak up policy	Stakeholder Engagement, **pages 28-31** Governance Report, **pages 39-40**
RESPECT FOR HUMAN RIGHTS	• Modern Slavery Statement	Modern Slavery Act, **page 57** Governance Report, **pages 39-40**
ANTI-CORRUPTION AND ANTI-BRIBERY	• Group financial crime and anti-bribery and anti-corruption policy • Group conflicts of interest policy • Group security policy • Group competition and competitive information policy	Governance Report, **pages 39-40**
SOCIAL MATTERS	• Doing The Right Thing • Group environment policy • Customer policy	Directors' Report, **pages 60-65** Sustainability Report, available at severntrent.co.uk.
DESCRIPTION OF PRINCIPAL RISKS AND IMPACT OF BUSINESS ACTIVITY		Principal Risks, **pages 15-19** Business Model, **page 5**
DESCRIPTION OF THE BUSINESS MODEL		Business Model, **page 5**
NON-FINANCIAL KEY PERFORMANCE INDICATORS		Strategic Report, **pages 3-38** ODI Performance **page 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 Severn Trent Plc Board approved the relaunched Doing the Right Thing and supporting Group policies, and it determined that the policies remain appropriate, are consistent with the Group's Values and support its long-term sustainable success.

The Strategic Report has been approved by the Board.

By order of the Board



James Jesic
Director

9 July 2021

Governance Report

2018 UK Corporate Governance Code Compliance Statement

The Hafren Dyfrdwy Cyfyngedig Board is fully committed to Ofwat's principles for Board leadership, transparency and governance with its emphasis on the importance of strong Board leadership and the special responsibilities attached to regulated monopoly companies providing an essential public service. As Hafren Dyfrdwy is not a listed company, it is not required to comply with the 2018 UK Corporate Governance Code (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 2021, Hafren Dyfrdwy was compliant with the 2018 Code, with the following exceptions:

1. Audit Committee and 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 Audit Committee at Severn Trent Plc Group level operates on behalf of Hafren Dyfrdwy, with the Committee providing advice, assurance, and recommendations only, ahead of the Hafren Dyfrdwy Board making final decisions.

Any associated assurance in respect of Hafren Dyfrdwy is conducted at a materiality relevant to the size of Hafren Dyfrdwy and risks are considered and managed from an individual Board perspective, with clear and effective governance at individual Board level.

Hafren Dyfrdwy Directors receive comprehensive updates from the Hafren Dyfrdwy Chair in respect of all matters considered by the Severn Trent Plc Audit Committee meetings in relation to Hafren Dyfrdwy. Directors have access to all relevant papers and external assurers as appropriate. Additionally, there is a separate Hafren Dyfrdwy Nominations Committee that comprises Hafren Dyfrdwy Non-Executive Directors only.

The Severn Trent Plc Audit Committee's Terms of Reference include, but are not limited to, reviewing:

- the integrity of the processes that ensure the quality and reliability of regulatory statements and information to regulatory bodies, including the Annual Regulatory Compliance Statement and Annual Performance Report, submitted to Ofwat; and
- the integrity of the processes that ensure compliance with the requirements of regulatory submissions to regulatory bodies; in respect of Hafren Dyfrdwy.

The Severn Trent Plc Board committees outlined above comprise a majority of Independent Non-Executive Directors of Severn Trent Plc. In respect of the Severn Trent Plc Remuneration Committee, one member of the Committee also serves as a Non-Executive Director on the Board of Hafren Dyfrdwy. In respect of the Severn Trent Plc Audit Committee, the Hafren Dyfrdwy Chair is also the Chair of the Severn Trent Plc Audit Committee and one member of the Committee also serves as a Non-Executive Director on the Board of Hafren Dyfrdwy.

The respective committees provide advice, assurance and recommendations only, ahead of the Hafren Dyfrdwy Board making final decisions. Details of the respective Severn Trent Plc committees can be found in the Severn Trent Plc Annual Report and Accounts. A copy of the Hafren Dyfrdwy Governance Framework can be found on page 47.

During the year, the Board decided to constitute a dedicated Hafren Dyfrdwy Audit Committee to commence discharging its duties with effect from 15 July 2021, with membership comprising independent Non-Executive Directors only (excluding the Chair, in line with the 2018 Code). Read more on page 47.

2. Provisions relating to relations with shareholders

The Company does not comply with the provisions relating to Relations with Shareholders which covers Dialogue with Shareholders and Constructive use of the AGM, as it would not be appropriate to do so. However, Severn Trent Plc does fully comply with these requirements.

LEADERSHIP AND EFFECTIVENESS

Board of Directors

1. Ann Beynon, OBE

BA (Hons)

Independent Non-Executive Director – Appointed to the Board on 1 April 2018

Ann is a Non-Executive Director on the Board of Farmers' Union of Wales Insurance Services, an Independent Advisor to the National Assembly for Wales 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

- Independent Advisor to Senedd Cymru/Welsh Parliament*
- Member of CBI Wales Council
- Chair of the Clwstwr Creadigol project for Cardiff University
- Director of Coleg Cymraeg Cenedlaethol
- Director of Cwmni Ann Beynon CYF
- Director of FUW Insurance Services Limited

*On 6 May 2020 the National Assembly changed its name to Senedd Cymru/Welsh Parliament. The Assembly Members are now known as Members of the Senedd / Aelodau o'r Senedd.

2. John Coghlan

BCom, ACA

Chair – Appointed to the Board on 17 February 2017

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.

Other roles

- Non-Executive Director of O.C.S. Group Limited
- Non-Executive Director, Vice Chair and Senior Independent Director of Clarion Housing Group
- Non-Executive Director of Severn Trent Water Limited, the Group's licenced entity in England, Severn Trent Plc and Chair of the Audit and Risk Committee and Treasury Committee

3. Christine Hodgson, CBE

BSc (Hons), FCA

Independent Non-Executive Director – Appointed to the Board on 1 April 2020

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 April 2020, 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. She is a fellow of the Institute of Chartered Accountants in England and Wales.

Other roles

- Senior Independent Director of Standard Chartered Plc
- Chair of The Careers and Enterprise Company Limited
- Senior Pro-Chancellor and Chair of Loughborough University Council
- External Board Advisor to Spencer Stuart Management Consultants NV
- Chair of Severn Trent Water Limited, the Group's licenced entity in England, and Severn Trent Plc

4. James Jesic

BEng (Hons), PhD, MIChemE, CEng

Managing Director – Appointed to the Board on 15 July 2020

James brings a wealth of operational, strategic and environmental expertise to the Board. He has over 17 years' regulated business experience, gained in a number of senior leadership roles spanning the water sector. Throughout his career, James has delivered industry-leading customer service, environmental performance and operational transformation.
James was appointed as Managing Director of Customer Operations for Severn Trent Water in 2020, having held the position of Director of Production since 2017, and as Managing Director of Hafren Dyfrdwy in 2020. He has responsibility for the operation of the Severn Trent Group's multi-billion pound asset base, the production and supply of drinking water and provision of waste water services to Severn Trent's 4.5 million customers and the Severn Trent Group's Bioresources business.

5. Sally Jones-Evans

FCIB, MSC, MBA

Independent Non-Executive Director – Appointed to the Board on 1 April 2018

Sally is the Non-Executive Chair of the Principality Building Society, and also holds the position of Non-Executive Director at both Saga Services Limited and 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.

Other roles

- Chair of Principality Building Society
- Non-Executive Director of Saga Services Limited, a general insurance subsidiary of Saga Plc
- Non-Executive Director of Delio Wealth Limited
- Trustee Director of Tearfund

6. Dr Mohammed Mehmet

BSc (Hons), PhD

Independent Non-Executive Director – Appointed to the Board on 1 April 2018

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 currently a Trustee of Macmillan Cancer Support, Non-Executive Director of Public Health Wales Trust and Director of MIND in Enfield. 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
- Director of MIND in Enfield
- Non-Executive Director of Public Health Wales NHS Trust

7. Helen Miles

CIMA

Chief Financial Officer – Appointed to the Board on 15 July 2020

Helen joined the Severn Trent Group in November 2014 as the Chief Commercial Officer, and in 2020 became the Capital and Commercial Services Director. She brings with her a breadth of commercial experience having worked within regulated businesses and sectors across Telecoms, Leisure and Banking. 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 Chief Financial Officer 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 sectors and organisations such as Bass Taverns, Barclays Bank, and Compass Group.

Other roles

- Non-Executive Director of the Royal Navy
- Non-Executive Director of Breedon Group Plc

8. Sharmila Nebhrajani, OBE

MA (Hons), ACA

Independent Non-Executive Director – Appointed to the Board on 1 April 2021

Sharmila brings extensive board and governance experience, gained in a variety of roles spanning the private sector, public sector and NGOs. She brings sectoral experience from a range of regulated sectors including medicine, bioethics, financial services and the media. She is Chair of the National Institute of Health and Care Excellence (NICE), the organisation that assesses clinical and cost effectiveness of drugs, medical devices and interventions in health and social care. Her previous executive roles include Chief Executive of the Association of Medical Research Charities and Chief Operating Officer at BBC Future Media & Technology, where she managed the business functions of bbc.co.uk, including the launch of iPlayer. Previous non-executive roles include Chair of the Human Tissue Authority, Deputy Chair of the Human Fertilisation and Embryology Authority and Non-Executive of the Pension Protection Fund. Sharmila read Physiological Sciences (Medicine) at the University of Oxford. She is a chartered accountant and was awarded an OBE in 2014 for services to medical research.

Other roles

- Chair of National Institute of Health and Care Excellence
- Non-Executive Director of National Savings & Investments

- Non-Executive Director of Coutts & Co
- Trustee Director of Lifesight Limited
- Trustee Director of Glyndebourne Productions Limited
- The Health Foundation – Governor
- Non-Executive Director of Severn Trent Water Limited, the Group's licenced entity in England, and Severn Trent Plc

Board meeting attendance 2020/21

The following table shows the attendance of Directors at scheduled Board meetings during the year:

Director	Position	Board Meetings
Ann Beynon	Independent Non-Executive Director	7/7
James Bowling*	Executive Director	2/2
John Coghlan	Chair	7/7
Olivia Garfield*	Executive Director	2/2
Christine Hodgson***	Independent Non-Executive Director	6/7****
James Jesic**	Executive Director	5/5
Sally Jones-Evans	Independent Non-Executive Director	7/7
Mohammed Mehmet	Independent Non-Executive Director	7/7
Helen Miles**	Executive Director	5/5

* Resigned from the Board effective 14 July 2020.
** Appointed to the Board effective 15 July 2020.
*** Appointed to the Board effective 1 April 2020.
**** Christine Hodgson was unable to attend a Board meeting due to a long-standing commitment. Christine was provided with all relevant papers and provided comments on the matters to be considered to the Chair.

All meetings are structured to allow open discussion. Minutes of Board and Committee meetings are circulated to all Directors after each meeting.

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

Our Board

As at 31 March 2021, our Board comprised the Chair, four Independent Non-Executive Directors, and two 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 41 to 45.

There were a number of changes to the membership of the Board during 2020/21 and following year end:

- Christine Hodgson – Non-Executive Director (appointed 1 April 2020)
- James Bowling – Executive Director (resigned 14 July 2020)
- Olivia Garfield – Executive Director (resigned 14 July 2020)
- James Jesic – Executive Director (appointed 15 July 2020)

- Helen Miles – Executive Director (appointed 15 July 2020)
- Sharmila Nebhrajani – Non-Executive Director (appointed 1 April 2021)

The Chair and Non-Executive Directors are appointed for a three-year term and continuation of Board appointments are conditional on satisfactory performance and recommendation by the Nominations Committee as to reappointment following the annual Board Effectiveness evaluation process. This term can be renewed by mutual agreement, up to a maximum total tenure of nine years.

The composition and effectiveness of the Board is subject to review by the Nominations Committee which, in particular, considers the balance of skills, experience and independence of the Board, in accordance with the Group's Board Diversity Policy. The Board Diversity Policy Statement is available on the Severn Trent Plc website.

Christine Hodgson was appointed as Non-Executive Director of Hafren Dyfrdwy on 1 April 2020. The executive search firm, Korn Ferry, was appointed in respect of Christine's appointment to the Board of Severn Trent Plc. Any new appointments to the Board of Hafren Dyfrdwy result from a formal, rigorous and transparent procedure, responsibility for which is delegated to the Nominations Committee (although decisions on appointments are a matter reserved to the Board). Further information on the work of the Nominations Committee can be found on pages 54 to 57.

Severn Trent Plc and Hafren Dyfrdwy Cyfyngedig operate as distinct legal entities. The Hafren Dyfrdwy Board's role is to ensure the long-term success of Hafren Dyfrdwy. Maintaining the highest standards of governance is integral to the effective delivery of our strategy and ensuring that the Board takes decisions that create sustainable long-term value for the mutual benefit of our stakeholders, customers, employees and the communities we serve. The operation of our Board is supported by the collective experience of the Directors and the diverse skills and experience they possess. 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 benefit of the Company in full consideration of the impact on all stakeholders. Responsibility to all of our stakeholders for the approval and delivery of the Company's strategy and for creating and overseeing the framework to support its delivery sits with the Board.

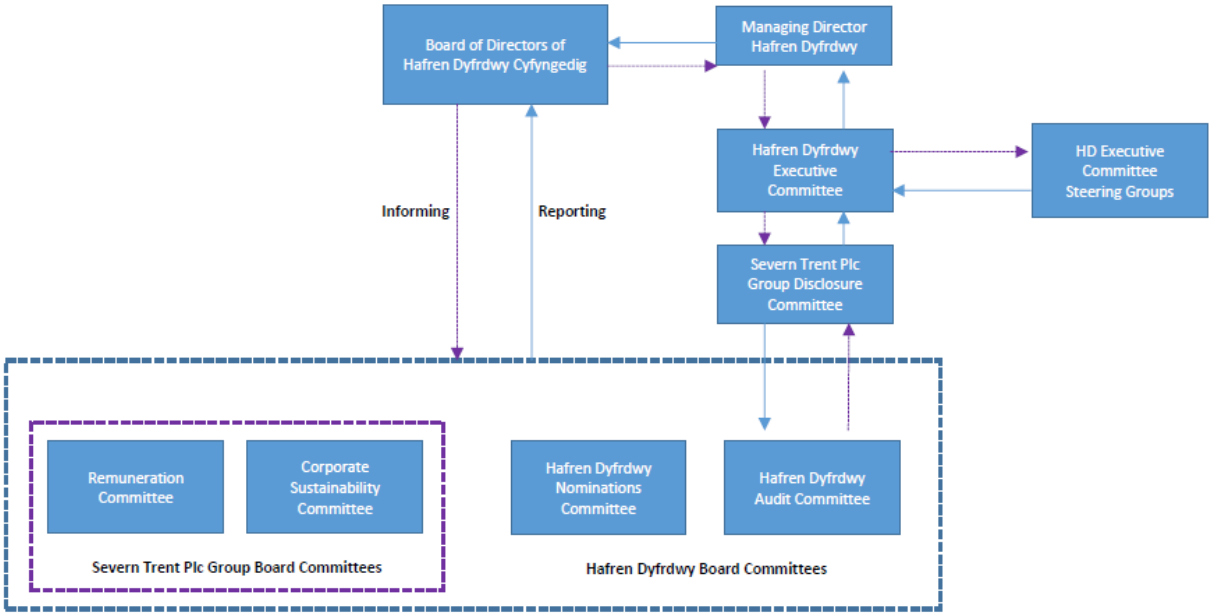
The requirements of the Board are clearly documented in the Hafren Dyfrdwy Articles of Association and Schedule of Matters Reserved to the Board. They are assisted through the management of agendas, meetings and minutes by Company Secretariat and advised in their meetings by the Company Secretary, where appropriate. 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 the Managing Director maintain regular dialogue outside of 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 the Company's operations and requests for further information are 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.

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 regularly reviews the Terms of Reference of each Committee.

The Governance Framework is also subject to periodic review to ensure that it remains appropriate. During the year, the Board decided to constitute a dedicated Hafren Dyfrdwy Audit Committee, with membership comprising independent Non-Executive Directors only (excluding the Chair, in line with the 2018 Code). Sharmila Nebhrajani has been appointed to Chair the Audit Committee. Her existing membership of the Severn Trent Plc Audit Committee will ensure that the Severn Trent Plc high standards of supervision are also applied to Hafren Dyfrdwy. Sharmila will also provide the link needed for the Severn Trent Plc Audit Committee to discharge its responsibilities in respect of Group companies, whilst also ensuring that the Hafren Dyfrdwy Audit Committee retains oversight for matters applicable to Hafren Dyfrdwy. Cooperation between the two Committees will also be supported by John Coghlan, in his capacity as Chair of the Severn Trent Plc Audit Committee, and Christine Hodgson, who attends Severn Trent Plc Audit Committee meetings on an invitation basis.



The dedicated Hafren Dyfrdwy Audit Committee will operate 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 Seven 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.

Stakeholder engagement

Hafren Dyfrdwy's success depends on the Board taking decisions that deliver mutual benefit to our customers, communities and other stakeholders, as set out in section 172 of the Companies Act. Please read more in our separate s.172 Statement on pages 35-37. The Board also engages with stakeholders throughout the year, a summary of which can be found on pages 28-31.

KEY BOARD ACTIVITIES IN 2020/21

The key activities considered by the Board during the year are set out below. 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.

In order for the Company to manage risk effectively, the Board monitors financial performance and reporting and also ensures that appropriate and effective succession planning arrangements and remuneration policies are in place. Below are details of the main topics discussed by the Board during the year.

Board meetings follow a carefully tailored agenda that is agreed in advance by the Chair, in conjunction with the Company Secretary. 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 45.

Main topics discussed by the Board during the year:

Regular Updates

- Performance Review Reports from the Managing Director
- Financial Performance Review Reports from the Chief Financial Officer
- Operational Performance Reports

Financing Strategy

- Budget 2021/22
- Long-term Viability and Going Concern
- Investment Grade Credit Rating
- Investment Opportunities

Governance and Stakeholders

- Stakeholder Engagement Reports
- Governance and Regulatory Updates
- Board Effectiveness Evaluation
- Implementation of Hafren Dyfrdwy Audit Committee

Regulatory

- Annual Report and Accounts
- Annual Performance Report
- Wholesale Charges for 2021/22
- Final Charges for 2021/22

- Water Quality
- Reservoir Safety
- Anti-slavery and Human Trafficking Statement

Strategy

- Biodiversity Strategy
- Environmental Leadership in Wales
- Lake Vyrnwy National Lottery Heritage Funding Bid
- Sustainability and Climate Change Strategy
- Customer Experience and Engagement
- Mid-Wales Growth Bid
- Severn Trent Academy
- Help to Pay When You Need It
- Customer Challenge Group
- Waste Networks Strategy

Culture and Values

- Whistleblowing
- Health, Safety and Wellbeing
- Culture and Engagement

Risk Management

- Regulatory Updates
- Enterprise Risk Management Reports
- Deep Dives on Risk – ERM Workshop
- COVID-19
- Review of Effectiveness of Internal Controls and Risk Management

Site Visits

- Lake Vyrnwy

Stakeholder Engagement and Attendance

- Stakeholder Engagement Plan
- Stakeholder Engagement – Ofwat
- Stakeholder Engagement – Slave Free Alliance
- Stakeholder Engagement – Natural Resources Wales
- Stakeholder Engagement – Consumer Council for Water Wales

Our Purpose and Values

Gofalu am un o hanfodion bywyd - Taking care of one of life's essentials

Doing the Right Thing
To support the creation of long-term value for the mutual benefit of our employees, customers and communities, the Board recognises the importance of building and promoting a culture of integrity and openness, where inclusion and diversity are valued.

At the heart of our culture is a closely held set of Values. 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 Company operates and provide a consistent framework for responsible business practices.

Severn Trent Group policies, together with Doing the Right Thing, codify how to identify and deal with suspected wrongdoing, fraud or malpractice; how to ensure that the highest standards of safety are maintained; and how to apply good ethics and sound judgment. The Board monitors and assesses the culture of the Company by regularly meeting with the Executive Committee and management, reviewing the outcomes of employee surveys and engaging directly with individual employees throughout the Company. We believe that our strong culture is a unique strength and we see the benefits in employee engagement, retention and productivity.

During the year, the Board has focused on deepening its understanding of the Company's culture even further, through a dedicated Employee Voice session in January 2021. The session was centred on the results of our employee survey, 'QUEST', and other relevant data. The Board considered the positive and more challenging aspects revealed by the survey and discussed the Company's approach to addressing areas of employee focus. More information on how the Board engaged with employees throughout the year is available on page 28-31.
We do not see corporate governance as something we do because we have to. We see it as something that should be ingrained in the way we behave, how we make decisions, how we run our business and ultimately, how we build trust.

Board Effectiveness 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's evaluation was internally conducted by the Chair with support from the Company Secretary through a series of one-to-one meetings in January and February 2021. The Board agreed actions and that six monthly reviews of progress against recommendations in the report would be tabled for Board discussion.

Evaluation Process

2020/21 Process planning	The Company Secretary undertook a detailed review of the Board Effectiveness evaluation process in 2019/20 and restructured the interview matrix to cover matters highlighted in the prior year review and recommendations of the 2018 Code, Parker Review and FRC Guidance on Board Effectiveness.
January-February 2021 **One-to-One interviews**	Board members participated in comprehensive one-to-one meetings with the Company Secretary, with additional input from the Chair.
March 2021 **Evaluation and report**	The Company Secretary compiled 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 report also included an assessment of each individual Director's independence, time commitment and individual performance. The Chair and the Company Secretary presented the report to the Nominations Committee and the Board in March 2021.
March 2021 **Agreed action plans for 2021/22**	The key observations were discussed by the Board ahead of finalising 2021/22 action plans.

This year's review concluded that the Board is well established and operating effectively, with positive feedback received from both within and outside the Board. The review highlighted that Boardroom dynamics are excellent and all Directors are highly engaged and committed. Each individual 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. In addition, Board dialogue outside of formal meetings has vastly improved with Directors regularly interacting informally, both on a one-to-one and group basis.

Minor areas identified during the review for incremental improvement in terms of the Board's overall effectiveness included:

- **Interaction outside of Board Meetings:** Opportunity for regular, perhaps monthly, updates from management between Board meetings through a brief report and/or email updates in respect of important matters and performance, if relevant;
- **Workforce engagement:** Notwithstanding the outstanding progress made in respect of employee engagement (as evidenced by the excellent QUEST scores), there was an opportunity for the Board to engage with employees in order to get a sense of the general 'feeling' of the workforce;
- **Strategy Day follow-up:** Opportunity for more-timely follow up on topics discussed at strategy days;
- **Hafren Dyfrdwy specific matters:** Recognising that good progress has been made, there remained an opportunity to adopt a more bespoke approach to all Hafren Dyfrdwy matters, whilst also incorporating the learnings from wider Group processes.

An update against progress will be provided in our 2021/22 Annual Report.

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. Our Company Secretary also provides regular updates to the Board on regulatory and corporate governance matters. The Board activities schedule on pages 48-49 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 businesses and management capability.

Informal Board interactions

The Board also meets more informally, in the form of Board dinners, outside of the scheduled Board meeting calendar, where COVID-safe to do so. 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.

Directors' resources

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 experiences

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 Board has gained across a range of comparably sized companies. These are particularly valuable to the effective oversight of the Company and execution of our strategy.

BOARD SKILLS	John	Ann	Sally	Mohammed	Christine	James	Helen	Sharmila
STRATEGY	✓	✓	✓	✓	✓	✓	✓	✓
M&A	✓				✓		✓	
CORPORATE FINANCE / TREASURY	✓				✓		✓	✓
ACCOUNTING	✓		✓		✓		✓	✓
REGULATION	✓	✓	✓	✓	✓	✓	✓	✓

TECHNOLOGY/ INNOVATION/CYBER	✓	✓	✓	✓	✓	✓	✓	✓
CUSTOMER		✓	✓	✓	✓	✓	✓	
BRANDS		✓	✓	✓	✓			
ENGINEERING						✓		
UTILITY SECTOR	✓	✓		✓	✓	✓	✓	✓
SUSTAINBILITY INCLUDING CLIMATE CHANGE		✓			✓	✓	✓	✓
PEOPLE MANAGEMENT	✓	✓	✓	✓	✓	✓	✓	✓
COMMERCIAL PROCUREMENT	✓	✓	✓	✓	✓		✓	
CONSTRUCTION/ INFRASTRUCTURE DELIVERY	✓	✓		✓		✓	✓	
LARGE CAPITAL PROGRAMMES	✓			✓	✓	✓	✓	
POLITICAL AFFAIRS		✓	✓	✓	✓			✓

Induction programme

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.

Operational and Site Visits

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.

Nominations Committee Report

Nominations Committee meeting attendance 2020/21

There were two meetings of the Committee during the year. The members of the Committee in 2020/21 were the 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, senior management and external advisers may be invited to attend meetings as and when appropriate.

Members of the Committee

J B Coghlan (Chair)
C M Hodgson (Appointed on 1 April 2020)
A Beynon
S Jones-Evans
M Mehmet

Diversity

The Board continues to drive the agenda of diversity across the Company and is proud of the progress made. A breakdown by gender of the number of persons who were Directors of the Company, senior managers, as defined in the 2018 Code and Companies Act 2006, and other employees as at 31 March 2021 is set out below, alongside details of the ethnic minority population of these same groups.

Employee Population	Male	Female	Ethnic Minority
Board	3	4	1
Senior Leader	0	0	0*
All Employees	106	26	0
Graduates	0	0	0
Apprentices	1	0	0

*No employees met this definition for 2020/21

Parker Review – Ethnic diversity

The Board remains focused on promoting broader diversity and creating an inclusive culture in line with the recommendations of the 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 Committee 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 that we serve.

The Severn Trent Group Board Diversity Policy (the ‘Policy’) was reviewed in May 2021, with recommended updates approved by the Severn Trent Plc Board. As part of Board discussions, recognition was given to 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. The objectives and targets of the Policy, and an update against each of them, are set out below. A copy of the Policy is available on the Severn Trent Plc website.

Board Diversity Policy – Objectives and progress against targets

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 May with regards to the composition of the Board and the performance, contribution and commitment of individual Directors in the context of the Board Effectiveness evaluation. 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 were made during the year, and following year end, as follows: - 1 April 2020 – Non Executive Director – Christine Hodgson - 15 July 2020 – Executive Director – James Jesic - 15 July 2020 – Executive Director – Helen Miles - 1 April 2021 – 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 for 2020/21	Progress against Target
33% female representation on the Board by 2020.	62.5% female representation on our Board as at 1 April 2021.
Minimum of one Board Director from an ethnic minority background by 2021.	Two Directors from an ethnic minority background on our Board as at 1 April 2021

Talent development

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

Director conflicts and independence

Severn Trent Plc has a Conflicts of Interest Policy in place for all Group companies, including Hafren Dyfrdwy, and the Hafren Dyfrdwy Board considers potential conflicts at the outset of every meeting. The first agenda item at every Board meeting ensures that actual and potential conflicts are considered, declared and managed. The Board also formally reviews the authorisation of any potential conflicts of interest every six months.

Additionally, the Hafren Dyfrdwy Board conducted an annual review of individual Director conflict authorisations as recorded in our Conflicts of Interest Register in 2021. 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.

The policy continues to be applied practically throughout the year, for example in considering the potential conflict presented by Directors having roles in other Group companies.

The independence of Directors is formally reviewed annually by the Board and as part of the Board evaluation exercise. The Board considers that there are no business or other circumstances that are likely to affect the independence of any Non-Executive Director and that all Non-Executive Directors continue to demonstrate independence.

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 Company 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. This year we have focused on improving our approach to risk assessment in our supply chain and developing an in-depth assurance process. Our full Anti-Slavery and Human Trafficking Statement can be found on the Severn Trent Plc website. We welcome the Government's proposal to introduce strengthened reporting requirements under section 54 of the Modern Slavery Act 2015, in response to the recent Transparency in Supply Chains consultation.

Whistleblowing

Our employees, and wider workforce, know they can raise concerns to their line manager or by contacting a member of the Executive, HR, Legal and Internal Audit teams or through our independent whistleblowing helpline, 'Safecall'. Every single allegation is independently investigated.

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 team 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.

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 2021. All fees were recharged to the Company.

Non-Executive Director fees will increase by 2.3% to £31,400 from 1 July 2021; in line with the wider workforce increase.

	2021/22	2020/21	Increase %
Fee paid to all Non-Executive Directors	£31,400	£30,700	2.3%

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 2020/21:

	Year ended 31 March 2021		Year ended 31 March 2020	
Non-Executive Directors	**Salary and Fees (£'000)**	**Total (£'000)**	**Salary and Fees (£'000)**	**Total (£'000)**
Sally Jones-Evans	**30.5**	**30.5**	**30.0**	**30.0**
Ann Beynon	**30.5**	**30.5**	**30.0**	**30.0**
Mohammed Mehmet	**30.5**	**30.5**	**30.0**	**30.0**

Chair fees
John Coghlan was remunerated as a Director of Hafren Dyfrdwy Cyfyngedig and received an additional fee of £10,000 for 2020/21 in relation to his responsibilities as Chair of Hafren Dyfrdwy Cyfyngedig. His fee will increase by 2.3% to £10,230 from 1 July 2021; in line with the wider workforce increase.

Sharmila Nebhrajani has been appointed as Chair of the Audit Committee of Hafren Dyfrdwy with effect from 1 July 2021, and will receive a fee of £5,000 effective 1 July 2021.

Christine Hodgson received no additional remuneration in respect of her role as a Director of Hafren Dyfrdwy Cyfyngedig during 2020/21.

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 2020/21 and this amounted to 0.75% in relation to the Managing Director and 0.75% in relation to the Chief Financial Officer. Liv and James resigned from the Company with effect from 14 July 2020. As such, this will be the last year that information in relation to their remuneration in the context of Hafren Dyfrdwy is disclosed in the Annual Report.

James Jesic and Helen Miles were appointed as Executive Directors of Hafren Dyfrdwy with effect from 15 July 2021. As these appointments occurred during the financial year under review, the proportion of time recharged to Hafren Dyfrdwy amounts to 11.5% in relation James Jesic

and 4.35% for Helen Miles. The 2021/22 Directors' Remuneration Report will include data for the full year.

The recharge for Executive Directors' time during 2020/21 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 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 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.

Summary of the implementation of the Remuneration Policy in 2021/22
Shareholders approved the Severn Trent Remuneration Policy (the 'Policy') at the Severn Trent Plc AGM in 2018 (99.18% voted in favour); full details of the Policy can be found on the Severn Trent Plc website. The 2021 Remuneration Policy will be put forward for shareholder approval at the 2021 Severn Trent Plc Annual General Meeting on 8 July 2021. A summary of how the Policy will be implemented in 2021/22 is contained in the Severn Trent Plc Directors' Remuneration Report on pages 129 to 130.

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 instrument of appointment. For the annual bonus and LTIPs this is achieved by adding performance, such that every customer is treated equally.

The Committee believes that the fundamental architecture of the Executive Directors' remuneration package is appropriate and the 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 2021/22
The annual bonus performance measures and total bonus opportunity remain unchanged. However, specifically for the Executive Directors of Hafren Dyfrdwy, James Jesic and Helen Miles, 3% of their bonus is attributed to Hafren Dyfrdwy performance. The annual bonus performance measures and weightings for 2021/22 financial year will be as follows:

- Group Profit Before Interest and Tax – 47.50%
- Hafren Dyfrdwy 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
- Hafren Dyfrdwy ODIs – 1.5%
- Customer Experience – 8%
- Health and Safety (Lost Time Incidents) – 8%

The 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 2021/22 Directors' Remuneration Report.

Directors' Report

The Directors' Report for the year ended 31 March 2021 comprises pages 60 to 65 of this report, together with the sections of the Annual Report incorporated by reference. The Governance Report set out on pages 39 to 40 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 3 to 38, as the Board considers them to be of strategic importance.

Specifically, these are:

- Performance Review 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 2021;
- Future business developments (throughout the Strategic Report);
- Details of the Company's policy on addressing the Principal Risks and uncertainties facing the Company are set out in the Strategic Report on pages 3 to 38;
- Employee Engagement (page 32-34); and
- Business relationships (throughout the Strategic Report).

For information on our approach to social, environmental and ethical matters, please refer to the Severn Trent Plc Group Sustainability Report, available at 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 2020/21, 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:

J B Coghlan
A Beynon
J Bowling (resigned on 14 July 2020)
O R Garfield (resigned on 14 July 2020)
C M Hodgson (appointed on 1 April 2020)
J Jesic (appointed on 15 July 2020)
S Jones-Evans
M Mehmet
H M Miles (appointed on 15 July 2020)
S Nebhrajani (appointed on 1 April 2021)

Biographies of the Directors currently serving on the Board are set out on pages 41 to 45. 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.

Directors' remuneration is disclosed on page 58.

Hafren Dyfrdwy Cyfyngedig (formerly Hafren Dyfrdwy Limited)

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 did not experience any major safety incidents and there were no fatalities during the year.

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 32-34.

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. Expenditure on research and development is set out in the Company financial statements.

Internal controls
The Board is responsible for the Company's Internal Control systems and for reviewing their effectiveness. The Severn Trent Plc Audit Committee regularly monitors and reviews the effectiveness of the Severn Trent Group'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 2021 and up to the date of the Annual Report. This is described in

Hafren Dyfrdwy Cyfyngedig (formerly Hafren Dyfrdwy Limited)

the Severn Trent Plc Audit Committee report on page 94 of the Severn Trent Plc Annual Report. 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 are set out in the Severn Trent Plc Treasury Committee Report within the Severn Trent Plc Annual Report on pages 114 to 115.

Post balance sheet events
Details of post balance sheet events are set out in the Company financial statements.

Capital structure
Details of the Company's issued share capital and of the movements during the year are shown in note 19 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.

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 2018 Code (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 (2019/20: £Nil) have been paid in the year. The Directors do not recommend the payment of a dividend (2019/20: £Nil).

Contributions for political and charitable purposes
Donations to charitable organisations during the year amounted to £Nil (2020: £Nil). In 2020, the Company established a COVID-19 Emergency Fund to support charities and community projects at the forefront of our region's COVID-19 response. You can read more on page 8.

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.

Hafren Dyfrdwy Cyfyngedig (formerly Hafren Dyfrdwy Limited)

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, in accordance with the Prompt Payment Code ('PPC'). 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 he/she ought to have taken as a Director to make himself/herself 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 Severn Trent Plc Audit Committee report on page 94 of the Severn Trent Plc Annual Report and Accounts, the Severn Trent Plc Audit Committee has recommended to the Severn Trent Plc Board the reappointment of Deloitte LLP. The reappointment and a resolution to that effect will was on the agenda at the Severn Trent Plc AGM and was subsequently approved. Deloitte LLP indicated its willingness to continue as Auditor. The Severn Trent Plc Audit Committee will also be responsible for determining the audit fee on behalf of the Board.

We reduce our carbon footprint
We play a leading role in reducing our greenhouse gas ('GHG') emissions. For Severn Trent Group, we have committed to achieving net zero operational carbon emissions by 2030, building on our long track record of making year-on-year reductions in our emissions. We have now also made commitments to generate or procure 100% renewable electricity and move our fleet to 100% electric vehicles by 2030. We have also committed to setting targets under the stringent 'Science-Based' methodology.

Hafren Dyfrdwy is only a small part of Severn Trent Plc's total carbon footprint, but we take the same approach as we do for the rest of the business.

As the majority of our carbon emissions are driven by our use of energy, managing carbon also means managing costs. We therefore aim to reduce carbon emissions and increase our generation of renewable energy.

The Group has held the Carbon Trust Standard continuously since 2009, which recognises our consistent emissions reductions and effective carbon management processes. We continue 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 2019/20 our CDP score was B, an improvement from C in 2018/19.

To reduce our operational emissions further 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 and increase the amount of renewable-backed energy we buy. We will also continue to decarbonise our fleet and encourage employees to take up low-carbon electric cars.

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.

Hafren Dyfrdwy Cyfyngedig (formerly Hafren Dyfrdwy Limited)

As we have successfully reduced our Scope 2 emissions, we are now refocusing on our Scope 1 emissions, which are not as clearly aligned with financial incentives and will require more innovation to solve.

Hafren Dyfrdwy is required to report GHG emissions in the Directors' Report. This year, in line with new environmental reporting guidelines, we have also included additional energy data and more detail on how we manage energy use.

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO2e), for the period 1 April 2020 to 31 March 2021. Our total net emissions have fallen again this year, due to increased generation of renewable energy and a reduction in the emissions intensity of UK grid electricity, including from our 100% renewable-backed electricity procured in our contract supply. We have reported this market-based benefit separately in the table below.

Hafren Dyfrdwy Carbon Footprint kt CO2e

Our gross emissions total in the table below applies the 'location-based' accounting methodology for grid emissions, which is consistent with previous years and shows the 'market-based' accounting method in parallel.

Operational Greenhouse Gas Emissions (Tonnes CO_2e)	Location based	Market based
Scope 1 Emissions (Combustion of fossil fuel on site)	20	20
Scope 1 Emissions (Process Emissions)	214	214
Scope 1 Emissions (Transport Fleet)	497	497
Scope 2 Emissions (Electricity purchased for own use)	4,922	-
Scope 3 Emissions (Electricity Transmission and Distribution)	423	-
Total Annual Gross Operational Emissions	**6,076**	**731**
Total Annual Net Operational Emissions	**6,076**	**731**

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. 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 not reported on indirect 'Scope 3' emissions. We report these in our Severn Trent Plc CDP Disclosure and in our Severn Trent Plc Annual Report.

For the appointed UK water businesses, both Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, we have calculated our emissions using the updated 'Carbon accounting in the UK Water Industry: methodology for estimating operational emissions, Version 15' (released in 2021). This is a peer-reviewed calculation tool developed and used by all the major water companies in the UK. It is updated each year to include the latest available emissions factors. All emissions arise in the UK.

Annual Performance Report of 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.

Hafren Dyfrdwy Cyfyngedig (formerly Hafren Dyfrdwy Limited)

By order of the Board

James Jesic
Director
9 July 2021

Hafren Dyfrdwy Cyfyngedig (formerly Hafren Dyfrdwy Limited)

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 judgments 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

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.

Auditor and disclosure of information to the auditor

In the case of each of the persons who are Directors of the Company at the date when this report is approved:

- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and

Hafren Dyfrdwy Cyfyngedig (formerly Hafren Dyfrdwy Limited)

- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

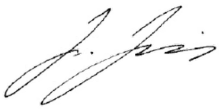
Relevant audit information means information needed by the Company's auditor in connection with preparing its report. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP has indicated its willingness to continue as auditor.

This Responsibility Statement was approved by the Board of Directors on 9 July 2021 and is signed on its behalf by:

By order of the Board

John Coghlan
Chair
9 July 2021



James Jesic
Director
9 July 2021

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 2021 and its loss for the year then ended;
- the financial statements 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 to the financial statements 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, 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 the:

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

Within this report, key audit matters are identified as follows:

	Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the financial statements was £652,000 which was determined on the basis of 2% of revenue. This is consistent with year ended 31 March 2020.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	For the year ended 31 March 2020, we also identified a key audit matter that focused on the valuation of the liabilities of the retirement benefit surplus due to the volatility of certain assumptions at the start of the COVID-19 pandemic. As this volatility has reduced, so has the associated audit effort, and therefore this has been removed as a key audit matter.

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 Covid-19 pandemic,
- Evaluating the underlying data and key assumptions used in the directors' assessment and evaluating the directors' plans for future financing including the extension of the current revolving credit facility with Severn Trent PLC, the ultimate parent company;
- Understanding the funding available through group credit facilities, including consideration of their maturity period, evaluating the group's ability to provide such funding to support the Company's forecasted future cash flows, future commitments and net current liability position at 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 7, and performing sensitivity analysis relating to these assumptions;
- Assessing the headroom under both the base case and sensitised forecasts considering the 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	A portion of household customers do not, or cannot, pay their bills which results in the need for provisions to be made for non-payment of the related receivables. 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 2021 was £5.4 million (31 March 2020: £3.8 million), which incorporates management's estimate of the future impact of COVID-19 on customers' ability to pay their outstanding bills to Hafren Dyfrdwy Cyfyngedig. 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 Covid-19 on the economy. Due to the level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance. The accounting policy for the provision for trade receivables is disclosed in note 1(m) and trade and other receivables are disclosed in note 13 to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures included the following: • Understanding key management review controls over the base bad debt and Covid-19 overlay models, including the supporting data and assumptions; • Testing the completeness and accuracy of the data included within the base bad debt and Covid-19 overlay models; • Challenging the appropriateness of the company basing its bad debt provision on the collection rates experienced by Severn Trent Water Limited (STW) for debtors aged less than four years in the Wrexham area and localised collection in Powys; • reconciling the debtor ageing for each debt category used in the bad debt provision model using source data taken from the company's billing system; and • challenging management's assumptions applied to the COVID-19 overlay, including the estimated correlation between the unemployment rate and cash collection trends; our procedures included evaluating the reasonableness of economic data (both forecast and historical) used within the calculation, and performing sensitivity analysis.
Key observations	We are satisfied that the assumptions applied in assessing the impairment of trade receivables, including the impact of Covid-19, are reasonable and that Hafren Dyfrdwy Cyfyngedig's bad debt provision has been properly calculated using appropriate relevant data and in accordance with IFRS 9.

5.2. Classification of capital 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 £9.5 million (2020: £14.4 million) in capital expenditure projects out of total additions of £16.9 million (2020: £16.4 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. 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 respond to this key audit matter included the following: • Reviewing the 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 relevant management controls over the application of the policy to expenditure incurred on projects within the company's capital programme during the year; and • For a sample of capital projects, assessing the application of the capitalisation policy to the costs incurred by evaluating the business cases and invoices.
Key observations	We are satisfied that the classification of assets capitalised in the year is appropriate.

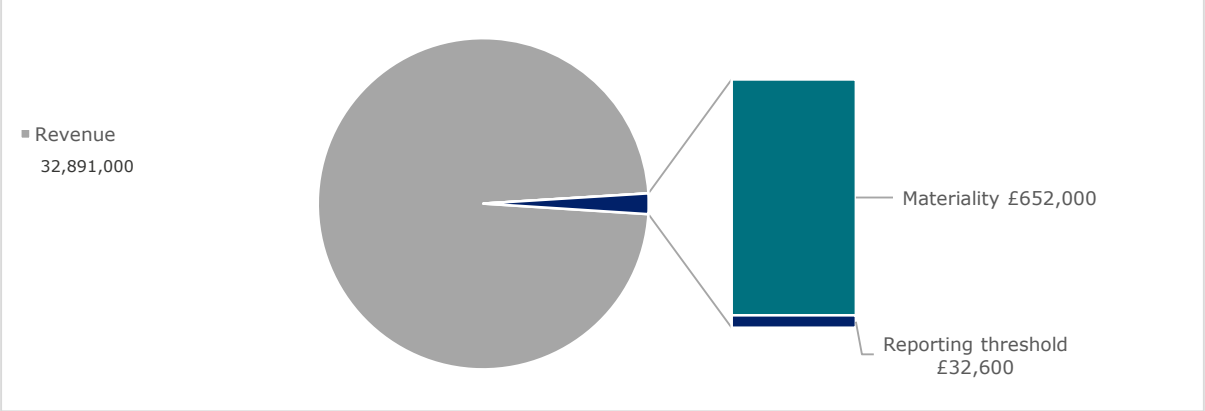
6. Our application of materiality

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	£652,000 (2020: £648,000)
Basis for determining materiality	Materiality has been determined based on 2% of revenue for the year (2020: 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 2021 audit (FY20: 80% of materiality). In determining performance materiality we considered our ability to rely on general information technology controls, our assessment of the control environment, including deficiencies identified in the prior year, 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 set a lower level of performance materiality than in the prior year.

6.3. Error reporting threshold

We agreed with the audit committee that we would report to the Committee all audit differences in excess of £32,600 (2020: £32,400), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit 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

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.

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 with management, internal audit and the audit committee, about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed supporting documentation, concerning the company's 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; and

- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions, IT, and industry specialists 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 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 obtained an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation and 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 expenditure as property, plant and equipment 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 key audit matters highlighted 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 committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing detailed testing on the reconciliation of balances with other water companies;
- 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 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 their 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 as set out on page 25;
- the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate as set out on page 21;
- the directors' statement on fair, balanced and understandable as set out on page 66;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 15;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 61; and
- the section describing the work of the audit committee as set out on page 39.

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.

Kate Hadley, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

09 July 2021

Hafren Dyfrdwy Cyfyngedig

Income statement
For the year ended 31 March 2021

	Note	**2021** **£'000**	2020 £'000
Turnover	3	**32,891**	32,418
Operating costs before charge for bad and doubtful debts	4	**(36,033)**	(35,028)
Charge for bad and doubtful debts	4	**(2,128)**	(1,104)
Total operating costs		**(38,161)**	(36,132)
Loss before interest and tax		**(5,270)**	(3,714)
Finance income	7	**1,601**	1,602
Finance costs	8	**(1,285)**	(1,140)
Net finance income		**316**	462
Loss on ordinary activities before taxation		**(4,954)**	(3,252)
Current tax	9	**1,546**	1,678
Deferred tax excluding exceptional deferred tax	9	**(873)**	(1,270)
Exceptional deferred tax	9	**–**	(1,430)
Taxation on loss on ordinary activities		**673**	(1,022)
Loss for the year		**(4,281)**	(4,274)

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 2021

	2021	2020
	£'000	£'000
Loss for the year	**(4,281)**	(4,274)
Net actuarial (losses)/gains	**(4,596)**	2,400
Deferred tax on net actuarial (losses)/gains	**874**	(426)
Deferred tax arising on rate change	**–**	(218)
Other comprehensive (loss)/income for the year	**(3,722)**	1,756
Total comprehensive loss for the year	**(8,003)**	(2,518)

Hafren Dyfrdwy Cyfyngedig

Balance sheet
At 31 March 2021

	Note	**2021 £000**	2020 £000
Non-current assets			
Intangible assets	10	**7,022**	7,906
Property, plant and equipment	11	**211,614**	202,411
Right-of-use assets		**3**	4
Retirement benefit surplus	12	**17,103**	21,345
		235,742	231,666
Current assets			
Inventory		**404**	554
Trade and other receivables	13	**24,736**	29,304
Cash and cash equivalents	14	**184**	484
		25,324	30,342
Current liabilities			
Trade and other payables	15	**(28,742)**	(26,393)
Borrowings	16	**(3,446)**	-
Current tax payable		**(1,188)**	(326)
Provisions for liabilities	17	**(1,393)**	-
		(34,769)	(26,719)
Net current (liabilities)/assets		**(9,445)**	3,623
Non-current liabilities			
Borrowings	16	**(32,944)**	(60,881)
Trade and other payables	15	**(13,938)**	(11,259)
Deferred tax	18	**(17,354)**	(17,355)
Provisions for liabilities	17	**(4,270)**	-
		(68,506)	(89,495)
Net assets		**157,791**	145,794
Equity			
Called up share capital		**153,051**	133,051
Other reserves		**614**	614
Fair value reserve		**11,685**	11,685
Total retained earnings		**(7,559)**	444
		157,791	145,794

The financial statements were approved by the Board of Directors on 9 July 2021. They were signed on its behalf by:

Helen Miles
Director
9 July 2021
Company Number: 03527628

Hafren Dyfrdwy Cyfyngedig

Statement of changes in equity
For the year ended 31 March 2021

	Share capital	Other reserves	Fair value reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2019	133,051	614	11,685	2,962	148,312
Loss for the year	–	–	–	(4,274)	(4,274)
Deferred tax arising on rate change	–	–	–	(218)	(218)
Net actuarial gains	–	–	–	2,400	2,400
Deferred tax on net actuarial gains	–	–	–	(426)	(426)
Total comprehensive loss for the year	–	–	–	(2,518)	(2,518)
At 1 April 2020	133,051	614	11,685	444	145,794
Loss for the year	–	–	–	(4,281)	(4,281)
Net actuarial losses	–	–	–	(4,596)	(4,596)
Deferred tax on net actuarial losses	–	–	–	874	874
Total comprehensive loss for the year	–	–	–	(8,003)	(8,003)
Share issue	20,000	–	–	–	20,000
At 31 March 2021	**153,051**	**614**	**11,685**	**(7,559)**	**157,791**

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies

a) Accounting convention

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 registered in Wales.

b) Basis of preparation

(i) General

The Company is a wholly owned subsidiary of Severn Trent Plc and is included in the consolidated financial statements of Severn Trent Plc.

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 EU-adopted 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.

(iii) Changes in accounting presentation

Deferred income

Previously deferred income released to the income statement, was credited to operating costs. Under the new presentation, deferred income is recognised as turnover. In the year ended 31 March 2021 the release of deferred income amounted to £161,000 (2020: £176,000). This presentational change has been applied beginning in the year; however, as the impact in the prior year is not material to the amounts recorded in turnover or operating costs, prior years have not been restated. This reclassification has no impact on profits or cash flows recorded in the year or prior years.

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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 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.

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.

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.

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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 1 j below).

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
Plant and equipment	Fixed plant	20 – 40 years
	Equipment	20 – 40 years
	Mobile plant and vehicles	2 – 15 years

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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 turnover 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 turnover 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.

The discount rate used is based on the Company's estimated cost of capital is derived from the WACC from Ofwat's latest price review adjusted for market changes 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. For properties held for resale, the cost includes the cost of acquiring and developing the sites.

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) 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.

m) 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.

n) 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 surplus or obligation.

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.

o) 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.

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Notes to the financial statements (continued)

1. Accounting policies (continued)

p) 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.

q) 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. The grant of awards of shares in the ultimate parent company is treated as a capital contribution and credited to reserves. When awards vest, payments made to the ultimate parent company for the issue of shares are charged against the capital contributions previously received in respect of the same awards. Any payments in excess of capital contributions are treated as distributions.

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Notes to the financial statements (continued)

2. Critical accounting judgments 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. Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised.

ii. Income from connections to water and waste water networks

b) 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.

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.

2. Critical accounting judgments 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). A five year change in the average remaining useful lives of property, plant and equipment would result in a £1,390,000 change in the depreciation charge. The average useful life of property, plant and equipment is around 28 years.

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

Determining the expected credit losses for trade receivables requires estimates of the future collection performance based on past experience and expected future developments as a result of conditions at the balance sheet date.

Expected credit losses for trade receivables are based on the historical credit losses experienced and reasonable forecasts of the future impact of the COVID-19 pandemic on unemployment levels and hence on the Company's collection of trade receivables. In the current period, the forecast peak level of unemployment has increased and the period to return to current levels has lengthened in consensus economic forecasts. We based our assessment of future unemployment trends on the Bank of England's most recent Monetary Policy Report at the balance sheet date, for February 2021, which forecasted a peak rate of unemployment for the UK of 7.8% in the third quarter of calendar year 2021 with a return to the pre-COVID level of unemployment 4% in 2024.

Details of the amounts provided and charged to the income statement are set out in note 13.

On 6 May, the Bank of England published its latest Monetary Policy Report. This revised the forecast for unemployment to show a peak level of 5.4% in the third quarter of calendar year 2021 and an earlier recovery to the pre-COVID level in the first quarter of calendar year 2023. If our assessment of future unemployment trends had been based on this forecast, the expected credit loss in the period would have been £285,000 lower.

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Notes to the financial statements (continued)

3. Revenue

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

	2021	2020
	£000	£000
Water and waste water services	**31,748**	31,038
Commission	**1,143**	1,380
Turnover	**32,891**	32,418

4. Operating costs

	2021	2020
	£'000	£'000
Wages and salaries	**4,804**	4,659
Social security costs	**477**	463
Pension costs	**660**	477
Total employee costs	**5,941**	5,599
Raw materials and consumables	**1,655**	1,479
Rates[1]	**755**	2,883
Charge for bad and doubtful debts	**2,128**	1,104
Services charges	**1,113**	915
Depreciation of tangible fixed assets	**7,642**	6,366
Depreciation of right-of-use assets	**1**	7
Amortisation of intangible fixed assets	**981**	965
Hired and contracted services	**9,048**	8,887
Hire of plant and machinery	**319**	287
Infrastructure maintenance expenditure	**3,667**	5,146
Ofwat licence fees	**83**	43
Other operating costs	**10,018**	9,817
Other operating income	**(50)**	(75)
	43,301	43,423
Release from deferred credits[2]	**-**	(176)
Own work capitalised	**(5,140)**	(7,115)
	38,161	36,132

1. Includes a £2,175,000 historic cumulo rates rebate dating from 2010.
2. Refer to note 2a (ii) Changes in accounting presentation for details of the change in presentation for release from deferred credits.

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

	2021	2020
	£'000	£'000
Fees payable to the Company's auditor for:		
- the audit of the Company's annual accounts	**66**	49
Total audit fees	**66**	49
Fees payable to the Company's auditor and its associates for other services:		
- other assurance services	**30**	14
Total non-audit fees	**30**	14

Other assurance services also include certain agreed upon procedures performed by Deloitte in connection with Hafren Dyfrwdy'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:

	2021 Number	2020 Number
Direct staff	**132**	135

6. Directors' remuneration

	2021 £'000	2020 £'000
Non-executive director remuneration	**92**	90

The three Independent Non-executive directors were remunerated equally at the sum of £30,700 each.

The Executive Directors do not receive remuneration for their services within the Company. The emoluments of the Executive Directors are paid by other companies within the Severn Trent Group.

7. Finance income

	2021 £000	2020 **£000**
Interest income earned on:		
Bank deposits	**–**	1
Other financial income	**1**	1
Interest income on defined benefit scheme assets (note 12)	**1,600**	1,600
Total interest receivable	**1,601**	1,602

8. Finance costs

	2021 £'000	2020 £'000
Interest charged on:		
Finance leases	**29**	40
Bank and other loans	**256**	–
Interest cost on defined benefit scheme liabilities (note 12)	**1,000**	1,100
Total interest expense	**1,285**	1,140

Borrowing costs of £1,472,000 (2020: £1,574,000) incurred funding eligible capital projects have been capitalised at an interest rate of 3.0% (2020: 2.7%). Tax relief of £280,000 (2020: £299,000) was claimed on these costs, which was credited to the income statement, offset by a related deferred tax charge of £280,000 (2020: £299,000).

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Notes to the financial statements (continued)

9. Taxation

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

	2021	2020
	£'000	£'000
Current tax at 19% (2020: 19%)		
Current year	**(1,526)**	(1,855)
Prior year	**–**	–
Prior year group relief	**(20)**	177
Total current tax credit	**(1,546)**	(1,678)
Deferred tax		
Origination and reversal of temporary differences:		
- current year	**842**	1,301
- prior year	**31**	(31)
Exceptional deferred tax arising on change of rate	**–**	1,430
Total deferred tax charge	**873**	2,700
	(673)	1,022

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

The tax assessed for the current year is higher (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020:19%).

The differences are explained below:

	2021	2020
	£'000	£'000
Loss before taxation	**(4,954)**	(3,252)
Tax at the standard rate of corporation tax in the UK 19% (2020: 19%)	**(941)**	(618)
Tax effect of depreciation on non-qualifying assets	**49**	63
Other permanent differences	**207**	1
Adjustment in respect of prior years	**12**	146
Exceptional deferred tax arising on rate change	**–**	1,430
Total tax (credit)/charge	**(673)**	1,022

Deferred tax is provided at 19%, being the corporation tax rate applicable at the balance sheet date. The impact of the UK Government's announcement of its intention to increase the rate of corporate tax to 25% with effect from 1 April 2023 is set out in note 18.

c) Tax charged directly to equity

	2021	2020
	£'000	£'000
Deferred tax		
Tax on actuarial losses/gains	**(874)**	426
Tax arising on rate change	**–**	218
	(874)	644

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Notes to the financial statements (continued)

10. Other intangible assets

	Computer software
	£'000
Cost	
At 1 April 2020	9,644
Additions	97
At 31 March 2021	**9,741**
Amortisation	
At 1 April 2020	(1,738)
Amortisation for the year	(981)
At 31 March 2021	**(2,719)**
Net book value	
At 31 March 2021	**7,022**
At 31 March 2020	7,906

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 2020	22,941	121,526	60,348	42,649	247,464
Additions	2,733	465	1,979	11,680	16,857
Transfers on commissioning	2,412	9,475	7,059	(18,946)	-
Disposals	-	-	(92)	-	(92)
At 31 March 2021	**28,086**	**131,466**	**69,294**	**35,383**	**264,229**
At 1 April 2020	(1,642)	(18,371)	(25,040)	-	(45,053)
Charge for the year	(1,523)	(1,278)	(4,841)	-	(7,642)
Disposals	-	-	80	-	80
At 31 March 2021	**(3,165)**	**(19,649)**	**(29,801)**	**-**	**(52,615)**
Net book value					
At 31 March 2021	**24,921**	**111,817**	**39,493**	**35,383**	**211,614**
At 31 March 2020	21,299	103,155	35,308	42,649	202,411

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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

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

	2021	2020
	£'000	£'000
Fair value of assets	**65,103**	65,145
Present value of the defined benefit obligations	**(48,000)**	(43,800)
Net asset recognised in the balance sheet	**17,103**	21,345

	2021	2020
	£'000	£'000
Fair value of scheme assets		
Liability-driven investment funds (LDI)	**32,500**	32,700
High-yield bonds	**28,400**	28,201
Cash	**4,203**	4,244
	65,103	65,145

The majority of the assets have quoted prices in active markets, but there are small proportions of investments which are unquoted.

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

	2021	2020
	£'000	£'000
Fair value at 1 April	**65,145**	66,644
Interest income on scheme assets	**1,600**	1,600
Contributions from the sponsoring companies	**154**	201
Contributions from scheme members	**–**	100
Return on plan assets (excluding amounts included in finance income)	**904**	100
Scheme administration costs	**(200)**	(200)
Benefits paid	**(2,500)**	(3,300)
Fair value at 31 March	**65,103**	65,145

12. Retirement benefit schemes (continued)

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

	2021	2020
	£'000	£'000
Present value at 1 April	**(43,800)**	(48,000)
Service cost	**(200)**	(200)
Interest cost	**(1,000)**	(1,100)
Contributions from scheme members	**–**	(100)
Actuarial gains/(losses) arising from changes in demographic assumptions	**600**	(400)
Actuarial (losses)/gains arising from changes in financial assumptions	**(6,200)**	2,500
Actuarial gains arising from experience adjustments	**100**	200
Benefits paid	**2,500**	3,300
Present value at 31 March	**(48,000)**	(43,800)

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

The amounts recognised in the income statement are as follows:

	2021	2020
	£'000	£'000
Current service cost	**(200)**	(200)
Scheme administration costs	**(200)**	(200)
Interest income on scheme assets	**1,600**	1,600
Interest cost	**(1,000)**	(1,100)
Total amount credited to the income statement	**200**	100

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

	2021	2020
	£'000	£'000
Net actuarial (losses)/gains in the year due to:		
- Changes in financial assumptions	**(6,200)**	2,500
- Changes in demographic assumptions	**600**	(400)
- Experience adjustments on defined benefit obligations	**100**	200
- Actuarial gains on assets in excess of interest on assets	**904**	100
(Losses)/gain recognised in other comprehensive income	**(4,596)**	2,400

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

On 20 November 2020 the High Court issued a judgment in relation to the application of gender equality in Guaranteed Minimum Pension rights as far as it relates to historical transfer values paid that may have an impact on the Company's defined benefit pension liabilities. The Company has estimated the cost of equalising these further benefits, and has allowed for this cost within the current service cost item over 2020/21 £5,000.

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 Section does not invest directly in property occupied by the Company or in financial securities issued by the Company. The investment strategy is set by the Trustee of the Section. Currently the plan has a balanced approach, investing in lower risk assets (e.g. liability driven instruments, which respond to factors such as changes in interest rates) alongside higher risk assets (e.g. high-yield bonds).

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 calculations then the Company may need to make additional contributions to the Scheme in order to fund the payment of accrued benefits.

The scheme uses Liability Driven Investments ("LDI") within the asset portfolio to hedge against the value of liabilities changing as a result of movements in long-term interest rate and inflation expectations. This structure allows the scheme to both hedge against these risks and retain capital investment in assets that are expected to generate higher returns.

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.

(v) Actuarial assumptions

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

	2021	2020
	% pa	% pa
Price inflation – RPI	**3.2**	2.5
Price inflation – CPI	**2.4**	1.7
Discount rate	**2.0**	2.4
Pension increases in payment	**3.2**	2.5

The assumption for price inflation is derived from the difference between the yields on longer term fixed rate gilts and on index-linked gilts.

In setting our 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 based on this constructed yield curve.

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 65 implied by the assumptions are as follows:

	2021		2020	
	Men	**Women**	Men	Women
Mortality table used	**S3PA_L**	**S3PA_M**	S3 PA L	S3PA M
Mortality table compared with standard table	**112%**	**95%**	112%	95%
Mortality projections	**CMI 2020**	**CMI 2020**	CMI 2019	CMI 2019
Long-term rate of future improvement per annum	**1.0%**	**1.0%**	1.0%	1.0%
Remaining life expectancy for members currently aged 65 (years)	**21.8**	**23.6**	22.2	23.9
Remaining life expectancy at age 65 for members currently aged 45 (years)	**22.7**	**24.8**	23.1	25.1

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	Decrease/increase by £0.7 million
Price inflation[2]	Increase/decrease by 0.1% pa	Increase/decrease by £0.6 million
Mortality[3]	Increase in life expectancy by 1 year	Increase by £2.1 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.

In reality, interrelationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these interrelationships. Also, in practice any movement in obligations arising from assumption changes are likely to be accompanied by movements in asset values – and so the impact on the accounting surplus may be lower than the impact on the obligations shown above.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

(vi) 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 15 years (2020: 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 £195,000 (2020: £173,000).

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

13. Trade and other receivables

	2021	2020
	£'000	£'000
Current assets		
Trade receivables	**13,754**	9,151
Bad debt provision	**(5,277)**	(2,261)
Net trade receivables	**8,477**	6,890
Amounts receivable from group undertakings	**10,908**	14,645
Other amounts receivable	**662**	3,238
Prepayments and accrued income	**383**	327
Accrued income	**4,306**	4,204
	24,736	29,304

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 over the last nine years and reasonable supportable information on the future impact of the COVID-19 pandemic on unemployment levels and hence 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 (2020: £nil).

13. Trade and other receivables (continued)

Expected credit loss allowance

The expected credit loss at 31 March 2021 and 2020 was as follows:

2021	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
	%	**£'000**	**£'000**	**£'000**
Not past due	7	6,720	(443)	6,277
Up to 1 year past due	22	3,561	(800)	2,761
1 – 2 years past due	55	2,357	(1,294)	1,063
2 – 3 years past due	55	1,906	(1,039)	867
3 – 4 years past due	36	1,879	(675)	1,204
4 – 5 years past due	46	1,117	(516)	601
5 – 6 years past due	47	628	(293)	335
6 – 7 years past due	46	585	(270)	315
7 – 8 years past due	46	24	(11)	13
8 – 9 years past due	46	16	(7)	9
More than 9 years past due	100	6	(6)	**–**
		18,799	(5,354)	13,445

2020	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	£'000	£'000	£'000
Not past due	6	8,880	(513)	8,367
Up to 1 year past due	29	4,100	(1,200)	2,900
1 – 2 years past due	46	2,581	(1,196)	1,385
2 – 3 years past due	28	1,189	(335)	854
3 – 4 years past due	40	677	(271)	406
4 – 5 years past due	52	374	(196)	178
5 – 6 years past due	29	341	(100)	241
6 – 7 years past due	100	15	(15)	–
7 – 8 years past due	100	10	(10)	–
8 – 9 years past due	100	1	(1)	–
More than 9 years past due	100	2	(2)	–
		18,170	(3,839)	14,331

The expected loss rate is calculated by reference to the amounts originally billed in each ageing category. The ageing presented in the current year is now directly linked to the profile of debt in our billing system.

Movements on the expected credit loss allowance were as follows:

	2021	2020
	£'000	£'000
At 1 April	**3,839**	2,985
Charge for bad and doubtful debts	**2,128**	1,104
Amounts written off during the year	**(613)**	(250)
At 31 March	**5,354**	3,839

14. Cash and cash equivalents

	2021	2020
	£'000	£'000
Cash at bank and in hand	**184**	484

15. Trade and other payables

	2021	2020
	£'000	£'000
Current liabilities		
Trade payables	**1,578**	1,691
Amounts owed to ultimate parent undertaking	**42**	6
Amounts owed to fellow subsidiary undertakings	**13,803**	11,615
Social security and other taxes	**120**	126
Other payables	**6,862**	6,310
Deferred income	**165**	1,141
Accruals	**6,172**	5,504
	28,742	26,393
Non-current liabilities		
Other payables	**200**	430
Accruals	**41**	29
Deferred income	**13,697**	10,800
	13,938	11,259

16. Borrowings

	2021 £'000	2020 £'000
Current		
Other loans	**106**	–
Loans due to parent company	**3,340**	–
	3,446	–
Non-current		
Other loans	**–**	107
Loans due to parent company	**32,940**	60,762
Lease liabilities	**4**	12
	32,944	60,881
	36,390	60,881

Loans due to parent company comprises of the following:

	2021 £'000	2020 £'000
Index-linked	**32,940**	32,672
Floating rate loan	**3,340**	28,090
	36,280	60,762

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.

Interest on the floating rate loan due to parent company is charged interest at LIBOR + 1.5%. The loan facility of £30 million matures on 8 March 2022.

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 LIBOR. The loan facility of £30 million matures on 1 July 2022. Facility drawn is nil (2020: £nil).

17. Provisions

	Decommissioning £'000	Other £'000	Total £'000
At 1 April 2020	-	-	-
Charge to the income statement	1,000	-	1,000
Other net additions	-	4,663	4,663
At 31 March 2021	**1,000**	**4,663**	**5,663**

	2021 £'000	2020 £'000
Included in		
Current liabilities	1,393	-
Non-current liabilities	4,270	-
	5,663	-

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

Other net additions to provisions comprise mainly provisions for capital works.

18. 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	Other £'000	Total £'000
At 1 April 2019	12,506	3,169	(1,664)	14,011
Charge to income	1,059	95	116	1,270
Charge/(credit) to income arising from rate change	1,471	155	(196)	1,430
Charge to equity	–	426	–	426
Charge to equity arising from rate change	–	218	–	218
As at 31 March 2020	15,036	4,063	(1,744)	17,355
Charge to income	794	59	20	873
Charge to equity	–	(874)	–	(874)
As at 31 March 2021	**15,830**	**3,248**	**(1,724)**	**17,354**

In March 2021 the UK Government announced its intention to increase the rate of corporation tax to 25% with effect from 1 April 2023. If this rate had applied at the balance sheet date the deferred tax liability would have been £5,506,000 higher.

19. Share capital

	2021 £'000	2020 £'000
Total issued and fully paid share capital		
153,051 ordinary shares of £1 each (2020: 133,051)	**153,051**	133,051

On 10 July 2020 the Company approved the issue of 20 million ordinary shares of £1 each to its parent company, Severn Trent Water Limited in exchange for cash.

20. Capital commitments

At 31 March 2021 the Company had capital commitments as follows:

	2021 £'000	2020 £'000
Contracted for but not provided in the financial statements	**5,690**	6,710

21. Post balance sheet events

On 07 July 2021 the Company accepted the extension of the £30 million revolving credit facility from its ultimate parent company Severn Trent Plc. The facility was extended to 31 January 2023, bearing interest at 1.7% above LIBOR.

22. Related party transactions

During the year £91,575 (2020: £90,000) 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 Water Limited, which is the parent undertaking and controlling party of the smallest group to consolidate these financial statements. Financial statements for Severn Trent Water Limited can be obtained from The Company Secretary, Severn Trent Water Limited, P.O. Box 5309, Coventry, CV3 9FH.

The ultimate parent undertaking and controlling party is Severn Trent Plc, which is the parent undertaking and controlling party of the 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.