

Hafren Dyfrdwy Cyfyngedig

**Annual Report and Accounts
for the year ended 31 March 2025**

Company Number: 03527628

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Company Information

Company Number 03527628

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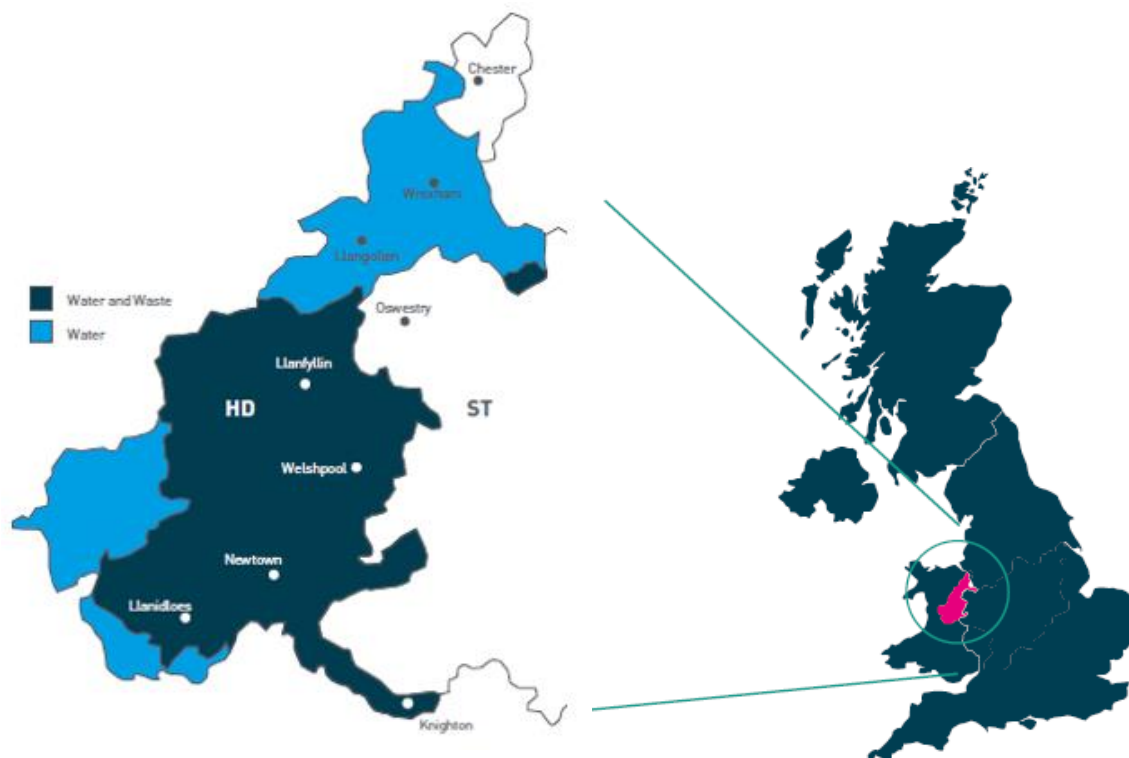
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STRATEGIC REPORT

About Us

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



Hafren Dyfrdwy is regulated by Ofwat, the economic regulator of the water and wastewater sector in Wales and England.

Every five years, water companies in Wales and England put together their plans for the future. We talk to our regulators, the Government and, most importantly, our customers to find out what is important to them. This then informs our Business Plan for the coming five years, which we submit to Ofwat for its assessment and determination.

On 19 December 2024, Ofwat published its PR24 Final Determination for Hafren Dyfrdwy, which sets out our funding and the performance that we will need to deliver over the period 2025-30 (which is the Asset Management Plan ('AMP') period known as 'AMP8').

The Final Determination will allow us to maintain delivery for our current customers and has put firm building blocks in place for us to continue improving services and protecting them for future generations. In turn, this will enable us to maintain our position as a sustainable and socially purposeful company.

The Directors of Hafren Dyfrdwy 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 2025.

Business Model and Overview

We provide clean water every time our customers turn on the tap, and remove their wastewater in an affordable, sustainable and reliable way. In the course of providing these essential services, we create social and environmental value across Mid- and North-East Wales.



- 1 Collect raw water**
We collect water from reservoirs, rivers and underground aquifers across our region.
- 2 Clean raw water**
Our groundwater and surface water treatment works clean raw water to the highest standards, making it safe to drink.
- 3 Distribute clean water**
Our network of pipes and our enclosed storage reservoirs bring a continuous supply of clean water direct to our customers' taps.
- 4 Customers enjoy our services**
Over 109,000 households and businesses use our services, delivered by a local team of over 200 employees, and supported by our contact centres, always ready to help.
- 5 Collect wastewater**
Our network of sewers and pumping stations collect wastewater from homes and businesses and take it to our wastewater treatment works.
- 6 Clean wastewater**
Wastewater is carefully screened and treated in our wastewater treatment works to meet stringent environmental standards.
- 7 Recycle water to the environment**
We safely return treated water to rivers and watercourses.
- 8 Renewable energy**
We invest in our hydro technology to help us keep our energy costs down as well as contributing to our net zero plans.

Value Creation

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 changing natural environment.

We are committed to our customers and community, protective of our environment and dedicated to fairly rewarding and developing our colleagues. We create value for all our stakeholder groups in different ways.

For our customers: We aim to anticipate and meet changing customer and wider societal needs, as well as improve and protect the natural environment.

For our colleagues: 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 encourage them to be their best in all that they do.

For our communities: We create value for the communities we operate in by providing direct employment to local people, engaging with local businesses in our supply chain, and paying business rates to Local Government.

For our environment: We contribute positively to the environment, helping to face into the nature emergency declared by Welsh Government and taking clear steps towards Wales's 2050 net zero goal.

For our suppliers and contractors: Strong supplier relationships ensure sustainable, high-quality delivery for the benefit of all stakeholders, supporting our business operations in line with our Code of Conduct and anti-slavery and human trafficking commitments.

For our regulators, Government and Non-Governmental Organisations: The policy framework for our sector is set by the UK and Welsh Governments. We are regulated by Ofwat, Natural Resources Wales and the Drinking Water Inspectorate, amongst others. We maintain active dialogue with the Consumer Council for Water and other interested groups who have our customers' interests at the forefront of their organisations.

 Llywodraeth Cymru Welsh Government The Department for Environment, Food & Rural Affairs ('Defra') and the Welsh Government, provide strategic and policy direction for the industry and our regulators.	 Ofwat is the economic regulator for the water and wastewater industry in Wales and England. Ofwat principally exercises its duty to protect the interests of customers through periodic reviews of charges (price reviews) every five years.	
 The Drinking Water Inspectorate ('DWI') independently checks that water supplies in Wales and England are safe and that drinking water quality is acceptable to consumers.	 Natural Resources Wales ('NRW') is the environmental regulator in Wales. It oversees how the country's natural resources are maintained, improved and used, both now and in the future.	 The Consumer Council for Water ('CCW') speaks on behalf of water consumers in Wales and England.

Business Overview

Hafren Dyfrdwy is a wholly owned subsidiary of Severn Trent Draycote Limited, part of the Severn Trent Plc Group (the 'Group'). The Company is one of 11 water and wastewater companies operating in Wales and England, supplying services at one of the most affordable prices to over 109,000 households and businesses.

This report covers the year ended 31 March 2025, which is the final year of the five-year regulatory period known as 'AMP7' covering 2020-25, and includes detail of our progress in relation to delivering our customer outcomes, service commitments, and financial and environmental performance.

Key Figures from 2024/25

Turnover £46.8 million (2023/24: £40.0 million)	Loss before interest and tax £2.6 million (2023/24: £4.3 million)
Regulatory Capital Value ('RCV')¹ £139.17 million (2023/24: £118.06 million)	ODI measures met or exceeded 68% (2023/24: 79%)
Litres of drinking water supplied each day 60 MI/d (2023/24: 59 MI/d)	Litres of wastewater treated each day 18 MI/d (2023/24: 19 MI/d)
Biodiversity improvements 96 hectares of land (2023/24: 132 hectares)	Community Fund Grants awarded c.£50,000 (2023/24: c.£47,000)
Households and businesses served 109,468 (2023/24: 109,032)	Employees² 226 (2023/24: 207)

1. Nominal year-end prices

2. Average during 2024/25 – see note 6 to the financial statements

Our Purpose, Values and Culture

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

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



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

We are guided in delivering our purpose through our **values**. Developed for the whole Group, these values are directly relevant for us as a provider of an essential public service and meaningful for our employees, customers and the communities in which we live and operate.



Setting bold ambitions

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



Inspired to try new approaches

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



Promoting fairness and equality for all

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



Succeeding on our journey

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

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

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

In addition, to deepen their understanding of the Company's values and culture, Board members undertake site visits throughout the year. These enable Board members to meet colleagues in person, observe the true culture of the Company, the way in which the workforce applies our values in all that it does and discuss first hand the key issues identified by them. Board members also attend the Company Forum, to listen directly to what employees have to say and to provide updates on matters being considered by the Board. During the year, we held our popular 'Meet Our Board' event, where colleagues were invited to interact informally with Board members, thereby providing a further opportunity for the Board to engage with our people and gain an appreciation of the Company's culture.

The Board believes that our strong values and culture are a key strength and there are resulting benefits in employee engagement, retention and productivity. It is clear from the results of our annual engagement survey, that our purpose and values strongly resonate with our employees, as demonstrated by the Company's overall employee engagement score this year of 9.0 out of 10 – an improvement of 0.1 from the prior year – which places us in the top quartile of all UK businesses and in the top 5% of energy and utility companies globally. Employees agree that our values align with our purpose and provide a good fit with the things they consider important in life and they feel inspired by the purpose of our Company. The Board considers both the positive and more challenging aspects of the survey and discusses the action plans to be put in place for areas of employee focus, in order to ensure any misalignment with our values and culture is addressed.

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

Further details of how the Board monitors culture and engages with employees are set out on pages 40 to 42.

SETTING ASPIRATIONS AND PERFORMING FOR ALL THOSE WE SERVE

At Hafren Dyfrdwy, we have been consistently improving services since we were formed in 2018 from Dee Valley Water and Severn Trent Water's operations in Wales. We have also strengthened our financial resilience in that time.

Our AMP7 Business Plan was built around what matters most to our customers and their expectations of Hafren Dyfrdwy, both as a water and wastewater service provider and as a company which can, and should, play a positive role in wider society.

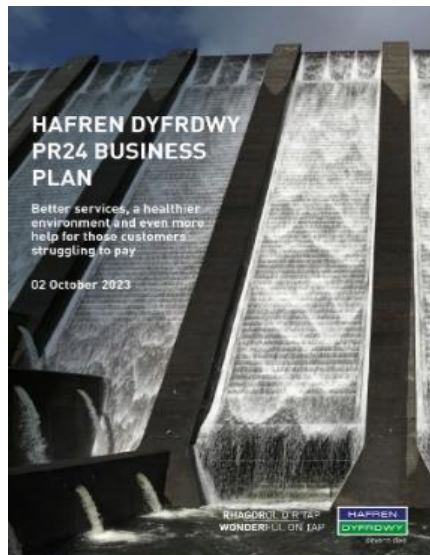
We designed our Business Plan for 2025-30 to raise standards even further, deliver what is important to our customers and to contribute to the Welsh Government's wider social, environmental and economic goals.

Ofwat's Final Determination for AMP8 has set the funding we need to deliver over the next five years and the service levels and outcomes expected for our customers.

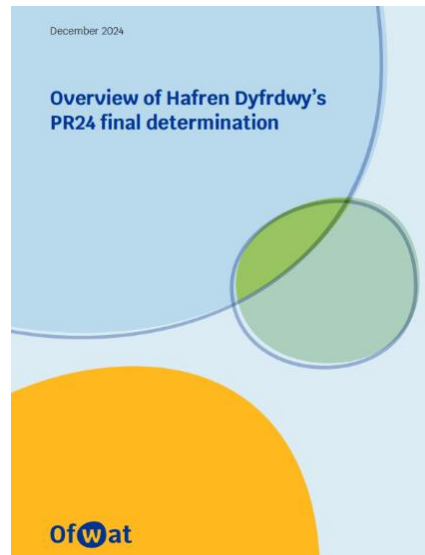
We recognise that, for some customers, these extra improvements come second to whether they can afford their water bill. So, by 2030, our social tariff pot will go towards doubling the number of customers we help currently.

Our programme for AMP8 is highly deliverable, and the increases in investment we have proposed will deliver significant benefits for much of Mid- and North-East Wales.

As demonstrated throughout this Annual Report, the Board focuses on our purpose when determining how the Company should operate and also in considering how decisions the Board make will affect each of our stakeholder groups. Read more about our engagement with stakeholders and how the Board considers stakeholders in its decision making on pages 34 to 46 and pages 53 to 56, respectively.



Read our full PR24 Business Plan on Hafren Dyfrdwy's website.



Read our PR24 Final Determination on Ofwat's website.

Performance Summary

We are pleased to present our progress against the delivery of our customer outcomes for the final year of our Business Plan for the 2020-25 period known as AMP7.

We have achieved 68% in Outcome Delivery Incentive ('ODI') performance in 2024/25, based on our in-year and end of AMP measures being green across our water, wastewater, environment and community commitments. We are reporting on a larger number of ODIs in 2024/25 than in earlier years of the AMP7 due to the inclusion of our end of AMP measures.

Our ODI penalty is £0.166 million, a slight deterioration on our prior year performance of 79% (2023/24: £0.152 million¹). Whilst we are disappointed to have seen a drop compared to last year, we remain focused on driving improvements in our service to deliver for our customers.

Improving Core Service in Water and Wastewater

By serving a rural area, with the lowest population density, it can be difficult to achieve our stretching industry targets, many of which are set in reference to larger water and wastewater companies or more urban-centric water only companies.

Across our water commitments we have delivered well on measures that are important to our customers, such as achieving strong performance on our water quality measure, Compliance Risk Index ('CRI'), of 1.10, and remaining below the estimated industry average score of 5.2. We have exceeded our lead pipe replacement target four times over since the beginning of the AMP, taking our AMP7 total to 1,019 pipes replaced. We continue to be focused on improving our leakage position, reducing leakage by over 10.4% over AMP7. Whilst we are disappointed to have not met our target for this year following the restatement of our targets, we have developed robust plans for next year in understanding of how important this remains to our customers. Our Per Capita Consumption ('PCC') performance unfortunately missed the target despite a 2% year-on-year decrease in consumption. We continue to share messages with our customers on water usage and promote our water-saving products to reduce consumption.

On average, customers experienced an interruption to their supply for 11 minutes and 11 seconds over the year (2023/24: 11 minutes and 20 seconds), this is a 84% improvement from the start of AMP7. Whilst we are pleased to have achieved our best ever performance due to the progress we have made, our aim is to go further for our customers and push on to meet the ambitious AMP8 target set for the sector of 5 minutes for all companies. The investment in network performance requested in our PR24 Business Plan, which was approved by Ofwat, will help us to deliver on this ambition.

In wastewater, we have continued to focus on optimising our asset performance to drive greater control and improvement. As a result of this activity, we have maintained our strong pollution performance with two occurrences, beating our target for the fifth year in a row. We have also achieved our best ever performance in sewer collapses with two occurrences, a 50% reduction from last year.

Supporting our Customers and Communities

Our customers are at the heart of everything we do, and we know that some customers are experiencing cost of living pressures, and although Hafren Dyfrdwy's average combined bill in 2024/25 was £447 a year, or just over £1.22 per day, we know that for some this is still a

1. Net of tax, 2017/18 price base.

source of worry. And we never want any customer to fear their bill. That is why, this year, we have continued to expand our programme to support customers by 17%, helping over 10,500 customers and continuing to offer one of the most generous bill discounts available in the water sector (up to 70% discount for those on the lowest incomes), as well as payment breaks to allow time for our customers to get back on track.

Our Priority Services Register helps us to understand when our customers might need our help and we are proud to have supported all of those registered during an incident this year and we strive to uphold this in the future.

Our customers, whether households or local developers, expect a high-quality customer experience and we have achieved fifth position against the rest of the sector for Developer Measure of Experience ('D-MeX') (2023/24: third). Whilst we have seen a drop in position compared to last year, we remain focused on driving improvements in service and have continuous improvement plans in place to deliver for our customers. We are sixth position on Customer Measure of Experience ('C-MeX') (2023/24: eighth), placing top for the customer experience metric thereby showcasing the positive interactions that our customers have with us day to day.

Being an active member of the communities we serve across Wales is important to us. Our Community Connectors work closely with local partners, such as Wrexham County Borough Council, Newydd Housing and Mid-Wales Housing, to raise awareness of all the great ways we can support our customers, whether that is financially through our schemes – WaterSure and Here2Help – or providing non-financial services like our water efficiency health checks. Our work to inspire customers to use water wisely has again been a huge success, outperforming this year by over twice our target.

Enhancing the Natural Environment

We have continued building on the successes of last year with no serious pollutions for over 13 years, and remain 100% compliant at our wastewater treatment works.

Our biodiversity performance has again outperformed our stretch target by over three times, achieving 96 hectares in the year. This includes work with our partners to manage invasive species across our sites and manage woodland, aiming to boost the population of a highly threatened butterfly species. The investment in our site at Lake Vyrnwy has continued and is critically focused on peatland restoration and the creation of new habitats. Throughout the AMP we are proud to have delivered over 1,000 hectares of improvement.

We have delivered 30 schemes as part of the 2024/25 National Environment Programme, hitting our target. These initiatives are designed to boost our environmental performance through various solutions. For instance, we have conducted 11 regulatory spill frequency reduction investigations in preparation to deliver our spills reduction plan in AMP8.

Our focus on storm overflow performance continues; we have driven further improvements through our Get River Positive pledges and are continuing to reduce the number of spills from our storm overflows throughout the next year. The details of our strategy can be found within our Annual Performance Report, which is available on our website.

We have continued with our reservoir safety and resilience programme, completing the work required to meet the measures in the interest of safety as prescribed by the independent Reservoir Inspecting Engineer at eight of our sites over the AMP. Although our performance this year is less than the target, we have commenced works on the remaining two sites with the aim of delivering them earlier than the regulatory target.

Delivering for Wales

We recognise our role as custodian of valued Welsh assets and have been working collaboratively with all of our stakeholders in Wales. We aspire to be a leading, community-focused water and wastewater company that makes a meaningful and positive environmental and social difference.

We have a role to play in delivering the Well-being of Future Generations Act ('Future Generations Act'), and our Business Plans and priorities ensure that we are always considering our contribution to the seven goals within that Act. The Welsh Government Strategic Steers and the Welsh Language Standards help to frame the future direction of travel for us and through the implementation of our Final Determination and long-term asset planning, these will be integrated into our activities.

Financial Performance

As we close out AMP7, we have delivered improvements in our financial performance in a year that has seen cost pressures on chemicals and materials, alongside investment required for the next five years. Our loss before interest and tax of £2.6 million (2023/24: £4.3 million) was down 40% on the previous year.

We have increased the investment in our asset base with £37.0 million of capital additions and infrastructure renewals expenditure of £3.8 million.

Turnover increased in the year by 17.0% to £46.8 million (2023/24: £40.0 million), largely related to revenue from our water and wastewater activities, which increased by 17.1% year on year, as a result of higher tariffs. We are acutely aware of the impact of this on our customers and we have increased support to those who are unable to pay, with over 9,000 customers receiving discounts of up to 90% off their bill.

Operating costs increased by 11.3% to £49.4 million (2023/24: £44.4 million). Employee costs of £11.2 million were 13.6% higher than in 2023/24 following investment in our front-line teams to drive performance, alongside our annual pay review and subsequent increase of 5%. Power costs were £2.0 million, 29.3% lower year on year, driven by lower wholesale weighted average price of electricity on imports.

The charge for bad and doubtful debts increased by 54.6% to £1.7 million (2023/24: £1.1 million) mainly due to higher household revenue partly offset by an improvement in our cash collection processes during the year. The charge increased to 2.7% of household revenue (2023/24: 1.9%) reflecting the uncertainty in the macro-economic environment.

Net finance costs for the year were £1.8 million (2023/24: £1.7 million) with additional borrowing costs on financing our increased investment. Capitalised interest of £3.4 million was higher (2023/24: £2.9 million) due to higher interest rates and increase of our inflation-linked debt.

We are committed to paying the right amount of tax at the right time. While we did not pay corporation tax during the year due to the loss incurred and the significant capital allowances from our capital programme, we pay a range of other taxes including business rates, employers' national insurance and environmental taxes such as the Climate Change Levy, all of which are charged in our income statement.

Total loss for the year was £2.8 million (2023/24: £5.2 million).

Our balance sheet continues to remain strong, with additional capital investment reflecting our asset base, with net assets of £141.6 million (2024: £144.4 million) and net current assets £7.4 million (2024: £12.4 million). Our defined benefit pension scheme surplus on an IAS19 basis was £5.3 million (2024: £5.4 million), with benefits secured by a bulk annuity insurance policy. We conclude the AMP period with an RCV gearing of 62.8%, reinforcing the strength and stability of our balance sheet.

Risk Management

Our Approach to Risk

Hafren Dyfrdwy has a robust risk and opportunity framework to effectively identify, assess and mitigate risks to deliver our strategic priorities within our risk appetite.

2024/25 Risk Landscape

Geo-political tensions, economic uncertainties, increasing frequency of extreme weather events and rapid technological advancements are some of the global forces and trends affecting the UK. Instability continues to be a major factor which is influencing trade, economic and security policies. We closely monitor developments in the external environment to ensure our internal processes and controls remain alert to changes and are subject to robust and regular assessment, including our supply chain and security risks. We also monitor Government reforms of relevance to our sector, including those supported by the Welsh Government, and the Strategic Priorities and Objectives Statement issued by the Welsh Government.

We engaged with more than 6,000 customers to understand their priorities, which underpinned the development of our Business Plan for the period 2025-30. We will deliver commitments to significantly enhance the health and day-to-day resilience of our water network by 2030. For example, we are aiming to reduce supply interruptions by 56% and quadruple leakage savings compared to AMP7. This will ensure we provide a strong reliable service that customers deserve, along with benefits to the local communities in Powys and Wrexham. To make sure that customers who need the most help with their bills are supported, Hafren Dyfrdwy will be more than doubling the number of people it helps financially, and by 2030 we expect to be helping more than 7,000 customers with paying their bill. This reflects the ongoing challenges in relation to disposable household incomes and some of our customers' ability to pay bills.

Our Risk Priorities

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



The health, safety and wellbeing of our people and the communities we serve and maintaining our essential operational services are our top priorities, and we have no appetite for risks brought on by unsafe actions.



Protecting the environment is a key long-term commitment and we aim to enhance the water environment and improve biodiversity not only for our local region, but for Wales as a whole.



Adherence to laws and regulations is a fundamental requirement and we are committed to ensuring compliance with all water regulations and to operate within our licence permits; therefore, we have no appetite for compliance-related risks.

We are also committed to the Future Generations Act and working collaboratively with regulators, Government, local bodies and Dŵr Cymru, which is the only other company operating within our sector in Wales.



Our approach to financing is to take measured risk consistent with providing resilience and delivering sustainable outperformance for the best long-term value for our customers and stakeholders.



We are determined to play a leading role in addressing the impact of climate change through mitigating our own impact and that of our supply chain and adapting to the challenges which climate change may bring both now and in the future.

Overseeing Risk

The well-established Group Enterprise Risk Management ('ERM') process and internal control framework has been implemented within Hafren Dyfrdwy to help us identify, evaluate and manage risks to influence decision making. Our approach cannot, and does not, seek to eliminate all risk entirely, but ensures we can effectively navigate the challenges and opportunities we face.

Risk and Opportunities Framework



Supporting risk management processes

Risk management principles are embedded throughout our business and are a core component of our overarching structure to achieve our strategic priorities. We have an established ERM cycle which enables a consistent approach and is divided into four main stages which help us to identify, assess and evaluate, mitigate and monitor, and report and assure our risks. This approach also provides a comprehensive overview of significant risk events, including Emerging Risks through horizon scanning, which are managed within the Group's risk appetite and supported by appropriate assurance activity.

Our Central ERM Team oversees the ERM Policy, which forms part of our governance process and supports our values and culture. Our risk community includes Risk Owners and Risk Co-ordinators for every business area, who help to embed and drive risk management across our business.

Our risk management framework encompasses day-to-day asset operation, deployment of capital investment, and long-term modelling of our asset health and performance. Standardised criteria are used to consider the likelihood and impact of risk, including financial and reputational. Our strong culture of continuous improvement ensures we are constantly evolving and applying best practice.

Our approach to risk management allows us to adapt to changing internal and external factors through utilising the three lines of defence model and combining top-down with bottom-up risk management approaches. This model provides both a clear articulation of risk appetite and a comprehensive process for risk identification, assessment and management. The top-down and bottom-up approach is necessary to be agile and respond to a continuously evolving environment and consequently, a changing risk landscape.

Risk Reporting

Our ERM processes are applied consistently across the Group, including Hafren Dyfrdwy. The ERM Team oversees the Group ERM Policy and framework, ensuring a standardised methodology is applied across all Group subsidiaries to ensure consistency. ERM Risk

Owners and Risk Co-ordinators operate within Hafren Dyfrdwy and are responsible for continually identifying and assessing risks, with support and challenge provided by the Group ERM Team. Standardised criteria are used to consider the likelihood and velocity of occurrence and potential financial, operational and reputational impacts.

The potential causes, impacts and controls related to each risk are documented. The risk causes have also been linked with recognised climate drivers, where the likelihood could be exacerbated by a different climatic future. We utilise the 'Risk Bow Tie' management tool which is used by many organisations to simply convey complex risks. The tool enables a clear differentiation between proactive and reactive risk management and provides confidence that we have developed and deployed effective risk response strategies. The ERM Team also has the opportunity to challenge whether additional controls are required.

Our most significant risks from our risk profile are reported to the Executive Committee for review and challenge. In addition to the regular in-depth reviews undertaken by the Executive Committee, the Board receives a detailed risk report every six months which forms part of the Board's risk oversight. The report also provides the Board with an updated assessment of the effectiveness of the controls in place for the mitigation of each relevant risk and, where necessary, the action plans developed to enhance our controls. The Audit and Risk Committee supports the Board in monitoring significant and emerging risks to ensure risks and opportunities are effectively managed at Hafren Dyfrdwy.

Principal Risks

In accordance with the 2018 UK Corporate Governance Code, the Board is responsible for determining the nature and extent of the Principal Risks of the business. Our Principal Risk profile is updated each year to reflect the changing risk landscape. The Hafren Dyfrdwy Board has completed a review of the Principal Risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. This review ensures we have appropriate coverage for risks which have the potential to:

- Adversely impact the safety or security of the Company's employees, customers, communities and assets;
- Have a material impact on the financial or operational performance and resilience 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 of 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.

Risk assessments form a key part of our business and decision-making processes, enabling us to respond promptly to risks when they arise and ensure that our stakeholders are well informed. We closely monitor Emerging Risks that may, with time: become complete ERM risks and incorporated into the existing corporate risk reporting process; be superseded by new Emerging Risks; or cease to be relevant as the internal and external environments in which we operate evolve. Our detailed horizon-scanning exercise utilises insights from internal stakeholders and external publications, including the National Risk Register and Global Risk Report (World Economic Forum). This is critical to identify any potential threats and then track and report these as part of the embedded reporting cycle.

Principal Risks 2024/25

Key: Change in Year	↑	↓	↔	↕
	Increase in risk exposure	Decrease in risk exposure	No change in risk exposure	New risk

1 HEALTH AND SAFETY

Due to the nature of our operations, we could endanger the health and safety of our people, contractors, and members of the public.



Examples of risk mitigation:

- Successfully launched an 'Everybody Safe' Strategy, which embraces the vision statement 'Nobody gets hurt or is made unwell by what we do'. The Strategy was cascaded to all colleagues to ensure the key messages were effectively shared.
- Established Health, Safety and Wellbeing Framework to keep our colleagues, contractors and communities healthy, safe, secure and well.
- Health and Safety Policy, and associated standards, are regularly reviewed to ensure compliance with legislation.
- Our competency framework and mandatory training is regularly monitored.
- Supply chain compliance is assessed through site manager forums, on-site inspections and assurance activities.
- Health and safety bulletins are cascaded throughout the Group, and to our supply chain.
- A dedicated Health, Safety and Wellbeing Toolkit enables real-time data recording to analyse and report on all health, safety and wellbeing incidents.
- Incidents and near-misses are tracked to ensure timely resolution and reviewed to identify lessons and drive continuous improvement.

2 INFRASTRUCTURE FAILURE AND ASSET RESILIENCE

We do not provide a safe and secure supply of drinking water to our customers.



Examples of risk mitigation:

- Comprehensive resilience plans such as our Water Resources Management Plan ('WRMP') and Drought Management Plan, have been developed and are included in our AMP8 capital investment plan.
- Key operational employees are required to complete mandatory water quality competency training.
- Significant investment to bolster resource and capabilities within our repair teams to accelerate response times.
- 24/7 control centre monitors our operations and assets, including real-time telemetry coverage from our loggers.
- Strategic modelling is completed to assess different scenarios on the supply and demand across our water network, including the impact of climate change (see Principal Risk 7).
- Regular reviews and updates to our processes, standards and operational procedures.

- Business continuity plans are in place for incident management, and our teams are well versed in the activities required to be completed in the event of a hot weather incident, including a standby rota.

3

INFRASTRUCTURE FAILURE AND ASSET RESILIENCE

We do not transport and treat wastewater effectively, impacting our ability to return clean water to the environment.



Examples of risk mitigation:

- Strategic modelling, such as for the Drainage Wastewater Management Plan ('DWMP'), is essential for assessing potential changes to the supply and demand on our wastewater network, including the impact of climate change. This enables us to proactively manage the impact on our service and any potential damage to the environment.
- We undertake regular sampling to understand site performance and ensure compliance with our permits.
- Permitted storm overflows and treatment works have full monitoring in place, which provides data on flow and spills (measured by Event Duration Monitors) from our wastewater assets. Through the installation of Event Duration Monitors and associated analytics, we can proactively monitor storm overflows to resolve issues.
- Our 24/7 control centre monitors our asset performance, including real-time telemetry coverage.
- In-house Wastewater Network Response Team and key operational employees complete mandatory training programmes to ensure continued competence with evolving standards.
- Educational programmes for customers to promote safe use of the wastewater system, including appropriate disposal of wet wipes and cooking fat.
- We have a dedicated pledge to ensure storm overflows and sewage treatment works do not harm rivers, with associated targets and actions. This is aligned with the Wales Better River Quality Taskforce which brings regulators, Government and water companies together to improve river water quality.

4

CUSTOMER SERVICE AND EXPERIENCE

We do not meet the needs of our customers or anticipate changing societal expectations with the level of customer service we provide.



Examples of risk mitigation:

- Our customer strategy focuses on improving customer experience drivers. This includes a customer experience programme and customer committees to deliver improvements in our customers' end to end journey.
- A specialist Digital Team monitors activity and enables us to engage with and digitally respond to customers to inform them of planned and reactive work.

- Different schemes are available to provide help to those customers who need it. For customers that require a high volume of water usage, but are on low income, we provide financial support through our WaterSure scheme. Payment plans are also available to help customers make their bills more manageable.
- Our Here 2 Help Hub provides a one stop shop of advice about everything from support with bills, to other help available for customers.
- Our Priority Services Register helps identify any vulnerable customers or those with medical conditions, and a wide offering of different support options is made available. This includes a more personalised service if customers would benefit from having their bills in a different format, such as braille.
- Robust incident management processes for any events where service levels are impacted, which include specific procedures for any vulnerable customers.
- Our positive press campaigns, such as bill inserts, and activities which include our Community Fund, help boost awareness of our Hafren Dyfrdwy brand.

5

CYBER SECURITY AND TECHNOLOGY RESILIENCE

Core operational capabilities are compromised through physical, people or technological threats.



Examples of risk mitigation:

- Our Cyber Security Steering Committee, Information Security Team and Data Privacy Officer monitor security and cyber threats.
- A dedicated Security Team and Alarm Receiving Centre allows us to monitor and respond remotely to our most critical sites.
- Proactive and robust support for our monitoring technology, with appropriate maintenance plans.
- A robust operational security programme, including physical access controls, on-site and remote system protection.
- Mandatory annual cyber security training for employees and a robust operational security programme.
- All operational and office sites have business continuity, crisis management and disaster recovery plans.
- Regular internal and third-party testing of our security network, systems and sites.
- Vulnerability management system, including penetration testing of publicly accessible systems, behavioural alerts, patching processes, data disposal and access controls.
- Third-party IT service partners provide support to reduce risk and improve technical standards.
- Security standards are understood with relevant 'What if' scenarios, which are documented and regularly tested.
- Documented security investigation processes, including root cause analysis.

6

POLITICAL, LEGAL AND REGULATORY

Uncertainty of regulatory, legislative and Welsh Government reforms (including Welsh language Standards) which could fundamentally impact our operational environment and strategic ambitions.

↑

We have refreshed the wording of the Principal Risk and increased the rating to reflect the regulatory, legislative and Welsh Government reforms, which could impact the operating environment. The Principal Risk also references the Welsh Language Standards to reflect our support for Welsh speakers in the community and boost inclusion through allowing our colleagues to engage with customers who speak the Welsh language.

Examples of risk mitigation:

- We operate an established Governance Framework, comprising policies and training, to ensure ongoing compliance with applicable laws and regulations (including the Welsh regulatory framework) and these are regularly reviewed to capture any changes.
- Licence to Operate is the name for our overarching Compliance Framework, which ensures compliance with our legal, statutory and regulatory obligations. All levels of leadership are required to complete a declaration twice a year.
- A fundamental activity when developing our Business Plan was to perform detailed research to understand the views and priorities of customers and key stakeholders. Investment plans are subject to regular review, at least on an annual basis, to take account of changes to legislation, regulation and our business.
- We actively engage with the Welsh Government on the future direction of the water sector. We have strong relationships and engage regularly through open dialogue with the Welsh Government, local and national Senedd Members, the Wales Water Forum, Natural Resources Wales, the Drinking Water Inspectorate and Ofwat.
- The Government commissioned Sir Jon Cunliffe to undertake a review of the water sector. We have responded to the Commission's request for evidence, and recommendations are expected to be made to the UK Government in Summer 2025. We will continue to engage constructively with the review, and other relevant reviews, and we are proactively preparing for potential changes.
- External legal advisers provide detailed updates in respect of upcoming legislation that may affect Hafren Dyfrdwy.
- We are working with the Welsh Language Commissioner in relation to the upcoming standards that will apply to the Company. Our colleagues have been given the opportunity to learn or improve their Welsh language skills through a series of online courses.

7

CLIMATE CHANGE, ENVIRONMENT AND BIODIVERSITY

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



Examples of risk mitigation:

- Our Group strategy ensures a robust response to climate change and our impacts and dependencies on nature, to protect our value chain and maintain our services.
- Scenario planning and data modelling are utilised to understand the impact climate change could have on our ability to deliver Hafren Dyfrdwy's essential services (see Principal Risks 2 and 3). Our WRMP and DWMP provide a 25-year planning approach to address future challenges, including climate change.
- Our Business Plan incorporates increased resilience against the potential impacts of climate change through the delivery of capital schemes (see Principal Risk 9).
- Our Group Triple Carbon Pledge commits all Group companies to collectively reach net zero operational emissions, 100% renewable energy and an all-electric fleet (where available) by 2030.
- We have committed to significantly reducing our greenhouse gas emissions. By 2030 the greenhouse gas emissions in our water operations will be reduced by 12%.
- Climate Change Steering Groups bring together expertise from across the Group.

8

CLIMATE CHANGE, ENVIRONMENT AND BIODIVERSITY

We fail to positively influence and address the nature and climate emergencies in Wales.



Examples of risk mitigation:

- Supporting the Welsh Government to tackle the nature emergency which was declared in 2021.
- We have undertaken baseline biodiversity surveys at 14 of our largest operational sites (outside of Vyrnwy estate). These will inform biodiversity action plans for our operational estate in AMP8 and beyond, including changes to ground maintenance to enhance invertebrate habitats, planting broadleaf trees, restoring hedgerows, and sowing wildflower areas to encourage pollinators.
- Modelling is utilised to determine the impact of increasing pressures on nature, for example through drought or extreme weather events.
- Catchment management practices are used to work with landowners in our region to mitigate the effect of pesticides, fertilisers and organic nutrients on the environment and biodiversity.
- We are committed to enhancing biodiversity by supporting the Wales Better River Quality Taskforce and delivering against 'Get River Positive' through our five pledges to further improve river water quality by 2030.
- We will also work with our customers to reduce the consumption of water through the introduction of smart meters and delivering household and non-household water efficiency activities.
- We utilise our in-house ecology expertise to enhance the Company's capability to enhance biodiversity.

- The Lake Vyrnwy Peatland Restoration Team is delivering one of Wales's largest peatland restoration projects with strategic significance for water supply and habitat recovery in Sites of Special Scientific Interest. The diverse team comprises local staff from RSPB Cymru, Hafren Dyfrdwy, Owen Environmental, and RG Evans and includes project managers, surveyors, ecologists and agricultural contractors, all highly skilled and united in their commitment to environmental restoration. The work addresses urgent challenges related to biodiversity loss, climate impact and resilience, and water catchment management by restoring over 1,500 hectares of blanket bog (upland peatland) in the Lake Vyrnwy area.

9

SUPPLY CHAIN AND CAPITAL PROJECT DELIVERY

Insufficient resilience in the supply chain impacts the deliverability of the capital programme (time, cost, quality).



Hafren Dyfrdwy has an ambitious AMP8 capital investment plan to deliver statutory and regulatory obligations, and to fulfil our customers' expectations through delivering improvements across our performance. A specific Principal Risk has therefore been added for our supply chain and delivery of the capital programme, with key mitigating controls summarised below.

Examples of risk mitigation:

- Framework agreements cover multiple contractual partners for a flexible and diverse supply chain.
- Robust, gated capital process provides effective governance and assurance through the project lifecycle. Dedicated quality management and assurance teams perform in-depth reviews.
- Commercial auditing across key contractual activities that are delivered by our supply chain.
- Regular contract reviews and performance meetings, including at Director and Managing Director level, to focus on key performance indicators and drive continuous improvement.
- Regular training for contract management teams.
- Robust verification of the financial stability of our supply chain, including lead measures and dual monitoring through credit agencies.
- Audits on our supply chain for key indicators, such as modern slavery, health and safety and cyber security.
- EcoVadis are used to assess suppliers', to help ensure a resilient and sustainable supply chain.

Viability Statement

Assessment of Current Position and Long-Term Prospects

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

- The Company's shadow RCV gearing is 62.8%, well within Ofwat's acceptable range;
- The Company has sufficient cash and available facilities to fund its financial commitments, including operating and capital expenditure until summer 2026;
- The Company's credit ratings from Fitch are above the investment grade base level and are stable; and
- The Company's defined benefit pension scheme has been de-risked previously via a bulk annuity buy-in and is currently in surplus of £5.3 million.

The Company is a regulated long-term business characterised by multi-year investment programmes and relatively stable revenues. The water industry in Wales and England is currently subject to economic regulation rather than market competition and Ofwat, the economic regulator, has a statutory obligation to secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory functions. Ofwat meets this obligation by setting price controls for five-year 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.

The Final Determination for PR24, the price review for AMP8, was issued on 19 December 2024. We have this in the base case for our assessment of viability for the period to 2030.

When considering the Company's prospects beyond 2030, it is necessary to make assumptions about the price review process for the period 2030-35 ('PR29'), which will take place in 2029. Our key assumptions in this regard are a continuation of Ofwat's approach from AMP8, including the significant step up in investment approved for the next five years. In making this assessment we have also 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 Ofwat's notional capital structure;
- The Company's plans for AMP8, 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 2030; and
- The Company's longer-range plans, set out in our Water Resources Management Plan and Drainage and Wastewater Management Plan.

We have significant investment programmes, funded through customer bills as well as debt and equity finance from our parent company. Our AMP8 Business Plan includes a significant increase in the size of our capital programme. We have made an early start to this and are already operating at the run rate required to deliver the AMP8 programme.

We have an established process to assess the Company's 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 our medium-term plan, which we update annually.

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

Period of Assessment

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

However, the changing nature of regulation of the water industry and the uncertain geopolitical and macroeconomic outlook increase the uncertainty inherent in our financial projections. We have an established planning and forecasting process and the Board 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 AMP8 period in 2030, with less detailed projections looking beyond this.

Whilst a longer period of assessment introduces greater uncertainty because the variability of potential outcomes increases as the period considered extends, Ofwat sets an expectation as part of its PR19 approach that companies should look beyond the end of the next AMP when assessing viability.

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

Assessment of Viability

In assessing our future prospects, we have considered the potential effects of risks and uncertainties that could have a significant financial impact under severe but plausible scenarios. While we have estimated the size of each of the severe but plausible scenarios described below, we have grouped scenarios with similar impact types together and performed stress testing for the scenario with the greatest impact. Where the scenario occurs at a point in time, we have assumed that it occurs at the point in the plan with the lowest headroom.

The risks and scenarios tested are described below.

Risk Assessed	Severe but Plausible Scenario	Stress Tests Applied
Due to the nature of our operations, we could endanger the health and safety of our people, contractors and members of the public.	Serious injury, ill health or death of employees, contractors or members of the public as a result of what we do.	An extreme one-off event.
We do not provide a safe and secure supply of drinking water to our customers.	Catastrophic breach of a large, raised reservoir (>10,000 cubic metres). Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	An extreme one-off event. Totex underperformance in each year of the forecast. ODI penalty in a single year.
We do not transport and treat wastewater effectively, impacting our ability to return clean water to the environment.	An extreme breach in a sludge lagoon at a large sewage treatment works. Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	An extreme one-off event. Totex underperformance in each year of the forecast. ODI penalty in a single year. A financial penalty.
We do not meet the needs of our customers or anticipate changing societal expectations with the level of customer service we provide.	Our customer performance is well below their expectations across a range of measures.	ODI penalty in a single year.
Insufficient resilience in the supply chain impacts the deliverability of the capital programme (time, cost, quality).	Significant increase in capital programme costs. Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	Totex underperformance in each year of the forecast. ODI penalty in a single year.
Core operational capabilities are compromised through physical, people or technological threats.	A cyber attack results in a critical loss of personal data leading to regulatory action.	An extreme one-off event. A financial penalty.
Uncertainty of regulatory, legislative and Welsh Government reforms (including Welsh Language Standards) which could fundamentally impact our operational, environmental and strategic outcomes.	A breach of law or regulations results in a significant one-off penalty. Failure to deliver regulatory obligations and expected performance levels.	A financial penalty. ODI penalty in a single year.

Risk Assessed	Severe but Plausible Scenario	Stress Tests Applied
Our climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain our essential services.	Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	Totex underperformance in each year of the forecast. ODI penalty in a single year.
We fail to positively influence and address the nature and climate emergencies in Wales.	Failure to deliver regulatory obligations and expected performance levels.	ODI penalty in a single year.

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

The amounts of the stress tests applied were:

Stress Test Applied	Amount Modelled
An Extreme One-Off Event	A one-off impact of £150 million at the point in the forecast with the lowest headroom.
Totex Underperformance	An increase in Totex of £6 million in each year of the forecast.
ODI Penalty	A penalty of £2 million in a single year.
Financial Penalty	A penalty of 10% of appointee turnover.
Combined Scenario 1	An increase of Totex of £6 million in each year; An ODI penalty of £1 million in one year; and A one-off impact of £150 million in one year.
Combined Scenario 2	Combined Scenario 1 plus a 10% spike in CPIH inflation.
Higher Inflation for Three Years	10% spike in CPIH followed by two years at 5%.
Lower Inflation in Each Year	Decrease of 2% in CPIH against base case.
Deflation for Two Years	CPIH of -1%.
Higher Interest Rates for Two Years	New debt financed at 4% above base case assumptions.

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

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

Stress Test Applied	Potential Impacts on Viability Without Mitigating Action	Mitigation Available (See Below)
An Extreme One-off Event	Increased gearing and deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Manage liquidity by temporarily reducing working capital. To manage future gearing levels in the future, additional equity investment from the Group would be required. Consider new sources of funding, initially from Group companies, before raising external debt either directly or indirectly from the Group. Short-term waiver required from lenders as there would be a breach in the short term. Reprofile capital programme to ease short term pressure on ratings.
Totex Underperformance	Increased gearing and significant deterioration in credit metrics that, without mitigating action might lead to a downgrade below investment grade. Headroom against debt covenants significantly reduced.	Cost reduction programme focused on reducing discretionary expenditure to support profitability. Manage liquidity by temporarily reducing working capital. Consider new sources of funding, initially from Group companies, before raising external debt either directly or indirectly from the Group. Reprofile capital programme to ease short-term pressure on ratings. Short-term waiver required from lenders as there would be a breach in the short term.
ODI Penalty	The penalty would flow through revenue two years after the performance commitment was breached. Increased gearing and deterioration in credit metrics that, without mitigating action, might lead to a downgrade although still at investment grade.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Short-term waiver required from lenders as there would be a breach in the short term.

Stress Test Applied	Potential Impacts on Viability Without Mitigating Action	Mitigation Available (See Below)
Financial Penalty	Deterioration in credit metrics that, without mitigating action, might lead to a downgrade.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Short-term waiver required from lenders as there would be a breach in the short term.
Combined Scenarios	Significant reduction in profitability and cash flow. Significant increase in gearing and deterioration in credit metrics that, without mitigating action, might lead to a risk of downgrade in credit ratings below investment grade and a breach of covenants.	Engage with ratings agencies and banks to discuss the impacts on ratings and covenants. Manage liquidity by temporarily reducing working capital. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Consider new sources of funding, initially from Group companies, before raising external debt either directly or indirectly from the Group. Reprofile capital programme to ease short-term pressure on ratings. Short-term waiver required from lenders as there would be a breach in the short term. To manage future gearing levels in the future, additional equity investment from the Group would be required.
Higher Inflation	Short term adverse impact to profit, dividend cover and cash. However, in the longer term, higher inflation increases revenue and RCV leading to higher profits and lower gearing.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Reprofile capital programme to ease short-term pressure on ratings. Short-term waiver required from lenders as there would be a breach in the short term.

Stress Test Applied	Potential Impacts on Viability Without Mitigating Action	Mitigation Available (See Below)
Sustained Lower Inflation	Pressure on profit and cash. Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in credit ratings below investment grade and a breach of debt covenants.	Engage with ratings agencies to discuss the short-term nature of the impacts. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Consider new sources of funding, initially from Group companies, before raising external debt either directly or indirectly from the Group. Reprofile capital programme to ease short-term pressure on ratings. Short-term waiver required from lenders as there would be a breach in the short term.
Deflation for Two Years	Pressure on profit and cash in the years following the deflation years, that may sustain in future years. Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in ratings below investment grade and a breach of debt covenants.	Engage with ratings agencies to discuss the short-term nature of the impacts. Consider new sources of funding, initially from Group companies, before raising external debt either directly or indirectly from the Group. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Reprofile capital programme to ease short-term pressure on ratings.
Higher Interest Rates	Reduction in profit. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings below investment grade.	Engage with ratings agencies to discuss the impacts and the regulatory true-up mechanism that would mitigate the impacts in the longer term. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Manage liquidity by temporarily reducing working capital. Consider new sources of funding, initially from Group companies, before raising external debt either directly or indirectly from the Group. Reprofile capital programme to ease short-term pressure on ratings. Short-term waiver required from lenders as there would be a breach in the short term.

The mitigating actions available are described in more detail below:

Mitigating Action	Details
Engage with Ratings Agencies and Banks	While ratings agencies and banks apply formulaic calculations as part of their ratings and covenant assessments, judgment is also applied. Where a threshold for a particular rating is breached or a covenant ratio not met, a downgrade might not be applied or a temporary covenant waiver might be granted if the agency/bank considers the situation to be temporary and likely to reverse in the near future.
Manage Liquidity by Temporarily Reducing Working Capital	We would seek to accelerate collection of amounts receivable with particular focus on overdue accounts. We would work with our suppliers to negotiate longer credit terms where appropriate.
Cost Reduction Programme	We would review discretionary expenditure to identify costs that could be avoided or reduced without a detrimental impact to customer service.
Reprofile Capital Programme	By deferring elements of capital expenditure, we could mitigate the impact of significant events on our cash flow and smooth the effect on key ratios over a number of years, reducing the size of the impact in any one year.
Obtain Short-Term Funding Facilities from Group Companies to Facilitate Long-Term Debt Strategy	The Group has access to a wide range of capital markets and maintains a diverse range of funding sources with an ability to provide short-term financing to the Company while to seeks to acquire its own external debt.

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

Under all scenarios considered, the Company would remain solvent and have access to sufficient funds in normal market conditions.

The Board's assessment has been made on the basis that it expects that sufficient debt or equity finance will be available from its parent company or external sources to finance the Company's investment programme.

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 be addressed by mitigating actions and are therefore not considered threats to the Company's viability.

Governance and Assurance

The Board reviews and approves the medium-term plan on which this Viability Statement is based. The Board also considers the period over which it should make its assessment of prospects and the Viability Statement. The Audit and Risk Committee supports the Board in performing this review. Details of the Audit and Risk Committee's activity in relation to the Viability Statement are set out in the Audit and Risk Committee Report from page 83.

This Statement is subject to review by Deloitte, our External Auditor. Deloitte's audit report is set out on page 108.

Assessment of Viability

The Board has assessed the viability of the Company over a seven-year period to March 2032, 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 2032.

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. This was carried out in conjunction with the consideration of the Viability Statement above.

The Directors have reviewed the cash and committed facilities available to the Company alongside a cash flow forecast extending beyond the period considered for this Going Concern Statement. The Directors have considered the potential impacts, in the period of one year from the date of this report, resulting from the scenarios described in the Viability Statement set out above.

The Directors are satisfied that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and that the severe but plausible downside scenarios considered indicate that the Group will be able to operate within the amount and terms (including relevant covenants) of existing facilities.

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

Spotlight on Sustainability

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

We are a company guided by a sense of 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 environment in Wales. We understand the need to strike the balance between affordability now and the sustainability over the longer term – balancing the needs of people, planet and profit so that we are able to have a positive impact for decades to come.

The Welsh Government declared a climate emergency in 2019 and a nature emergency in 2021. It has stated its ambition to set an example that others will follow. We continue to align our approach to the needs of our local communities and to the Welsh national agenda, to allow for deeper and stronger connections to the customers we serve and create the opportunity for an even bigger positive impact.

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

Our corporate strategy to be ‘performance driven, sustainability led’ acknowledges our relentless drive to deliver the operational and financial performance that our stakeholders expect, in a sustainable way, and we believe this is achieved when you balance the long-term interests of all stakeholders. Our strategy is ambitious, built on an already successful business. From delivery of ODIs to net zero programmes, catchment management approaches to Get River Positive pledges and societal ambitions, our strategy captures and pushes forward our plans to improve our services and the environment.

Working together to care for our estate

Pendinas Reservoir is a publicly accessible site located within Llandegla forest in Wrexham. The quality of the habitat has been declining over recent years for the adder population, which has fewer open and unshaded areas for basking.

In 2024, we entered into a five-year partnership with the Amphibian and Reptile Conservation Trust to establish long-term habitat management and monitoring of adders at the reservoir. Working with the Trust, our Visitor Experience Team and the neighbouring landowner, TilHill, we have successfully cleared heathland of invasive species. Surveys have recorded 103 adders, along with some grass snakes and common lizards, during the first season of management.



Engagement with our Stakeholders

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

This section provides insight into how the Board engages with our stakeholders to understand what matters to them and further inform the Board's decision making and the actions taken as a consequence. You can read more in our formal Section 172 ('s.172') Statement on pages 53 to 56, which sets out our approach to s.172 and provides examples of decisions taken by the Board in the year, including how stakeholder views and inputs have been considered in its decision making.

The principles underpinning s.172 are not only considered at Board level, but they are also part of our culture. They are embedded in all that we do and impacts on stakeholders are considered in the business decisions we make across the Company, at all levels, strengthened by our Board setting the right tone from the top.

Pursuant to the Companies Act 2006, this information is incorporated by cross reference in the Governance Report from page 61. Our Engagement in Action section showcases some of the exciting opportunities we have had throughout the year to engage with our key stakeholders.

We welcome any feedback from our stakeholders.

Why are our stakeholders important to our engagement strategy?

To deliver value for **our customers**, we need to understand their immediate and longer-term expectations of us. As our customers' expectations change, we need to evolve our services to ensure we continue to meet them.

Our colleagues are the face of our company and we could not deliver our services without them, so maintaining productive relationships built on trust is vital to delivering our purpose.

Our work puts us at the heart of local communities, the places where our customers and colleagues live and work. We want to support **our communities** and increase understanding of the impact and contribution our work has on everyday life.

We rely on **our suppliers and contractors** to help us deliver our services. Good relationships help ensure projects are delivered on time, to a high quality and at efficient cost. Awareness of potential issues in the supply chain means that, together, we can address them and become more resilient.

Our regulators and government influence the long-term national water strategy and environmental priorities, which have the potential to impact how all businesses operate.

Engagement in Action: Customers

In serving our customers, we want to provide both value and a great experience. Our engagement with them ensures that we are truly able to understand what matters to them and deliver improvements in service.

As our customers' expectations change, we need to evolve our approach and delivery of our services to ensure we continue to meet them. Everyone who works for, and with, Hafren Dyfrdwy is focused on improving service delivery for customers. Our continuous engagement with them ensures that we are able to understand what matters to them and deliver further improvements in service, both now and over time.

What matters to them	Customer service and performance. Leakage and supply reliability. Affordability and value for money. Assistance in times of need. Responsible investment. Environment, river quality and climate change.
How we engage at Board level	Performance and service delivery are discussed at every Board meeting. Customer perceptions of value for money are reported to the Board. Our Board-approved extensive customer engagement shapes our strategy and AMP8 Business Plan, with Board members attending customer workshops on affordability and acceptability to inform development of our plans. Board members engage with customers and members of the community during visits to public sites.
How we engage across the Company	Regular meetings with CCW Wales and the Welsh Government at management level to discuss issues such as water sector security and resilience, customer experience and affordability. Frequent discussion and consultation with our online customer community. Quarterly tracking of customer perceptions against key indicators including trust and satisfaction. Ensure customers can contact us 24/7 through different channels.
How we deliver on feedback	Developed a Customer Vulnerability Strategy to ensure we are providing extra care support to customers where help is needed. Utilising digital media (website targeting, email campaigns, WhatsApp) to reach more customers to promote knowledge and understanding of our Priority Services Register. Employing more Welsh-speaking colleagues in our Customer Solutions Contact Centre.
Outcomes from engagement	ODI performance in 2024/25 – 68% measures met or exceeded. Over 9,000 customers are now registered on our Priority Services Register, an increase of around 1,500 in the last year.

Hafren Dyfrdwy on tour

We were on the road once again in 2025 to run community sessions and offer advice and support to our customers, and this time we invited Warm Wales to come along for the ride so, together, we could increase our cover of both water and energy matters. The tour took colleagues to venues across Powys and Wrexham and we provided a whole host of useful information to the communities we care for.



From answering queries about bills and the support schemes on offer, to discovering more about water saving devices and the benefits of switching to a water meter, everyone was invited to say hello and have a chat, as well as having the opportunity to meet 'Dilys', our community vehicle.

“ We want to make sure that all Hafren Dyfrdwy customers know what help, advice and support is out there for them. We have lots of options available for those who may now find themselves in different circumstances, and we also provide additional services to those who may benefit from being on our Priority Services Register. ”

Louise Moir, Hafren Dyfrdwy Customer Experience Lead



Supporting a customer at our monthly customer clinic at Newtown Job Centre.



Working collaboratively with partners including Warm Wales to offer a series of regular drop in sessions at the Wrexham Wellbeing Hub during the winter.

Engagement in Action: Communities

In line with the Future Generations Act, we want to work together to improve our environment and encourage healthier and more cohesive communities. Our aim is to be a force for good in the communities we serve and, in doing so, create value for all our stakeholders.

We have a unique link to the communities we serve. The vast majority of our colleagues and their families live and work in these communities and are also our customers. Everyone who works for Hafren Dyfrdwy wants to support our communities and feel a sense of pride in the essential services we deliver to the families, businesses and communities in our region – which is why our purpose is to take care of one of life's essentials. We work hard to provide our essential services to our customers 24 hours a day, 365 days a year.

What matters to them	Operational impact and potential disruption. Local employment. Economic contribution. Protection of the environment. Cost of living pressures.
How we engage at Board level	Employees who live and work in our communities met members of the Board during the year at site visits and through scheduled events. The Board supported the continuation of the Hafren Dyfrdwy Community Fund during the year, which continues to receive extensive interest due to increasing costs for both individuals and organisations. The Board, in conjunction with the Board of Dŵr Cymru Welsh Water, has developed a shared Vision for 2050, as a first step to enhancing our collaborative approach to water and wastewater services in Wales. Environmental and sustainability matters are regularly considered by the Board.
How we engage across the Company	Regular meetings with NRW and other key stakeholders to discuss environmental and regulatory matters. Regular attendance at the Wales Land Management Forum, Agri-Pollution sub forum with NRW and other key water sector organisations to discuss Agri-pollution regulations. Regular engagement with Government officials and elected representatives on water and environment related issues. Our people volunteer through our Community Champions programme, working to improve our communities and environment. Engagement with the UK Water Industry Group to discuss water poverty.
How we deliver on feedback	Hosted sessions out in the community to share water saving advice and promote the support we can offer those struggling to pay their bills. Attendance at careers fairs, schools and prisons to provide advice on employment skills.

Outcomes from engagement	£50,000 was awarded to six organisations supporting our communities through our Community Fund in 2024/25. External recognition of the positive work we are doing in our local communities.
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Finalists at Careers Wales Valued Partner Awards

The Community Team was shortlisted in the Outstanding Achievement category in the Careers Wales Valued Partner Awards, for the employability work we have been doing in the schools across our region.

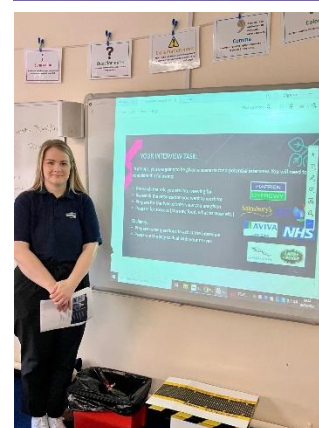
This nomination is positive recognition of the community work being carried out by Hafren Dyfrdwy.



Careers presentation at St Josephs School



Careers fair at Ysgol Morgan Llwyd



Delivering an interview workshop at Ysgol Rhiwabon

Part of the community

“ Here at Hafren Dyfrdwy, it's really important to us that we work closely with our local communities. Whether that's providing face-to-face support for customers who might need some help with their bill, inspiring the next generation with employability initiatives and education sessions or generally just getting behind local events in our patch that we know foster great community spirit, we want to be involved with it all! Engaging with the community is extremely rewarding as we get to meet local people who we can help in many different ways, it means we can build relationships and work closely with those around us. I'm extremely passionate about the work I do in my role, I love meeting with new people and helping make a difference in our community! ”

Lucy Bates, Community Connector

The below provides examples of some of the many community activities Hafren Dyfrdwy has been involved with during the year.



Llangollen Eisteddfodd



Careers Fair at HMP Berwyn



Keeping runners hydrated at the halfway point of the Wrexham 10k



Taking part in Wauns Carnival, Wrexham



Supporting the midnight walk by providing water bottles and water stations on the route



Attending a North Wales Police event at Christmas for elderly people in the community in Penycae

Engagement in Action: Colleagues

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.

The culture of our organisation is critical to our success. Our people are highly engaged across our organisation, supported by an open and trusting environment that fosters collaboration. We offer opportunities for all of our colleagues to contribute ideas and suggestions and express their perspectives.

What matters to them	Health, safety, and wellbeing. Diverse and inclusive workplace. Opportunities to reach full potential. Open and honest environment. Fair pay and reward.
How we engage at Board level	Individual Board members attend the Company Forum and Colleague Network groups and feedback on discussions at subsequent Board meetings. ‘Meet Our Board’ events provide a platform for colleagues to engage informally with Board members in person. The Board undertakes site visits to meet colleagues in person and discuss their experiences first hand. Employee culture and engagement are discussed at Board meetings. Diversity and inclusion are regularly considered by the Board. The Board considers employee engagement survey results and the steps taken to address feedback.
How we engage across the Company	In addition to Board attendance, our Company Forum brings together employee representatives at quarterly meetings, including Trade Union representatives. Continual communication to employees on mental and physical health awareness. Employees are invited to attend the all-colleague roadshows held throughout the year and senior leaders attend our leadership events.
How we deliver on feedback	Further developed our Colleague Network groups and refreshed our Diversity and Inclusion Strategy. Established a Local Business Forum to provide our employee and Trade Union partners with a setting to express concerns, raise issues and make suggestions for improvement and work together in partnership.
Outcomes from engagement	Our annual employee engagement survey score of 9.0 out of 10 ranked us in the top quartile of all UK businesses and in the top 5% of energy and utility companies globally.

	Improved working environments through redesign and refreshment of existing office spaces, to address employee engagement survey feedback. Finalist for the Employee Engagement Award at the Wales Business Awards 2024.
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Meet Our Board

During the year, we held another of our popular ‘Meet Our Board’ events, which provide an opportunity for Board members to engage with Hafren Dyfrdwy employees in person. Colleagues were invited to interact with Board members in an informal setting, thereby providing a further opportunity for the Board to engage with our people and gain an appreciation of the Company’s culture. In return, colleagues had the chance to get to know individual Board members and find out more about the Board’s role.



“ As a new Board member, I was struck by the passion, commitment and immense pride that all colleagues had for our business. Their honesty and forthright views on culture, process improvement, customer and community was a breath of fresh air. It was interesting and inspiring to hear views and I will ensure I reflect those back into the boardroom. ”

Iain Mansfield, Independent Non-Executive Director

Employee engagement

Our annual employee engagement survey helps us to understand what is going well and where we can improve. The survey is conducted by an independent research company to ensure the results are anonymous. The Board believes that our strong values and culture are a unique strength and there are resulting benefits in employee engagement, retention and productivity, which is why questions around our purpose, values and culture feature heavily within our employee engagement survey. It is clear from the results that our purpose and values strongly resonate with our employees, as demonstrated by the overall employee engagement score this year of 9.0 out of 10 – an improvement of 0.1 from the prior year – which places us in the top quartile of all UK businesses and in the top 5% of energy and utility companies globally.

Company Forum

Providing opportunities for our employees to stay connected with the direction of the Company and be involved in business decisions is a key part of our culture. Our Company Forum facilitates this in a structured way.

The Company Forum meets at least four times a year and attendees are invited from Trade Unions, all leadership levels, the Executive Committee and the Board. Through the Company Forum, we engage with employees on all ways of working and matters of strategic significance to the Group, to ensure employee views are considered. Board members are invited to attend and participate at meetings, to listen to discussions and to talk about their areas of responsibility and interests.

The agenda is wide ranging and topics for discussion this year have included: PR24 Draft and Final Determinations; our annual employee engagement results; our Women's Welfare programme; occupational health; learning and training at our Severn Trent Academy and company-wide initiatives such as diversity and inclusion strategies. Regular updates are also provided on Group performance, financial results and significant change programmes.

Company Forum attendees feedback consistently on the value that they get from Board member attendance, and the Trade Union national officers highlight how different this is to the experience that they have in other organisations.

Customer Solutions Contact Centre Visit

The Chair officially opened the refurbished Customer Solutions Contact Centre at our head office in Packsaddle in March 2025.

Despite Customer Solutions colleagues being a highly engaged team, with an engagement score of 9.1 (out of 10), the main area of consistent feedback from the team was around their working environment.



The team is 100% office based and therefore it was important to create a working environment where they could thrive and provide outstanding service to our customers, day in and day out.

Read more about the Board's site visit on page 75.

Engagement in Action: Suppliers and Contractors

Along with our employees, our suppliers support us in delivering for our customers. Strong supplier relationships help ensure projects are delivered on time, to a high quality and at efficient costs. Our geographic area contains many small suppliers, and we recognise that fostering relationships with them is vital to the communities we serve.

We recognise that supplier engagement is integral to our success. We maintain an open, ongoing dialogue with our suppliers through regular formal and informal meetings to discuss projects and performance, supported by collaborative interactions at a working level.

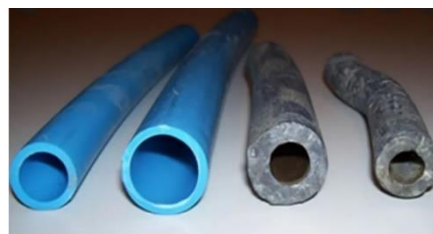
Benefits from our strong supplier engagement include: ensuring a resilient supply chain; being able to share knowledge and expertise to find the right solutions for our customers; ensuring continuous sustainable development; and developing responsible business strategies. Our enduring relationships with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

What matters to them	Health and safety. Fair engagement and payment terms. Collaboration. Responsible supply chain – sustainability and environmental matters. Stability of work. Reputation.
How we engage at Board level	Commercial performance discussed at Board meetings, including updates on relationships with suppliers where appropriate. The Board receives updates on the Company's capital programme and work undertaken to meet regulatory commitments. The Board has oversight of our Supplier Code of Conduct and endorses the Group's Anti-Slavery and Human Trafficking Statement.
How we engage across the Company	Meetings with suppliers at the outset of the relationship to agree on performance metrics and ensure continual monitoring of performance; supplier questionnaires and satisfaction surveys/stakeholder materiality surveys. Regular meetings with our suppliers, including training on modern slavery and our Code of Conduct, Doing the Right Thing. Audits and inspections of suppliers. Periodic performance and commercial reviews. Regular supplier conferences. Supplier whistleblowing 'Speak Up' hotline.
How we deliver on feedback	Commercial strategy to buy local and buy Welsh wherever possible, and to ensure a tailored service for Hafren Dyfrdwy. Scheduling of a dedicated Supplier Events in recognition of the proportionately large capital programme to be delivered in AMP8 and the focus on providing work to local supply chains where practicable.

Outcomes from engagement	We use Sell2Wales as an additional tender platform, and where appropriate, we also use Business Wales to promote our requirements in Wales. We have increased the number of contracts in place with local suppliers, across a variety of categories including plant hire, facilities management, tankering and construction. For our Capital Programme, we utilise local suppliers to support in areas such as electrical and civils works but given the nature of treatment process design or more complex projects we still need to complement this with larger, specialist national contractors. However, where national suppliers have been contracted, they have often chosen to create local bases and jobs in our region. All contracted suppliers are required to sign up and operate in line with our Supply Chain Sustainable Charter and support our Scope 3 net zero targets.
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Lead Free Wales

For the fifth consecutive year, Hafren Dyfrdwy has not only met the Ofwat target but has also surpassed the Company's ambitious goal for the Lead Free Wales initiative, marking a complete success for AMP7. This brilliant example of collaborative working across departments and external contractors has facilitated the replacement of lead pipes for customers, contributing to enhanced water quality in Wales and making a real tangible difference to the lives of children across the patch.



Hire vehicles and fleet management

Hafren Dyfrdwy has enhanced its operational hire fleet by partnering with alternative supplier AN Richards, delivering improved vehicle availability and service. Notably, the new vehicles are 'Hydrotreated Vegetable Oil ready', positioning Hafren Dyfrdwy to increase its alternative fuel capability from 1% to 9% of the operational fleet – supporting future sustainability goals as infrastructure evolves.

Origin – innovative no-dig leak repair with minimal disruption



Origin is a groundbreaking no-dig solution designed to significantly reduce the disruption typically associated with traditional leak repairs. By eliminating the need for excavation, traffic management, and highway permits, Origin offers a faster, more cost-effective alternative to conventional methods.

This innovative technology can be deployed in approximately 15 minutes directly through a boundary box, enabling near-instant leak containment – without the need for road closures. While intended as a temporary fix to allow for further investigation and planning, many early adopters have reported repairs lasting over a year.

Origin not only helps reduce leakage but also supports improved customer ODI performance and minimises community disruption through reducing the need for excavation, permitting and traffic control.

Engagement in Action: Regulators and Government

The policy framework for the water sector in Wales is set by the Welsh Government. We seek to engage constructively and proportionally to achieve the best outcomes for customers and the environment.

Below the policy framework, our industry is regulated by Ofwat and others. We agree commitments with our regulators and continually report our performance against these.

Our relationships with the Government, our regulators and other agencies support us in ensuring that we deliver for our customers, communities and the environment, whilst investing in a responsible way and providing value-for-money services to our customers.

We continue to maintain a positive relationship with our economic regulator, Ofwat, grounded in our consistently strong performance for customers and all of our stakeholders.

What matters to them	Outcomes for customers, the environment and long-term operational and financial resilience. Performance against regulatory targets. Trust and transparency. Governance and compliance. Environmental impact. Sustainable procurement.
How we engage at Board level	Regulatory matters are regularly considered by the Board, including the Drought Plan, WRMP, National Environment Programme and scheme of wholesale charges. To deepen Board level understanding of our regulators, regulatory stakeholders meet with Board members and attend Board meetings and events. Regulatory consultation updates are considered by the Board. Annual attendance at the Wales Water Forum with representatives from the Welsh Government as well stakeholders from NRW, CCW and DWI. Members of the Board attend the Wales Better River Quality Taskforce meetings with members of NRW, Welsh Government, Dŵr Cymru Welsh Water and Ofwat.
How we engage across the Company	Regular meetings with our regulators at management level including with Welsh Government, Ofwat, NRW, CCW and DWI. Regular engagement with Government officials and elected representatives on water and environment related issues.

How we deliver on feedback	Sharing knowledge and expertise to find solutions and opportunities for innovation. Shared commitment to improve river water quality by 2030. Ofwat provided its Draft Determination for our PR24 Business Plan in mid-July 2024 and our response was submitted in August 2024.
Outcomes from engagement	Ofwat published its Final Determination in December 2024, which the Company accepted, following Board approval, in January 2025. Stakeholders undertaking site visits gain increased knowledge and experience of the Company's operations and performance.

Visits from Members of the Senedd

Colleagues have recently hosted two Members of the Senedd for the North Wales region: Llŷr Gruffydd MS and Mark Isherwood MS.

Both visits took place at Llwyn Onn Water Treatment Works, with Llŷr and Mark given a tour of the whole site where the end-to-end water treatment process was explained.

Along with demonstrating the treatment process, the team talked about all the investment that had taken place since 2013, when the works were completely rebuilt providing a new site to serve the Wrexham area, and our future investment plans for AMP8.

Other topics that were touched on included the apprentice programme, which many of the team had come through themselves, site security, water resource planning for the future and the support offer to customers with their bills and the Priority Services Register.



Mark Isherwood, MS for North Wales, visits Llwyn Onn Water Treatment Works



“ We are always pleased to welcome Members of the Senedd to our water treatment works and introduce the team. It's a chance to show the hard work that goes into treating water to the highest standard by the team for our customers, and ensuring our customers have water when they need it. It's also great to be able to highlight the huge amount of investment that has gone into the works over the past few years and really show how that work has greatly benefitted the Wrexham area. ”

Craig Williams, Hafren Dyfrdwy Water Treatment Lead

Our People

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

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

This section is dedicated to showcasing our people and our culture. You can read more about how we have listened to and engaged with our colleagues on pages 40 to 42.

Keeping our People Safe and Well

We believe passionately that no one should be hurt or made unwell by what we do. We experienced one lost time incident during the year 2024/25, relating to someone falling into an excavation on a water treatment site, causing injuries to their legs and hands. The organisation has worked collaboratively over the last year to review and revamp the health and safety focus and culture in the Company. Our dedicated Hafren Dyfrdwy Health and Safety Forum, comprising representatives from across the business, continues to meet regularly to create and monitor progress of the Hafren Dyfrdwy Health and Safety Plan, to understand common practices across business areas and to share best practice.

‘Wonderfully you:’ Our Approach to Diversity and Inclusion

In September 2024, we refreshed our Group Diversity and Inclusion Strategy, ‘Wonderfully you’, to support our AMP8 Business Plans.

When we look at the next five years for our businesses, valuing diversity and ensuring our people are included and able to do their best work, is not just something that’s nice to have, it is a must have. It helps us to deliver for our customers and do right by our communities.

Our diversity plan

By employing, valuing and investing in a range of local talent who have different backgrounds, experiences and perspectives, we can build a skilled workforce that can really understand and empathise with all our customers and communities, and deliver our services in the way they want them.

Our diversity plan is focused on where it will help us to:

- **Provide great customer service**, by having a broad range of people in our teams, who can really understand and empathise with our customers.
- **Address skills gaps**, by inspiring the widest range of people to come and work with us, especially where skills are scarce.
- **Support our communities** by helping people from all backgrounds into work or by giving them the skills, confidence and support they need to build their careers here or elsewhere.

Measuring our progress on diversity

We are moving away from overarching workforce diversity targets so we can focus on the areas that matter most for the Group’s AMP Business Plans and where diversity will help us to make better decisions, provide a great customer service, address skills gaps, and support

our communities. So, we are targeting leadership and new hire diversity as set out in the below tables, alongside our performance as at 31 March 2025:

Leadership Ambition (Target)	Hafren Dyfrdwy Executive Committee	Hafren Dyfrdwy Business Leaders	Hafren Dyfrdwy People Managers
Gender-balanced (no more than 60% of one sex)	63.6% female	66.7% female	40.0% female
	36.4% male	33.3% male	60.0% male
3.1% minority ethnic (as per our community)	18.2% minority ethnic	0.0% minority ethnic	0.0% minority ethnic

New Hire Ambition (Target)	New Hires
35% female (challenging for us, when our industry is 34% female overall)	23.5% female
	76.5% male
3.1% minority ethnic (as per our community)	0.0% minority ethnic 41.2% not declared

Our inclusion plan

We are united by our purpose of taking care of one of life's essentials and making a difference to our communities. When we collaborate with each other by valuing the difference each of us brings to Hafren Dyfrdwy, we can do our best work.

Our inclusion plan is focused on individuals.

Inclusion is much more than labels, we are all more than one thing, that is why we focus on individuals, what they need to do their best work and the unique experiences and perspectives each Hafren Dyfrdwy colleague brings that makes them brilliant at what they do.

Our values guide our behaviours, we listen to each other, talk things out and work together respectfully. Our colleagues share what has shaped them (big or small) and how it helps them at work, through our 'Wonderfully me' stories.

To support our colleagues, we have a range of colleague networks (including armed forces, Armed Forces, Disability, Ethnicity and Cultural Heritage, LGBTQ+ and Women's) and our Academy offers a wide range of online and face-to-face diversity and inclusion learning, including menopause and neurodiversity awareness sessions.

Measuring our progress

We measure our progress on inclusion through what our people say in our annual employee engagement survey. Our ambition is to be in the top 5% for engagement and inclusion, with parity in engagement scores across characteristics, which we achieved in 2024/25, with an overall engagement score of 9.0 and inclusion score of 9.4 out of 10.

A breakdown by gender of the number of persons who were Directors of the Company, senior managers, as defined in the UK Corporate Governance Code 2018 (the '2018 Code') and Companies Act 2006, and other employees as at 31 March 2025 is set out below, along with details of ethnicity representation within these same groups.

Gender Representation as at 31 March 2025

	Directors		Senior Leaders*		Graduates and Apprentices		All Employees	
	No.	%	No.	%	No.	%	No.	%
Male	5	62.5	-	-	5	83.3	180	76.6
Female	3	37.5	-	-	1	16.7	55	23.4
Not Specified/ Prefer Not to Say	-	-	-	-	-	-	-	-

Ethnicity Representation as at 31 March 2025

	Directors		Senior Leaders*		Graduates and Apprentices		All Employees	
	No.	%	No.	%	No.	%	No.	%
White British or White (inc. Minority White Groups)	6	75.0	-	-	6	100	211	89.8
Mixed/Multiple Ethnic Groups	1	12.5	-	-	-	-	-	-
Asian/Asian British	-	-	-	-	-	-	-	-
Black/African/Caribbean/Black British	-	-	-	-	-	-	-	-
Other Ethnic Group	1	12.5	-	-	-	-	-	-
Not Specified/ Prefer Not to Say	-	-	-	-	-	-	24	10.2

* During 2024/25, there were no employees within Hafren Dyfrdwy that met the definition of 'senior management' under the 2018 Code and Companies Act 2006, therefore we cannot report ethnicity and gender data in this regard.

Recruitment

Our in-house recruitment model continues to deliver strong results, enabling us to attract and retain high-quality talent from the communities we serve. By engaging directly with candidates, our recruitment team effectively communicates our purpose and culture right from the first contact, helping us connect with individuals who share our values and vision.

Developing and Retaining Talent

We continue to recognise the importance of developing our people, particularly in areas relating to critical operational skills. The Severn Trent Academy opened in Coventry during February 2021, supporting the Group's ambition to be socially purposeful in all that we do, giving back to the communities we live and work in, and providing opportunities for people,

including all Hafren Dyfrdwy colleagues, to learn, retrain and develop with us in our industry. Read more about the Board's site visit to the Academy on page 74.

The Academy training syllabus continues to evolve and now contains a suite of over 600 training interventions across multiple disciplines, including the launch of our first water treatment apprenticeships on our in-house programme.

Throughout 2024/25, the Academy has delivered 3,668 learning events, accounting for over 231,539 hours of instructor-led training. This training has ranged across all five of its learning streams, as well as development days for teams from across the Group, and discovery events for communities and schools.

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

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

Hafren Dyfrdwy has been involved in a new initiative to expand training opportunities as part of the Academy's continued commitment to promote local learning. Specific training needs are in the process of being identified so that local sessions can be facilitated through bringing trainers directly to learners, rather than requiring travel to the Academy. This will not only enhance learning accessibility but will also help reduce mileage, supporting our broader commitment to lowering our carbon footprint.

Apprentices

We are proud of our successful apprenticeship programmes and the proportion of apprentices who stay in employment with the Company once they have finished their courses.

By way of example, around 30% of our Water Treatment front line workforce comprises ex or current apprentices.



Hafren Dyfrdwy provides a range of career pathways for both young and older people looking to retrain.

Meet Chris the Apprentice



Chris, 36, had been a lorry driver for eight years, but after starting a family and wanting to find a better work life balance, he applied to become an apprentice with Hafren Dyfrdwy.

It was not an easy decision to make for Chris, who admits it was his age that put him off starting an apprenticeship initially: "It was my partner who first mentioned about getting an apprenticeship, but I didn't even really consider it initially because of my age, I always thought I would be too old to even apply."

After a lot of consideration, Chris decided to go for it and had seen apprenticeship opportunities at Hafren Dyfrdwy and it looked like the perfect opportunity: "The role itself looked good and I knew it was something I'd enjoy. One of my friends works at Hafren Dyfrdwy and they mentioned how much they enjoyed it and how good the company was to work for, so I just went for it."

Since then, Chris has not looked back and has found a place where he feels supported:

"The company are so invested in their workforce, and the work life balance is something I didn't have before as a lorry driver you're working really long hours and don't really get the chance to enjoy life. Now though, I'm spending so much time with my family and am much happier, even my partner has noticed it."

The happiness, Chris says, is from how much care the company has shown him since he started: "The company are so invested in their workforce and I know they genuinely care about me as a person. Everyone has been so inclusive, and I have never felt once that I have been judged because of my age, we're all on the same page and want to make our working lives better, and that comes through from everyone I've worked with since I started."

Starting an apprenticeship at 36 is what Chris says makes him feel most proud, as deciding on a career change is quite a big life decision: "I think since I have started my apprenticeship it's given me the drive and determination to learn new things again, it's only been five months, so I'm excited to learn new skills and being able to put my college work into practice."

When asked about the advice he would give to anyone thinking about starting an apprenticeship, Chris says it really feels like a no-brainer: "I don't think you can go wrong with an apprenticeship, especially at a company like Hafren Dyfrdwy, they're great for someone looking to start a career or make a career change."

"I thought I was past it, but this apprenticeship has shown that I'm not."

Listening to our People

Providing opportunities for our employees to stay connected to the direction of the Company and be involved in business decisions is a key part of our culture and we are always looking for new and different ways for the Board to engage with employees from across the business. You can read about how we have engaged with our employees throughout the year on pages 40 to 42.

Fairly Rewarding our People

Fairness and equality are fundamental components of our culture, and ones which are mirrored in the approach we take to rewarding our people. At the date of this report, we

remain in negotiations with Trade Unions to agree the 2025 pay increase for the wider workforce which is fair for all stakeholders, but we expect this to conclude over the summer.

Remuneration

The Company Remuneration section within the Directors' Remuneration Report of the Severn Trent Plc Annual Report and Accounts 2025 sets out the steps we take to make sure that our pay and reward framework, below Executive and senior management, is transparent in a way that is meaningful and useful.

Freedom of Association and Collective Bargaining

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

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

Human Rights and Modern Slavery

We are committed to protecting the human rights of our employees and contractors, as outlined 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 a range of Group policies which are well-embedded across the Group, covering Human Resources, Anti-Bribery and Anti-Fraud, Whistleblowing ('Speak Up') and Procurement, as well as a Modern Slavery Escalation and Remediation Policy. We also publish annually a Group Anti-Slavery and Human Trafficking Statement. We consider this approach goes above and beyond a human rights policy.

We know modern slavery is a growing global issue which is why we remain fully committed to protect against the risk of modern slavery in our Group and supply chain. In common with companies in our sector, our highest risk is within our supply chain and, as such, we work closely with our suppliers to ensure they operate to the same standards we set ourselves and ensure the risks involved in their own supply chains are understood and mitigated. All suppliers are required to sign up and operate in line with our Code of Conduct, which clearly sets out a zero-tolerance approach to modern slavery, and this requirement is built into our procurement tender process.

We provide our supply chain partners with access to a wide range of learning resources, including dedicated modern slavery awareness training for all organisations within the Group's supply chain.

Our mandatory training for colleagues, senior managers and Board members continues to operate efficiently, and our partnerships with Slave-Free Alliance, the Supply Chain Sustainability School and Utilities Against Slavery help support this.

The Group's Anti-Slavery and Human Trafficking Statement can be found on the Hafren Dyfrdwy website.

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 considered in detail by the Board.

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

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

The differing interests of stakeholders are considered in the business decisions we make across the Company, at all levels, and are reinforced by our Board setting the right tone from the top.

All of the Board's significant decisions are subject to a s.172 evaluation to identify the likely consequences of any decision in the long term and the impact of the decision on our stakeholders.

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

In performing their duties during 2024/25, the Directors have had regard to the matters set out in s.172 of the Companies Act 2006.

Examples of decisions taken by the Board and how stakeholder views and inputs, as well as other s.172 considerations, have been considered in its decision making are detailed on the pages that follow.

Our approach below sets out how the Board is supported in carefully considering all the relevant factors that lead to its selection of the best course of action to ensure the long-term success of the Company.



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

Key Topic	PR24 Business Plan – Acceptance of the Final Determination	s.172 Consideration	◆◆◆◆◆
Context On 2 October 2023, we submitted our PR24 Business Plan for 2025-30, setting out the progress we will make over the next five years towards the 2050 aims set out in our Long-Term Delivery Strategy. Ofwat published its Draft Determination in July 2024 and its Final Determination in December 2024. The Board had previously invested a significant amount of time preparing for PR24, including understanding the way in which the Company can deliver positive customer outcomes and greater environmental enhancements, drive improvements through efficiency and innovation, and increase focus on the long term. To inform this activity, Directors spent time engaging with a range of stakeholders, including customers, regulators and other stakeholders, to listen to and understand their views and priorities and potential impacts of the Company's PR24 Business Plan on them. The Company's PR24 Business Plan was then developed in full consideration of these discussions, which were also incredibly useful when considering the response to the Draft Determination and whether to accept the Final Determination. Read our full PR24 Business Plan on the Hafren Dyfrdwy website and Ofwat's Draft and Final Determinations on the Ofwat website.			
Consideration of s.172 impacts by the Board in its decision making Long-term Decisions: The Board was cognisant that the PR24 Business Plan would set the Company's cost allowances and performance commitments for the next five years and therefore a successful price review was an important factor in Hafren Dyfrdwy's long-term success. Customers: Potential impacts on customers were central to Board discussions in view of its existing commitment to keep bills affordable for all customers whilst also delivering improved resilience, sustainability and enhanced customer outcomes. Insights gathered from customer feedback were considered in producing the plan, in responding to the Draft Determination and in deciding whether to accept the Final Determination. The Board resolved to accept the Final Determination on the basis that it would provide the funding needed to enact the planned service improvements for customers, whilst also providing affordability support for those who may need it. Community / Environment: Our research established that protecting the environment was a high priority for customers, particularly around biodiversity and natural habitats. This research helped to inform the Board's priorities for what the PR24 Business Plan should aim to deliver, in addition to what the Board already knew in relation to support of communities through affordability schemes and the Community Fund. It also informed the £11 million enhancement in relation to storm overflows proposed in the Draft Determination, which was accepted by Ofwat in the Final Determination.			

Employees / Suppliers: The Board considered the Company's workforce and supplier partners in terms of delivering the PR24 Business Plan, which included a proportionately large capital programme in AMP8 and would therefore provide work to the local supply chain. The Board considered deliverability of our plans, taking into account the feedback received from partners within our supply chain and the plans to continue to utilise in-house resource, in addition to a wider pool of resource available from the Group via our Operational Services Agreement and the local businesses that we have built strong links with over the years.

Regulators: Board members held frequent meetings with its regulators throughout the development of the PR24 Business Plan and during the Draft Determination stage to ensure that their perceptions of our performance were factored into development of our plans. The Board discussed the PR24 Business Plan and its potential to deliver proportionately large RCV growth in AMP8.

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

At all stages in the business planning process, the Board considered carefully the Company's Long-Term Delivery Strategy, with a 25-year time horizon. As part of this activity, the Board discussed the impact of the PR24 Business Plan, Draft Determination and Final Determination on every aspect of our strategic planning frameworks, statutory environment programmes and planned enhancement activities, accounting for potential future uncertainty to test the various PR24 Business Plan propositions. This process gave the Board confidence that the PR24 Business Plan, and representations made in response to the Draft Determination and the Final Determination, aligned with the Company's long-term strategy and, as such, supported the long-term sustainable success of Hafren Dyfrdwy for the wider benefits of its stakeholders, both now and over time.

Key Topic	Customer Vulnerability Strategy	s.172 Consideration	◆◆◆◆
Context The Company's regulator, Ofwat, defines a vulnerable customer as "a customer who, due to personal characteristics, their overall life situation or due to broader market and economic factors, is not having reasonable opportunity to access and receive an inclusive service which may have a detrimental impact on their health, wellbeing or finances". In February 2024, the new customer-focused licence condition ('Licence Condition G') came into effect, which outlined service expectations which included the 'service for all' vulnerability guidance. In developing our Customer Vulnerability Strategy, the Company engaged with key stakeholders, including Ofwat, CCW, local community stakeholders and local authorities, to listen to and understand their views and the challenges they face. The Customer Vulnerability Strategy was then developed in full consideration of these discussions, with the objective of addressing vulnerability in our region.			
Consideration of s.172 impacts by the Board in its decision making Customers: The Board has a continual focus on customer service, through standing updates at every Board meeting complemented by deep dives into customer topics throughout the year. As such, the Board approaches all the decisions that it takes with a firm understanding of the customer lens and potential consequences of strategic decisions on customers. In developing the Company's Customer Vulnerability Strategy, the Board			

applied particular focus to changing customer needs as a consequence of life challenges, life changes and our services. In shaping the strategy, the Board considered:

- the support that customers needed now, and in the future – such as financial assistance schemes and smart metering to make bills more affordable;
- services that the Company currently provided to meet customer needs – and where services could be enhanced in the future – such as further growth of the Priority Services Register, ensuring the Company was accessible to vulnerable customers;
- the accessibility of the Company's services – including the critical role of data to identify customers, and ensuring that customers had simple experiences when they needed the Company's support; and
- holistic support for our communities through the Company's continued investment in our communities to create employability opportunities and give life skills to boost customer incomes.

Board discussions were supported by real-life case studies of vulnerable customers and these considerations are reflected in our Customer Vulnerability Strategy.

Regulators: The Board seeks to foster a positive relationship with its regulators, including Ofwat. In developing and agreeing the Company's approach, the Board considered carefully regulator expectations in relation to customer vulnerability, with a particular focus on Licence Condition G, which sets out five key objectives:

- Provide a high standard of service and support;
- Develop services that are inclusive by design;
- Identify customers who need extra help;
- Record their needs; and
- Develop and implement vulnerability strategies.

The Board scheduled two dedicated sessions on the Customer Vulnerability Strategy to scrutinise management's approach to meeting regulatory expectations and to ensure regulatory feedback was addressed satisfactorily. As outlined above, notwithstanding the regulatory requirements, the Board's activity was primarily focused on improving the support for customers who need extra help accessing our services.

Communities: In developing our Customer Vulnerability Strategy, the Company engaged with a range of community stakeholders, including community groups, local authorities, schools and councillors, to listen to and understand their views and the challenges they face. The Customer Vulnerability Strategy was then developed in full consideration of these discussions, with the objective of addressing vulnerability in our region.

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

Our Customer Vulnerability Strategy seeks to outline the support and services offered to customers in vulnerable situations, particularly those who need extra help accessing our services.

The strategy sets out our approach to tackling holistic vulnerabilities, ensuring that our services are accessible for all – particularly those who need help – and we continue to push forward with our commitments to improve our offering within our region.

You can find more details on the Hafren Dyfrdwy website.

Non-Financial and Sustainability Information Statement

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

Reporting requirement	Policies and standards which govern our approach	Additional information and risk management
Stakeholders	Our Group Customer Policy outlines how our people are responsible in ensuring we keep our promises to our customers and deliver great customer service. Our Group Data Protection Policy supports our people in taking responsibility for protecting our employee and customer data whilst considering and implementing the commitments made within the policy when performing their work and making decisions. Our Group Commercial Policy outlines what is expected of all those involved in procurement activities, enabling them to uphold our values of acting with integrity and putting our customers first. Complying with this Policy enables employees to maintain proper standards of fairness and integrity in business relationships with colleagues and suppliers.	Stakeholder Engagement – pages 34 to 46 Section 172 Statement – pages 53 to 56 Board Activities – pages 72 to 75
Environmental Matters	Our Group Environment Policy supports our environmental plans and our commitment to environmental leadership. It sets out guiding principles of how we as a Group operate to protect the environment and the commitments our people need to consider when performing work activities and when making decisions.	Stakeholder Engagement – pages 34 to 46 Section 172 Statement – pages 53 to 56 Severn Trent Plc 2025 Annual Report: - Running a Business that Goes Hand-in-Hand with Nature (covering TCFD, TNFD and Net Transition Plan) – pages 28 to 59 - Corporate Sustainability Committee Report – pages 129 to 130 More information on the Group's approach to Sustainability can be found at www.severntrent.com
Employees	Our Group Health, Safety and Wellbeing Policy outlines what is expected of employees as regards health, safety and wellbeing, ensuring that no one gets hurt or made unwell	Culture – pages 7 to 8 Our People – pages 47 to 52

	by what we do. This policy extends to anyone employed by, or who carries out work on behalf of, Severn Trent Plc and its Group companies, contractors, temporary staff and agency workers. Our Group Speak Up Policy demonstrates that we truly believe that our values are an essential and vital part of the life and culture of the Group, and that is why we take seriously any reports about illegal practices or inappropriate conducts within our company. We hold ourselves to the highest ethical standards and encourage our colleagues to Speak Up if they are worried about wrongdoing affecting our company, customers, colleagues or suppliers. Our Group HR Policy outlines our commitment to maintaining a work culture that is diverse and inclusive, that's supportive and nurturing, and which makes the most of everyone's growth potential. We also protect the human rights of all of our colleagues.	Stakeholder Engagement – pages 34 to 46 Governance Report – pages 61 to 96 Audit and Risk Committee Report – pages 83 to 92 Directors' Remuneration Report – pages 93 to 96
Respect for Human Rights	We are committed to doing all we can do ensure that modern slavery does not exist in our supply chain and our Group Anti-Slavery and Human Trafficking Statement is available on the Hafren Dyfrdwy website. As set out in our Group Diversity and Inclusion Policy, Wonderfully You, we celebrate all forms of diversity within our workforce.	Our People – pages 47 to 52 Governance Report – pages 61 to 96 Anti-Slavery and Human Trafficking Statement – www.hdcymru.co.uk
Anti-Corruption and Bribery	Our Group Financial Crime and Anti-Bribery and Anti-Corruption Policy outlines acceptable and non-acceptable behaviours to ensure compliance with antibribery and anti-fraud laws, which includes improper payments, gifts or inducements of any kind to and from persons, including officials in private or public office, customers and suppliers. This policy also covers our approach to inside information, political donations, conflicts of interest, gifts and hospitality and continuous disclosure. Our Group Conflicts of Interest Policy provides guidance around managing conflicts of interests arising from obligations pursuant to the Companies Act 2006, the 2018 UK Corporate Governance Code and associated rules and guidance issued by the Financial Conduct Authority. Our Group Security Policy aims to minimise the likelihood of a threat being realised through the use of appropriate security solutions that reduce the impact of these threats through the deployment of robust response and recovery measures.	Governance Report – pages 61 to 96 Audit and Risk Committee Report – pages 83 to 92

	As with competition law itself, our Group Competition and Competitive Information Policy applies to all parts of our business, and we take our position within the market, and our compliance with competition and antitrust laws, seriously. It is not enough just to comply with the law. In everything we do, we strive to do it with openness, fairness and honesty, which is supported by our values and the stringent rules we have in place.	
Social Matters	Doing the Right Thing, our Code of Conduct, helps us put our values into practice. Our values and Code of Conduct embody the principles by which the Group operates and provide a consistent framework for responsible business practices. Our Group Environment Policy and Group Customer Policy (see above) also cover social matters.	Directors' Report – pages 97 to 105 Severn Trent Plc 2025 Annual Report: - Running a Business that Goes Hand-in-Hand with Nature (covering TCFD, TNFD and Net Zero Transition Plan) – pages 28 to 59 - Corporate Sustainability Committee Report – pages 129 to 130 More information on the Group's approach to Sustainability can be found at www.severntrent.com
Description of Principal Risks and Impact of Business Activity		Our Approach to Risk – pages 14 to 16 Principal Risks – pages 17 to 23 Business Model and Overview – pages 4 to 6
Description of the Business Model		Business Model and Overview – pages 4 to 6
Non-Financial Key Performance Indicators		Strategic Report – pages 3 to 60 Performance Summary – pages 10 to 12

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

Approval

This Strategic Report was approved by the Board.

By order of the Board.

A handwritten signature in black ink, consisting of a stylized 'S' followed by a wavy line.

Suzanne Greenop
Company Secretary

10 July 2025

GOVERNANCE REPORT

UK Corporate Governance Code 2018 Compliance Statement

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

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

For the whole of the financial year ended 31 March 2025, Hafren Dyfrdwy was compliant with the 2018 Code, with the following exceptions:

1. Remuneration Committee at Company Level

The Severn Trent Plc Remuneration Committee operates on behalf of Hafren Dyfrdwy. The Severn Trent Plc Remuneration Committee comprises only independent Non-Executive Directors of Severn Trent Plc and the Chair of Severn Trent Plc, who was considered independent on appointment. One member of the Severn Trent Plc Remuneration Committee, Christine Hodgson, also serves as a Non-Executive Director on the Board of Hafren Dyfrdwy.

Details of the Severn Trent Plc Remuneration Committee can be found in the Severn Trent Plc Annual Report and Accounts 2025, available on the Severn Trent Plc website. A copy of the Hafren Dyfrdwy Governance Framework can be found on page 71.

During the year, following a review by the Severn Trent Plc Remuneration Committee of performance-related pay in Hafren Dyfrdwy, it was decided to create a new annual bonus scheme specifically for the Executive Directors of Hafren Dyfrdwy, which would be based purely on Hafren Dyfrdwy performance. Further details of the scheme can be found within the Directors' Remuneration Report on pages 93 to 96.

2. Provisions Relating to Relations with Shareholders

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

3. Board Evaluation

The Company has not complied with the provisions relating to an annual Board evaluation, as this process has been deferred until 2025/26 to enable the newly appointed Independent Non-Executive Directors to meaningfully input into the process and also for their effectiveness to be appropriately evaluated. However, Severn Trent Plc does fully comply with these requirements.

Board of Directors

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

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

Directors serving as at 31 March 2025

	John Coghlan BCom, ACA Appointed: Chair on 17 February 2017 Committee membership: Nominations (Chair)
Career and experience: John 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 retired from the Boards of Severn Trent Plc, Severn Trent Water Limited and Clarion Housing in 2023.	
Skills and attributes which support our strategy and deliver long-term sustainable success: John has a wealth of experience in strategy and general management. He brings recent and relevant financial experience as a member of the Institute of Chartered Accountants in England and Wales.	
Key external appointments: • Senior Independent Non-Executive Director of Landmark Group Holdings Limited • Non-Executive Director of Mace Finance Limited	

	Christine Hodgson CBE BSc (Hons), FCA Appointed: Independent Non-Executive Director on 1 April 2020 Committee membership: Nominations
Career and experience: Until her appointment as Chair of the Severn Trent Board, Christine was the Executive Chair of Capgemini UK Plc. 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 Senior Independent Director and Chair of the Remuneration Committee at Standard Chartered Plc.

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

Skills and attributes which support our strategy and deliver long-term sustainable success:

Christine has extensive board and governance experience, as well as a deep understanding of business, finance, technology and leadership. She is a committed advocate of the need for companies to serve all of their stakeholders effectively and deliver their social purpose.

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

Key external appointments:

- Chair of Newton Group Holdings Limited
- Non-Executive Director of Spencer Stuart



James Jesic

BEng (Hons), PhD, MChemE, CEng

Appointed: Managing Director on 15 July 2020

Committee membership: Executive (Chair)

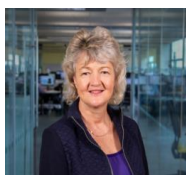
Career and experience:

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

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

Skills and attributes which support our strategy and deliver long-term sustainable success:

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


Sally Jones-Evans
FCIB, MSc, MBA
Appointed: Independent Non-Executive Director on 1 April 2018
Committee membership: Audit and Risk (Chair), Nominations
Career and experience:

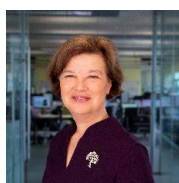
Sally's 30-year executive career was at Lloyds Banking Group where she held a wide range of roles leading customer-facing parts of the business. Sally is a Non-Executive Director of OSB Group Plc and, until April 2024, Sally was the Chair of the Principality Building Society. Sally was also formerly a Non-Executive Director at Delio Wealth Limited, a fast-growing Welsh Fintech business. With a personal interest in tackling poverty and injustice, Sally currently chairs the Board of Trustees at Oasis Cardiff, a charity supporting refugees and asylum seekers, is a Trustee of Care for the Family, and has also previously served as a Trustee of Tearfund.

Skills and attributes which support our strategy and deliver long-term sustainable success:

Sally has recent and relevant financial experience gained from her financial services career and her work on many boards and audit committees. She brings sound knowledge of regulated sectors and extensive commercial acumen.

Key external appointments:

- Non-Executive Director of OSB Group Plc
- Chair of Oasis Cardiff
- Trustee of Care for the Family


Sarah Legg
MA, MSc, FCMA, FCT
Appointed: Independent Non-Executive Director on 18 March 2025
Committee membership: Audit and Risk, Nominations
Career and experience:

Sarah has spent her entire career in financial services with HSBC in various finance leadership roles. She has been the Group Financial Controller, a Group General Manager, and also Chief Financial Officer for HSBC's Asia Pacific region.

Sarah previously spent eight years as a Non-Executive Director on the board of Hang Seng Bank Limited, a Hong Kong listed bank.

Sarah currently serves as an Independent Non-Executive Director of Severn Trent Plc and Severn Trent Water Limited, and chairs the Severn Trent Plc Audit and Risk Committee.

Skills and attributes which support our strategy and deliver long-term sustainable success:

Sarah brings to the Board wide-ranging corporate finance and significant audit and risk experience gained in the financial services sector.

Sarah has recent and relevant financial experience as a Fellow of both the Chartered Institute of Management Accountants and the Association of Corporate Treasurers.

Sarah is the Group's designated Non-Executive Director in respect of Cyber Security.

Key external appointments:

- Non-Executive Director of Lloyds Banking Group Plc
- Non-Executive Director of Man Group Plc



Iain Mansfield

LLB (Hons), FCA

Appointed: Independent Non-Executive Director on 1 September 2024

Committee membership: Audit and Risk, Nominations

Career and experience:

Iain is currently Chief Financial Officer of the Principality Building Society, having been appointed to the role in July 2022 and to the Board in December 2019. Previously, he was the Chief Operating Officer from September 2017 and, prior to that, Managing Director and Finance and Strategy Director of Nemo Personal Finance Limited, Principality's second-charge lending subsidiary.

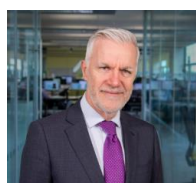
Iain is a Chartered Accountant with more than 20 years' experience across retail banking, as well as start-up and private equity owned financial services businesses in the UK. He has held a variety of leadership roles across finance, treasury, operations, change management and transformation.

Skills and attributes which support our strategy and deliver long-term sustainable success:

Iain has recent and relevant financial experience gained from his career in financial services and as a Chartered Accountant. Iain brings sound knowledge of regulated sectors and extensive leadership skills.

Key external appointments:

- Vice Chair of CBI Council Wales



Rob McPheely

BSc (Hons), FCA

Appointed: Chief Financial Officer on 1 January 2025

Committee membership: Executive

Career and experience:

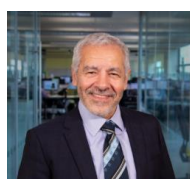
Rob was appointed as Group Financial Controller of Severn Trent Plc in 2004. In that role, he has responsibility for the Group's statutory and regulatory financial reporting and tax compliance. Rob has also had responsibility for the Group's financial systems and controls, and has broad experience in delivering financial transformation programmes.

Prior to joining Severn Trent, Rob worked in the audit practice of PricewaterhouseCoopers in Birmingham, Dubai and Leicester, during which time he gained extensive experience of financial reporting, international business and transaction support in relation to mergers and acquisitions.

Outside Severn Trent, Rob chairs the Water UK Group Financial Controllers' Forum and is a Patron of the UK100 Group Financial Controllers' Forum.

Skills and attributes which support our strategy and deliver long-term sustainable success:

Rob is a chartered accountant and has extensive experience of regulatory finance, gained in his senior leadership role in the Group. Rob brings deep financial, strategic and regulatory expertise to the Board.



Mohammed Mehmet

BSc (Hons), PhD

Appointed: Independent Non-Executive Director on 1 April 2018

Committee membership: Audit and Risk, Nominations

Career and experience:

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. Mohammed was also a Non-Executive Director of Public Health Wales until his retirement in November 2024.

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.

Skills and attributes which support our strategy and deliver long-term sustainable success:

Mohammed brings extensive strategic and people management skills to the Board. He is both commercially and politically aware, and also has experience of delivering essential services to customers.

Key external appointments:

- Trustee for Macmillan Cancer Support

Directors serving for part of the year

	Ann Beynon OBE BA (Hons) Appointed: Independent Non-Executive Director on 1 April 2018 Retired from the Board: 4 October 2024
	Adam Stephens MEng, ACA, AMCT Appointed: Chief Financial Officer on 1 April 2023 Retired from the Board: 31 December 2024

2024/25 Board Meeting Attendance

The table below shows the attendance of Directors at scheduled Board meetings during the year. In the event a Director is unable to attend a meeting, they receive all related papers in advance and any input they have provided is fully considered by the Board.

Director	Position	Board Meeting Attendance
Ann Beynon ¹	Independent Non-Executive Director	3 / 3
John Coghlan	Chair	6 / 6
Christine Hodgson	Independent Non-Executive Director	6 / 6
James Jesic	Managing Director	6 / 6
Sally Jones-Evans ²	Independent Non-Executive Director	5 / 6
Sarah Legg ³	Independent Non-Executive Director	1 / 1
Iain Mansfield ⁴	Independent Non-Executive Director	4 / 4
Rob McPheely ⁵	Chief Financial Officer	3 / 3
Mohammed Mehmet	Independent Non-Executive Director	6 / 6
Adam Stephens ⁵	Chief Financial Officer	3 / 3

1. Ann Beynon stepped down as an Independent Non-Executive Director on 4 October 2024.
2. Sally Jones-Evans was unable to attend one meeting of the Board due to a long-standing personal commitment. Sally received all relevant papers in advance of the meeting date and providing comments to the Chair on the matters to be considered.
3. Sarah Legg was appointed as an Independent Non-Executive Director on 18 March 2025.
4. Iain Mansfield was appointed as an Independent Non-Executive Director on 1 September 2024.
5. Adam Stephens stepped down as Chief Financial Officer on 31 December 2024 when he ceased employment with the Group and was succeeded by Rob McPheely on 1 January 2025.

Board Leadership, Company Purpose and Division of Responsibilities

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

An Effective Board

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

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

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

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

The effectiveness of the Board is generally reviewed on an annual basis and any evaluation is conducted according to the guidance set out in the 2018 Code and Financial Reporting Council ('FRC') Guidance on Board Effectiveness. As set out on page 61, the 2024/25 evaluation was deferred in order to ensure meaningful input from all Board members.

Division of Responsibilities

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

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

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

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

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

Board Independence

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

Conflicts of Interest

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

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

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

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

Our Non-Executive Directors commit sufficient time to discharging their responsibilities as Directors of Hafren Dyfrdwy in line with the requirements set out in our Charter of Expectations. Details of the Directors' external directorships can be found in their biographies on pages 62 to 66.

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

Articles of Association and Schedule of Matters Reserved to the Board

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

To ensure the Board maintains oversight of the areas material to the delivery of the Company's strategy and purpose, the Board undertakes an annual review of the Matters Reserved to the Board. The latest review took place in March 2025 and the Board agreed that the Schedule contained areas appropriate to require Board involvement, including in relation to strategy, structure and capital, financial reporting, controls and communication with stakeholders. The Schedule of Matters Reserved to the Board is available on the Hafren Dyfrdwy website.

Strategy

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

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

The Directors present their report and the audited financial statements for the year ended 31 March 2025. The performance review of the Company can be found within the Strategic Report. This provides detailed information relating to the Company, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2025.

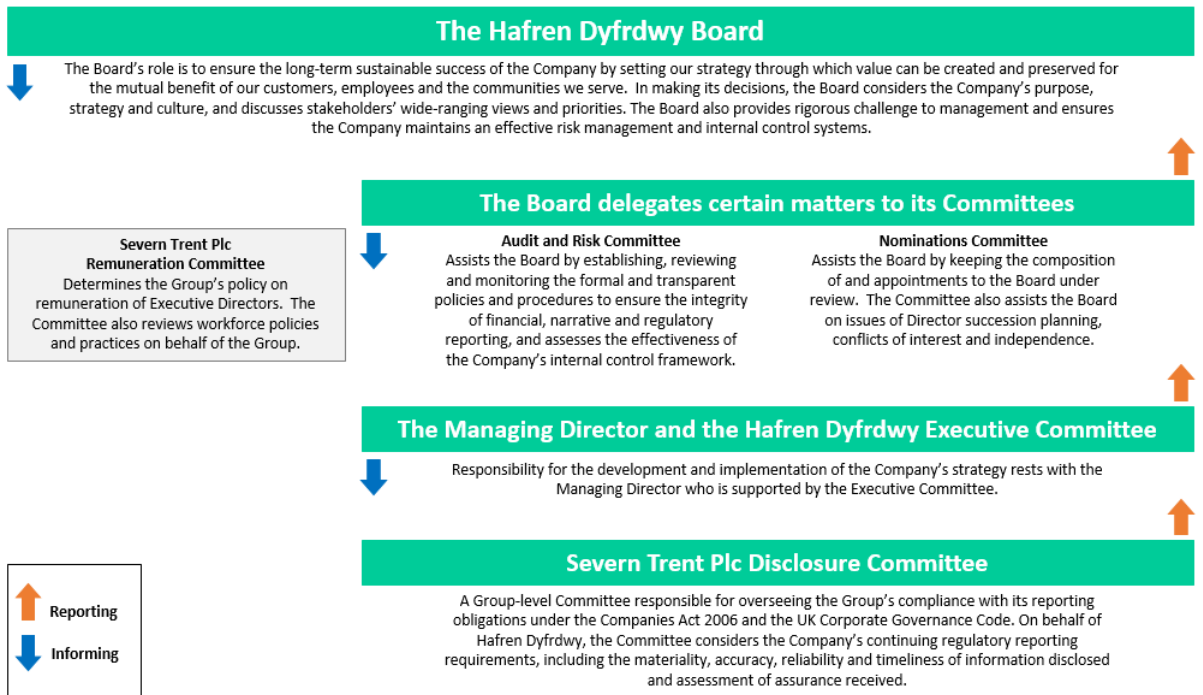
Stakeholder Engagement

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

Our dedicated Stakeholder Engagement section and Section 172 Statement, on pages 34 to 46 and 53 to 56 respectively, set out how the Board has considered the interests of stakeholders during the year.

Governance Framework

The Board is supported by the Hafren Dyfrdwy Governance Framework, which is set out below. The Governance Framework predominantly comprises the Board, Board Committees and Executive Committee. In line with the 2018 Code, the Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the Board on decisions and actions taken, and making any necessary recommendations to the Board in line with their respective Terms of Reference. The Board periodically reviews the Terms of Reference of each Committee and last did so in March 2025. The Governance Framework is also subject to periodic review to ensure that it remains appropriate.



Activities of the Board 2024/25

Board meetings

Board meetings follow a structured agenda that is agreed in advance by the Chair, in conjunction with the Company Secretary, and open discussion by Directors is encouraged. 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 67. Minutes of Board and Committee meetings are circulated to all Directors after each meeting.

Below are examples of topics discussed by the Board during the year.

Performance • Managing Director's Overview • Chief Financial Officer's Report • Operational Performance Reports and Deep Dives
Financing, Procurement and Commercial • 2025/26 Budget • Long-term Viability and Going Concern • Kraken Programme
Governance and Stakeholders • Governance Updates • Non-Executive Director Fees • Stakeholder Engagement Reports
Strategy • Board Strategy Day • Reflections from the Board Strategy Day • Lake Vyrnwy, An Integrated Sustainable Landscape Strategy • Customer Vulnerability Strategy
Regulatory • Regulatory Updates • Annual Report and Accounts • Annual Performance Report • PR24 Draft Determination Response • PR24 Final Determination • Customer Dashboard • Implementation of the New Customer-Focused Licence Condition

- Response to the Ofwat Section 203 Notice
- Environmental Performance Report
- Water Quality
- Draft Drought Plan
- Annual Wastewater Compliance Update
- Welsh Language Standards
- Deep Dive on PFAS (Per- and Poly-Fluoroalkyl Substances)
- Annual Report on Reservoir Safety
- Wholesale Charges for 2025/26
- Licence to Operate
- Licence Modifications

Culture and Values

- Whistleblowing Arrangements Annual Review
- Our Culture and Engagement
- Diversity and Inclusion Update
- Health, Safety and Wellbeing Update
- The Academy – Training, Development and Apprenticeships
- Group Anti-Slavery and Human Trafficking Statement

Assurance, Internal Controls and Risk Management

- Assurance Reports, including from Internal Audit and External Assurers
- Draft Determination – Assurance Update
- AMP7 Assurance Map Update
- Enterprise Risk Management Update
- Cyber Update
- Introduction of the Group AI Acceptable Use Policy

Informal Board interactions

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

Stakeholder engagement

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.

Board members have, collectively or individually, met with representatives from the following stakeholders during the year:



Comisiynydd
Cenedlaethau'r
Dyfodol
Cymru

Future
Generations
Commissioner
for Wales



Llywodraeth Cymru
Welsh Government



Cyfoeth Naturiol Cymru
Natural Resources Wales



The voice for water consumers
Llais defnyddwyr dŵr

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.

The Severn Trent Academy

The Board undertook a tour of the Academy at Hawksley Park, where members took part in live rig training demonstrations, explored the training assets on site and met training teams. The Board also discussed potential future developments, in particular the proposed enhancements to Hafren Dyfrdwy's bespoke training programmes.



Our Contact Centre

During the visit, Board members met colleagues who discussed their experiences of working for Hafren Dyfrdwy and their passion for the customers that they serve through the varied work they undertake.



Lake Vyrnwy Estate

The Board visited the Lake Vyrnwy Estate to observe the environmental sustainability projects that have been undertaken and view the work that is ongoing to improve the experience for both visitors and local residents.



Composition, Succession and Evaluation

Composition

As at 31 March 2025, the Hafren Dyfrdwy Board comprised eight Directors, and this remains the case as at the date of this Annual Report.

Of the eight Directors, two are Executive Directors and six are Non-Executive Directors. The details of their career background, relevant skills, Committee membership, tenure and external appointments can be found within their individual biographies on pages 62 to 66.

Of the six Non-Executive Directors currently serving on the Hafren Dyfrdwy Board, two Directors – Christine Hodgson and Sarah Legg – also sit on the Boards of Severn Trent Plc and Severn Trent Water Limited. The Board is of the opinion that, when assessed against the circumstances set out in the 2018 Code and given the thorough monitoring of potential conflicts of interest, Christine Hodgson and Sarah Legg retain independence in relation to each Board, and therefore the five Independent Non-Executive Directors form the largest single group on the Hafren Dyfrdwy Board at 62.5%, with the Chair and two Executive Directors forming the remaining 12.5% and 25%, respectively.

Ofwat has previously provided feedback suggesting that full independence could only be demonstrated by those sitting solely on the Hafren Dyfrdwy Board. In the interests of openness and transparency, in applying this criterion to the current membership of the Board, four Directors would be considered independent, *as defined by Ofwat*, and together they still form the largest single group on the Board at 50%.

In respect of the Board Committees, membership is formed by Non-Executive Directors only, with no Executive Directors serving on either Committee. The Nominations Committee is chaired by John Coghlan, the Chair of the Board. The Audit and Risk Committee is chaired by Sally Jones-Evans, a Non-Executive Director with recent and relevant financial experience.

Board Training and Development

The environment in which we operate is continually changing. It is therefore important for our Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date. Our Board evaluation process includes training discussions with the Company Secretary and, as required, we invite professional advisers and subject matter experts to provide in-depth updates. These updates are not solely reserved for legislative developments but aim to cover a range of strategic issues including, but not limited to, the economic and political environment, environmental, technological and social considerations. The Company Secretary and Group Head of Legal also provide regular updates to the Board on regulatory, statutory and corporate governance matters. The Activities of the Board section on pages 72 to 75 sets out further detail on the topics covered during the year.

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

Directors also have access to our online resource library, which is continually reviewed and updated. The library includes a corporate governance manual, a suite of corporate reports,

briefings on Board training session topics and a further reading section which covers updates and guidance on changes to legislation and corporate governance best practice.

Directors' Skills and Experience

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

	Strategy	Customer	Utility Sector	M&A	Corporate Finance / Treasury	Accounting	Brands	Regulation	Technology / Innovation / Cyber	Science / Engineering	Sustainability, including Climate Change	Commercial Procurement	Construction / Infrastructure Delivery	Large Capital Programmes	People Management	Welsh Language	Political Affairs	Societal	24/7 Operations
John Coghlan																			
Christine Hodgson																			
James Jesic																			
Sally Jones-Evans																			
Sarah Legg																			
Iain Mansfield																			
Rob McPheely																			
Mohammed Mehmet																			

Succession

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

Board composition and succession planning was a topic of discussion during the 2023/24 Board evaluation, with a resulting recommendation that thought should be applied to future changes to Board membership, including the loss of experience and knowledge of the business, in the context of Non-Executive Director tenure.

During the year, the Board appointed two additional Independent Non-Executive Directors: Iain Mansfield from 1 September 2024; and Sarah Legg from 18 March 2025. The Board also appointed Rob McPheely as Chief Financial Officer from 1 January 2025, following the retirement of Adam Stephens from the Board.

Induction

We develop a detailed, tailored induction for each new Director. This includes one-to-one meetings with the Chair and each of the existing 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 wastewater 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 Non-Executive Directors meet with Ofwat as part of the appointment process. Both Iain Mansfield and Sarah Legg met with Ofwat ahead of their appointments to the Board.

Understanding through introductory meetings

Sessions held in the first few days and weeks to ensure that new Directors are able to gain a real understanding of our purpose and strategy, the regulatory regime and our core business activities.

Complemented with specific deep dive sessions

Deep dive sessions enable Directors to explore in detail the areas of focus for the Company over the short, medium and long term, and deepen their understanding of the Company.

Knowledge reinforced by site visits

Site visits allow Directors to observe the Company's operations in action and meet colleagues to gain further insight into our culture and enhance their understanding of the organisation as a whole.

Iain Mansfield's Induction

Along with a detailed overview of the water sector and the regulatory requirements we operate under, Iain attended a number of sessions including visits to major operational sites – covering water treatment, waste treatment, water networks, governance, stakeholder engagement and the environment.

Iain's induction for his role on the Audit and Risk Committee included sessions on the current and emerging risks faced by the Company and the Risk Management Framework in place, regulatory finance model, Internal Audit programme and internal control processes.

Similar programmes were designed for Sarah Legg and Rob McPheely ahead of their appointments to the Board.



Iain Mansfield visits the Severn Trent Group Labs at Bridgend



Iain Mansfield and Rob McPheely visit the Lake Vyrnwy Estate



Sarah Legg visits Llwyn Onn Water Treatment Works



Iain Mansfield and Rob McPheely visit Clywedog Reservoir

Evaluation

Our Board evaluation process 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.

As set out above, in the UK Corporate Governance Code 2018 Compliance Statement, the Company did not undertake an annual Board evaluation during the year, as the Board agreed to defer this process until 2025/26, to enable the newly appointed Independent Non-Executive Directors to meaningfully input into the process and also for their effectiveness to be appropriately evaluated. Details of the process and findings of the 2025/26 review will be provided within the 2025/26 Annual Report.

Minor areas were identified during the 2023/24 evaluation for incremental improvement in terms of the Board's overall effectiveness. Details are set out in the table below, along with an update on progress.

Recommendation	Progress
Workforce Engagement	
Schedule more informal opportunities for the Board to interact with colleagues to observe workforce culture, values and behaviours in action and also to allow Board members to demonstrate the same in order to set a strong tone from the top.	Informal 'Meet Our Board' sessions, to which all colleagues are invited, are now included in the Board's annual calendar. The most recent session was held at Packsaddle in March 2025.
Increase the Board's exposure to members of the Hafren Dyfrdwy Executive Committee ('HDEC').	HDEC members continue to be invited to attend Board meetings to present papers and host deep dive sessions.
Board Succession Planning	
Continue to manage carefully the evolution of the Board by providing the Board with regular updates throughout the Non-Executive Director recruitment process.	Regular updates were provided at Nominations Committee meetings during the recent round of Non-Executive Director recruitment activity. The Chair of the Nominations Committee reported to the Board following each meeting.
Reflect on the additional skills/experiences/attributes raised during the evaluation when considering candidates for Non-Executive Director roles.	The raised skills/experiences/attributes were duly considered when reviewing candidate long and short lists, and will continue to be during subsequent recruitment activity.
Share Executive Director succession plans to assure the Board that suitable internal talent pipelines are in place.	Executive Director succession planning and internal talent are scheduled for routine discussion by the Nominations Committee.
Stakeholder Engagement	
Arrange opportunities for the Board to interact with the Severn Trent Plc ('ST Plc') Board to maintain relationships and increase awareness of the parent company's long-term plans and broader Group strategy.	Hafren Dyfrdwy Board members are invited to the ST Plc Board dinner each July. This dinner is held the evening before the ST Plc Annual General Meeting ('AGM'), thereby providing an opportunity for Hafren Dyfrdwy Board members to also attend the AGM should they so wish.

Nominations Committee Report

Committee Membership and Meeting Attendance 2024/25

Committee Member	Position	Nominations Committee Meeting Attendance
Ann Beynon	Independent Non-Executive Director	3 / 3
John Coghlan	Chair	3 / 3
Christine Hodgson	Independent Non-Executive Director	3 / 3
Sally Jones-Evans	Independent Non-Executive Director	3 / 3
Sarah Legg	Independent Non-Executive Director	0 / 0
Iain Mansfield	Independent Non-Executive Director	0 / 0
Mohammed Mehmet	Independent Non-Executive Director	3 / 3

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

Committee Activities 2024/25

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

- Board Succession Planning
- Appointment of Independent Non-Executive Director
- Executive Director Succession Planning
- Continuing Office of Directors
- Board Composition
- Board Independence
- Director Tenure

More information relating to Board composition and independence can be found on pages 69 and 76.

Board Succession Planning

The Committee considers Board succession on a regular basis and continues to make appropriate recommendations to the Board as necessary. Following the Group's acquisition of the Company in 2017, a recruitment exercise was undertaken to recruit Non-Executive Directors, which resulted in three individuals joining the Board at the same time who would therefore also reach their maximum term of office on the same date.

The Committee is ever mindful of balancing the need to maintain the requisite skills and experience on the Board with allowing for the progressive refreshing of the Board. As such, during the year, the Committee recruited an additional Non-Executive Director to join the Board as the first step towards phased succession.

Odgers¹ was appointed to assist with the search, which was overseen by the Committee to ensure that the recruitment process was conducted in line with the Board Diversity Policy (read more below).

Interviews were conducted by the Chair, Managing Director and Non-Executive Directors, with support from the Company Secretary. Once a preferred candidate had been selected, a pre-appointment meeting with Ofwat was arranged ahead of the proposed Non-Executive Director being formally recommended to the Board for appointment.

The Board approved the appointment of Iain Mansfield as a Non-Executive Director, and member of the Nominations Committee and Audit and Risk Committee, with effect from 1 September 2024. You can read about Iain's induction programme on page 78.

Subsequent to Iain's appointment, Ann Beynon stepped down from the Board, having served nearly seven years as an Independent Non-Executive Director.

Sarah Legg and Rob McPheely were also appointed as Directors by the Board during the year.

1. Odgers is a signatory to the enhanced voluntary code of conduct for executive search firms and is independent of both the Company and individual Directors.

Diversity

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

The Board continues to drive the agenda of diversity across the Company and is supportive of the Company's ambitions in this area. Data relating to the diversity of the Board and the Company's workforce is included in the Our People section, on pages 47 to 52.

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

The objectives and targets of the Policy, which was reviewed by the Board in June 2025, and a progress update against each of them, are set out below.

Board composition

Policy Target	Position as at Date of Report
Aim to achieve and maintain the position where at least 40% of the individuals on the Board are women.	✗ 37.5% of the individuals on the Board of Directors are women.
Aim to achieve and maintain the position where at least one member of the Board of Directors is from a minority ethnic background (defined by reference to categories recommended by the Office for National Statistics ('ONS') excluding those listed, by the ONS, as coming from a white ethnic background).	✓ Two individuals on the Board of Directors are from a minority ethnic background.

The Board has previously achieved both targets, however maintaining these targets can be difficult given the small size of the Board and the volatility that can arise from a sole Director joining or leaving (each Director currently represents 12.5%). As at the date of the report, the percentage of women making up the Board's composition has fallen since the previous year due to Ann Beynon's retirement from the Board and Iain Mansfield's appointment to the Board and therefore is slightly short of the target. Whilst any appointments to the Board will only ever be made based on merit, the targets set out above will continue to be borne in mind by the Nominations Committee during the next round of Non-Executive Director recruitment, which is expected to commence in the autumn of 2025.

Recruitment and selection

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

Audit and Risk Committee Report

Committee Membership and Meeting Attendance 2024/25

Committee Member	Position	Audit and Risk Committee Meeting Attendance
Ann Beynon	Independent Non-Executive Director	2 / 2
Sally Jones-Evans	Independent Non-Executive Director and Chair of the Committee	3 / 3
Sarah Legg	Independent Non-Executive Director	1 / 1
Iain Mansfield	Independent Non-Executive Director	2 / 2
Mohammed Mehmet ¹	Independent Non-Executive Director	2 / 3

1. Mohammed Mehmet was unable to attend one meeting of the Audit and Risk Committee due to a long-standing personal commitment. Mohammed received all relevant papers in advance of the meeting date and providing comments to the Chair on the matters to be considered.

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

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

Committee Activities 2024/25

The Committee assists the Board by establishing, reviewing and monitoring the formal and transparent policies and procedures to ensure the independence and effectiveness of the Internal and External Audit functions, the integrity of financial and narrative reporting, the Company's internal control framework and the adequacy of the process that enables the Board to assess the extent of the Principal Risks the Company is willing to take to achieve its long-term strategic objectives. The Committee, and its individual members, act in a way that we consider is most likely to promote the success of the Company for the benefit of its members as a whole, including shareholders, as set out in Section 172 of the Companies Act 2006. This ensures that the interests of stakeholders are properly considered and reflected in decision-making processes. Additional information on how the Board, and Audit and Risk Committee, have considered stakeholders in their decision making can be found on pages 53 to 56.

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

As such, one of the Committee's key roles is to advise the Board that it is satisfied that the Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for stakeholders to assess the Company's position, performance, business model and strategy. In doing so, the Committee ensures that management's disclosures reflect the supporting detail, or challenge them to explain and justify their interpretation and, if necessary, re-present the information. The External Auditor supports this process, in the course of its statutory audit, by auditing the accounting records of the Company against agreed accounting practices, relevant laws and regulations. Deloitte's Independent Audit Report can be found on pages 108 to 117.

The Committee is pleased to advise the Board that the 2024/25 Annual Report and Accounts are fair, balanced and understandable and that the Directors have provided the necessary information to assess the Company's position, prospects, business model and strategy.

The fair, balanced and understandable review process is described in further detail on pages 88 to 89.

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

Financial and Regulatory Reporting

Reviewed and discussed reports from the Chief Financial Officer on the financial statements, considered management's significant accounting judgments and the policies being applied, and assessed the findings of the statutory audit in respect of the integrity of the financial reporting of full year results.

Assessed the integrity of the regulatory reporting process relating to the Annual Performance Report, PR24 Business Plan Draft Determination and other regulatory submissions for Hafren Dyfrdwy as required to be submitted to Ofwat.

Reviewed the Annual Report and Accounts and provided a recommendation to the Board that, as a whole, they complied with the 2018 Code principle to be 'fair, balanced and understandable and provide the information necessary to assess the Company's position, performance, business model and strategy'.

Challenged and scrutinised management's detailed assessment of the Company's long-term viability and its ability to continue as a going concern. In doing so, the Committee took into account the risks facing the business, and its ability to withstand a number of severe but plausible scenarios. Having considered management's assessment, the Committee recommended to the Board the long-term Viability Statement set out on pages 24 to 32.

Internal Controls and Risk Management
Reviewed the effectiveness of the Company's Enterprise Risk Management ('ERM') processes and procedures and internal control systems, and integration of the components of the risk framework into Board and Committee reporting, prior to making a recommendation to the Board. Oversight and monitoring of the Company's compliance with the Fraud Act 2006, Bribery Act 2010, Criminal Finances Act 2017 and Economic Crime and Corporate Transparency Act 2023, including a review of the adequacy of the anti-bribery, corruption and fraud processes and procedures, and associated policies such as the Group Financial Crime Policy.
Internal Audit
Considered Internal Audit reports presented to the Committee and satisfied itself that management had resolved or was in the process of resolving any outstanding issues or actions. Reviewed the Internal Audit plan and approach. Reviewed the quality and effectiveness of Internal Audit and the effectiveness of the current co-source arrangements.
External Audit
Considered the statutory audit, including the key audit risks and level of materiality applied by Deloitte, audit reports from Deloitte on the financial statements and the areas of particular focus for the audit.

Internal Audit

Group Internal Audit is an independent assurance function available to the Board, Audit and Risk Committee and all levels of management, and is a key element of the Group's corporate Governance Framework. Support is provided by two main co-sourcing partners: BDO and EY. Co-source arrangements are reviewed regularly 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 Internal Audit Plan where relevant.

Internal Audit plan and actions

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

A three-year strategic audit planning approach is applied, from which Internal Audit develops an annual risk-based plan; this facilitates an efficient deployment of resource in providing assurance coverage over time across the whole business. The Committee's role is to review and challenge the plan, specifically whether the key risk areas identified as part of our ERM process are being audited with appropriate frequency and depth. Individual Committee members also bring an external view of risks the Company may be exposed to. Once approved by the Committee, regular reporting enables the Committee to monitor delivery of

the Internal Audit Plan and ensure that Internal Audit performs its work in accordance with the mandatory aspects of the International Professional Practice Framework of the Chartered Institute of Internal Auditors (the 'CIIA'), with integrity (honestly, diligently and responsibly) and objectively (without conflicts of interest).

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

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

Effectiveness

At Group level, we undertake an annual review of the effectiveness of the Internal Audit function in line with the CIIA Internal Audit Code of Practice and the FRC Guidance on Audit Committees. The CIIA guidance states that Audit Committees should obtain an independent and objective external quality assessment at least every five years. The last external review of the effectiveness of the Internal Audit function was undertaken by BDO in December 2021 and the next external effectiveness review is therefore planned for no later than December 2026 and will involve assessment against the new Global Internal Audit Standards.

The last external review concluded that the Internal Audit function remains fit for purpose, and is operating efficiently and effectively, and in line with good practice. The External Quality Assessment report also highlighted clear evidence that the Internal Audit function operated with strategic alignment, a focus on risk and an emphasis on quality and continuous improvement, all underpinned by objectivity and integrity. The minor areas of improvement raised by BDO have been incorporated into an action plan which was shared and agreed with the Chair of the Severn Trent Plc Audit and Risk Committee (the 'ST Plc Audit and Risk Committee'), on behalf of the Group. All actions were completed in line with the proposed timescales.

Taking all these elements into account, it has been concluded that the Internal Audit function was an effective provider of assurance over the Company's, and wider Group's, risks and controls, and appropriate resources were available as required.

Internal Controls and Risk Management

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

Internal controls

An internal control system can provide reasonable but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. The Committee reviews the Company's internal control systems and receives updates on the findings of Internal Audit's investigations at

every meeting, prior to reporting any significant matters to the Board, which retains overall responsibility for the effectiveness of the full suite of internal controls across the Company.

The ST Plc Audit and Risk Committee has oversight of the Group's preparations to ensure compliance with the recommendations under the refreshed 2024 UK Corporate Governance Code, particularly in relation to the introduction of the new Provision 29. We are fully committed to ensuring that the Company's audit and governance arrangements reflect best practice and address any new requirements within the expected timeframes. As part of this, during the year, a detailed review of the Group's systems, processes and procedures was undertaken by the ST Plc Audit and Risk Committee in order to provide assurance to the Board that the Group's internal control systems, including those which cover financial reporting, continue to operate effectively.

Further to the reports received by the ST Plc Audit and Risk Committee, which set out the Group's processes, systems and assurance procedures, the ST Plc Audit and Risk Committee concluded that it has complied with its obligations under the 2018 Code in relation to the assessment of risk and monitoring and review of the effectiveness of internal controls and risk management. The ST Plc Audit and Risk Committee is pleased to confirm on behalf of the Group that, based on its review and monitoring activities, it has not been made aware of any material control weaknesses in the Group's internal controls systems and risk management framework.

Risk management

The Company has an ERM process in place through which our Principal Risks and related controls are identified and assessed. The Board has overall responsibility for setting the Company's risk appetite and ensuring that there is an effective risk management framework in place. The Committee receives regular updates on areas of specific risk to the business.

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

Further details of the Company's risk management systems and controls, along with details of the Company's Principal Risks, can be found in the Strategic Report on pages 14 to 23.

Whistleblowing

At Hafren Dyfrdwy and across the Group, we foster a culture of trust, honesty and openness. We are proud of our approach to whistleblowing, which encompasses the environment we create in our business to encourage reporting of potential wrongdoing, the support we give to whistleblowers and our thorough investigation of concerns.

The Group has established procedures by which all employees may, in confidence, report any concerns. Our Whistleblowing Policy, 'Speak Up', sets out the ethical standards expected of everyone who works for, and with, us and includes the procedure for raising concerns in strict confidence. Our workforce can raise concerns through their line manager, senior management or HR Team, and through our confidential and independent whistleblowing helpline and online channel, 'Safecall'.

We believe that good corporate governance is a key component of creating the best culture and we set the right tone from the top. All investigations are carried out independently with findings being reported directly to the ST Plc Audit and Risk Committee. Any findings

relevant to Hafren Dyfrdwy are reported also to the Company's dedicated Audit and Risk Committee.

We learn from every report of whistleblowing and share the lessons across the business with a view to making improvements where necessary. We subject our whistleblowing processes to regular evaluation by both Internal Audit and external assurers, and the findings from these reviews frequently cite many examples of good practice within the Group's approach. On an annual basis, the Group also undertakes an external benchmarking exercise with Protect, the whistleblowing charity.

The Board as a whole monitors and reviews the effectiveness of the Company's whistleblowing arrangements annually, to ensure that it has sufficient oversight to support its work on assessing culture, risk and stakeholder engagement. The Board has reviewed these arrangements again this year and is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

Fair, Balanced and Understandable Reporting

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

1	Regular Severn Trent Plc Disclosure Committee Review The Disclosure Committee reviewed the Annual Report and Accounts throughout the process and undertook a detailed FBU assessment ahead of tabling a detailed report to the Audit and Risk Committee. This process was conducted in a timely manner to enable sufficient time for the Audit and Risk Committee to comment and review on the report and ensure overall balance and consistency.
2	Audit and Risk Committee Review The Audit and Risk Committee reviewed the Annual Report and Accounts to provide comments and ensure overall balance and consistency.
3	Internal Audit Verification and Oversight Internal Audit reviewed the Annual Report and Accounts and oversaw the verification process for all factual content and reported back to the Audit and Risk Committee on its assessment and findings.

4	FBU Assessment The Audit and Risk Committee reviewed and approved the process in place to support the FBU assessment and reviewed the findings of this process. The Audit and Risk Committee was satisfied that all the key events and issues reported to the Board by management (both positive and negative) had been adequately referenced or reflected within the Annual Report and Accounts.
5	External Auditor Review The External Auditor is required to consider whether there are any material inconsistencies between information presented in different sections of the Annual Report and Accounts, taking into account the External Auditor's knowledge obtained during the audit and the External Auditor's understanding of the legal and regulatory requirements applicable to the narrative. The External Auditor presented the results of its audit work. The significant matters the Audit and Risk Committee considered were consistent with those identified by the External Auditor in its report (see pages 108 to 117 for more detail).
6	Recommendation to the Board The Board approved the Audit and Risk Committee's recommendation that the FBU statement could be made in the Annual Report and Accounts. An associated Board declaration is included within the Directors' Responsibility Statement on pages 106 to 107.

External Auditor

Tender and appointment

During 2023/24, in accordance with the regulations that a competitive tender be carried out every 10 years, the ST Plc Audit and Risk Committee led the tender of the External Audit contract on behalf of all Group companies, including Hafren Dyfrdwy. Due to mandatory rotation requirements, Deloitte was unable to participate. The tender process resulted in a recommendation to the ST Plc Board to propose to its shareholders the appointment of PwC as External Auditor at the AGM scheduled for July 2025 for the audit of the year ending 31 March 2026. The ST Plc Board agreed the recommendation and, as such, a resolution has been included in the 2025 AGM Notice of Meeting to this effect.

Further details of the Group's External Audit tender process can be found within the Audit and Risk Committee Report of the Severn Trent Plc Annual Report and Accounts 2024.

Effectiveness and competence

The Committee considers audit quality to be the principal requirement of the annual audit process and, as such, an effectiveness review is conducted annually. Due to Deloitte undertaking its final audit for the Group in respect of the year ending 31 March 2025, and therefore not subject to a recommendation at the AGM in July 2025, the ST Plc Audit and Risk Committee developed a tailored approach which involved:

- reviewing the FRC's 'Audit Committees and the External Audit: Minimum Standard' (the 'Standard') to assess the effectiveness of the External Audit and ensure that our process remains compliant;

- assessing the current year audit against the Standard;
- conducting a debrief process with the External Auditor following completion of the previous year's audit of the Group and subsidiary companies; and
- completing a questionnaire to document how the External Auditor had complied with our 'Principles for Audit Effectiveness' which set out expectations of Quality, Independence, Expertise and Resources, Effectiveness and Communication.

A report was presented to the ST Plc Audit and Risk Committee in March 2025, without either the incumbent or incoming External Auditor present. The Committee discussed the conclusions and any opportunities for improvement for the 2024/25 audit, which were brought to the attention of Deloitte.

No significant issues were reported as part of the internal review, and it was concluded that the External Audit process and services provided by Deloitte were satisfactory and effective.

Independence

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

The Committee recognises that independence is also a key focus for the External Auditor, and Deloitte has confirmed that it has complied with its own ethics and independence policies, which are consistent with the FRC's Revised Ethical Standard 2024. This includes the External Auditor's assurances that all of its partners and staff involved with the audit are independent of any links to the Group and that none of its employees working on our audit hold any shares in Severn Trent Plc.

Deloitte provides confirmation of independence during the planning stage of the audit, disclosing matters relating to its independence and objectivity. There were no independence issues raised in respect of the 2024/25 audit.

PwC also confirmed to the ST Plc Audit and Risk Committee that independence arrangements were in place ahead of commencing the shadowing process for the 2024/25 audit, with all PwC staff engaged on the audit deemed as fully independent of the Group.

The ST Plc Audit and Risk Committee also develops and recommends to the Board the Group's policy on non-audit services and associated fees paid to the External Auditor, to ensure the External Auditor is not providing any additional services which could impede its independence. You can read more about this policy below.

Non-audit services

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

The Policy was reviewed and updated during the year to reflect the FRC's Revised Ethical Standard which took effect from 15 December 2024. No substantial changes were required to the Group's existing arrangements.

The Policy requires ST Plc Audit and Risk Committee approval for all such non-audit services. The Policy also prohibits aggregate fees for non-audit services in excess of 70% of the average audit fee for the previous three financial years. Non-audit services for which the External Auditor may be used include audit-related services required by statute or regulation and other audit or assurance services as set out in the Ethical Standard.

During the year, Deloitte received £86,000 in fees for work relating to the audit services it provides to the Company. Non-audit-related work undertaken by Deloitte amounted to fees of £41,000 this year, which is 32% of the total fees paid to them. Audit and non-audit fees paid to Deloitte are set out in note 4 to the financial statements.

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

Ahead of commencing its shadowing of the 2024/25 audits, PwC confirmed to the ST Plc Audit and Risk Committee that all non-audit services that had been provided to the Group by PwC previously had been transitioned to other suppliers. Non-audit services that are permitted to be provided by the External Auditor will be included as part the transition arrangements in place between Deloitte and PwC.

Statutory Auditor Appointment for the Year Ending 31 March 2026

Following the outcome of the competitive tender process conducted during 2023/24, which excluded Deloitte due to mandatory rotation requirements, the ST Plc Audit and Risk Committee recommended to the ST Plc Board that PwC be proposed for appointment for the year ending 31 March 2026 at the AGM on 10 July 2025. The ST Plc Board accepted the ST Plc Audit and Risk Committee's proposal and a resolution has been included in the AGM Notice of Meeting.

There are no contractual obligations that restrict the ST Plc Audit and Risk Committee's choice of auditor; the recommendation is free from third-party influence; and no auditor liability agreement has been entered into.

Providing the resolution is passed by shareholders at the ST Plc AGM, appropriate arrangements will be put in place for PwC to be deemed appointed as External Auditor in the absence of a Hafren Dyfrdwy Cyfyngedig AGM.

Significant Matters Considered and Addressed in Relation to the Financial Statements

The Committee looked carefully at those aspects of the financial statements that required significant accounting judgments or where there is estimation uncertainty. These areas are explained in note 2 to the financial statements.

The Committee considered the accounting treatment for classification of capital expenditure, income from connections to water and wastewater networks, depreciation and carrying values of property, plant and equipment, retirement benefit obligations; and expected credit losses on trade receivables. The Committee received detailed reports from both the CFO and the External Auditor on these areas and on any other matters which they believed should be drawn to the Committee's attention. The draft External Auditor's report on the

financial statements was also reviewed, with particular reference to those matters reported as carrying risks of material misstatement.

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

The Committee reviewed and challenged the evidence and assumptions underpinning the use of the Going Concern assumption in preparing the accounts and in making the statements in the Strategic Report on long-term Viability and Going Concern (see pages 24 to 32). In particular, the Committee considered severe but plausible scenarios modelled in relation to the Company's Principal Risks (see pages 16 to 23), noting the stress tests performed by management and the potential mitigating actions identified.

Directors' Remuneration Report

We operate a unified remuneration scheme at the Group level across the two regulated businesses, Hafren Dyfrdwy and Severn Trent Water. Shareholders overwhelmingly approved the Severn Trent Plc Remuneration Policy (the 'Policy') at the Severn Trent Plc AGM in July 2024 (95.45% voted in favour); full details of the Policy can be found on the Severn Trent Plc website. Detailed disclosures of how the Policy was implemented during the year are set out in the Directors' Remuneration Report within the Severn Trent Plc Annual Report and Accounts 2025.

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

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

Executive Director Remuneration

The Executive Directors of Hafren Dyfrdwy, being the Managing Director ('MD') and Chief Financial Officer ('CFO'), have responsibilities across both the regulated entities, as well as other non-regulated entities within the wider Group. Their remuneration package is structured accordingly, and designed to incentivise delivery for a wide range of stakeholders of the Group.

The remuneration of the MD is determined by the ST Plc Remuneration Committee and any payments made in relation to the annual bonus scheme ('ABS') or long-term incentive plan ('LTIP') are determined by Group performance and paid out of Group earnings.

The Directors' Remuneration Report within the 2025 Severn Trent Plc Annual Report and Accounts sets out the Remuneration Policy for Executive Directors and other senior Executive managers.

Fixed Pay

An allocation is made to Hafren Dyfrdwy in respect of duties carried out by the Executive Directors on behalf of the Company, based on a proportion of time spent and their annual fixed remuneration. This amounted to 9.75% in relation to the MD, James Jesic, and 20% in relation to the CFO, Rob McPheely, who joined the Board on 1 January 2025. The former CFO, Adam Stephens, resigned from the Board on 31 December 2024, but up to that point, 20% of his fixed remuneration was allocated to the Company.

Annual Bonus 2024/25

As noted above, the MD and CFO are part of the Group ABS. However, in recognition of the important roles they hold within the Company, a proportion of their bonus (3%, and broadly in line with the size of the Company within the Group) is aligned to Hafren Dyfrdwy performance. The annual bonus performance measures and weightings for the 2024/25 financial year were therefore as follows for the Executive Directors of Hafren Dyfrdwy:

	Hafren Dyfrdwy	Severn Trent Group
Financial (Profitability)	1.5%	38.5%
Customer and Environment Outcome Delivery Incentives ('ODIs')	1.5%	25.5%
Combined Sewer Overflow ('CSO') Reduction and CSO Enhancements	-	15%
Severn Trent Water Environmental Performance Assessment Rating	-	10%
Health and Safety (Lost Time Incidents)	-	8%

Neither the financial nor the ODI performance targets in respect of the Hafren Dyfrdwy elements of the annual bonus were met in 2024/25, which resulted in a zero payout on these elements for the MD and CFO. Details of performance against the Group elements of the ABS can be found in the Severn Trent Plc Annual Report and Accounts 2025.

Executive Remuneration for the Year Ahead

Fixed pay

Negotiations for the 2025 salary increase for the wider workforce are ongoing as at the date of this report. Recognising that the wider workforce increase is an important reference point in the decision, salaries for the Executive Directors for the year ahead have yet to be determined. However, it has been agreed in principle that percentage increases will be no higher than that agreed for the wider workforce.

Annual bonus

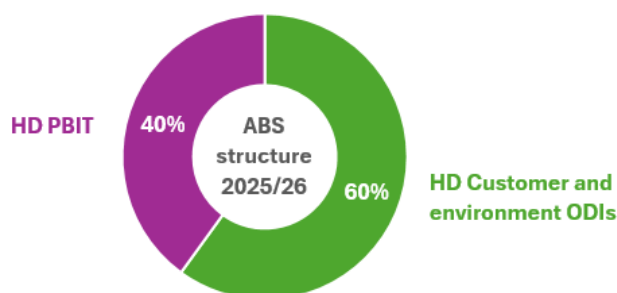
As part of the work performed by the ST Plc Remuneration Committee during the year, a review was conducted into the performance-related pay ('PRP') aspects of the Hafren Dyfrdwy Executive Directors. The driver for the review was to understand if there was an alternative way to structure PRP, which would better incentivise them to deliver for customers and the environment, whilst factoring in the responsibilities that the Hafren Dyfrdwy Executive Directors have to the wider Group, and considering the relative size of Hafren Dyfrdwy to that Group.

It was decided that the bonus structure for the MD and CFO of HD should be changed, creating a new bonus specifically for them, which is based purely on Hafren Dyfrdwy performance, and removes the 3% 'carve-out' of the Group ABS that is currently in place. The quantum of the bonus is to be set by reference to the salary they receive for their services to Hafren Dyfrdwy during the performance year, with the maximum amount Executive Directors could receive being 25% of the salary recharge, if stretch targets are met.

The underlying metric for the financial component of the bonus was also updated, moving from the Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') measure of profitability, to the Profit Before Interest and Tax ('PBIT') measure, to better reflect the responsibility that the MD and CFO have for the Company financials, and also to align to how profitability is reported to the Board.

Being conscious of the need to ensure a substantial link to stretching delivery for customers and the environment, for the 2025/26 Hafren Dyfrdwy ABS, the proportion of the bonus that

is linked to customer and environmental performance has increased, from 50% to 60%, with a corresponding reduction, to 40%, for the financial element.



This reinforces the importance that the Company places on performance for customers, but also the environment and river health, and emphasises the pivotal role we know we play in contributing towards and advocating for that health.

The ST Plc Remuneration Committee considers the forward-looking performance targets to be commercially sensitive and has, therefore, determined not to disclose them in advance. Details of the targets used, and outcomes achieved, will be disclosed in the Directors' Remuneration Report of the Hafren Dyfrdwy Annual Report and Accounts 2025/26.

Going forwards, target setting for the two measures (ODIs and PBIT) included in the new ABS for the Executive Directors of Hafren Dyfrdwy, will be set based on the recommendations of the Hafren Dyfrdwy Board. These recommendations will be included within the annual Group level target setting process for the bonus, and subject to review and approval by the ST Plc Remuneration Committee.

Non-Executive Directors

Non-Executive Directors normally serve for a term of three years. This term of appointment may be extended by mutual agreement of the Board, up to a maximum of nine years. Continuation of any appointment is conditional on satisfactory performance and recommendation by the Nominations Committee. The current Letters of Appointment for the Non-Executive Directors are available on the Hafren Dyfrdwy website.

Chair and Non-Executive Director fees

The Chair and Non-Executive Directors of Hafren Dyfrdwy receive an annual fee for their services to the Company. For the year ended 31 March 2025, all fees were recharged to the Company. The annual fee is reviewed annually, with any uplift being applied from 1 July each year.

The table below shows the fee structure currently in place for members of the Hafren Dyfrdwy Board, which became effective from 1 July 2024.

	2024/25
Chair's Fee	£52,500
Fee paid to all Non-Executive Directors ^{1,2}	£34,745
Audit and Risk Committee Chair	£5,534

1. Excludes Christine Hodgson, who is remunerated as part of her position as Chair of ST Plc.

2. For Sarah Legg, who is also remunerated as part of her responsibilities on the Severn Brent Plc Board, her annual fee was set at the reduced rate of £18,820 for 2024/25.

The table below sets out the total remuneration received by the Chair and Non-Executive Directors for financial years 2023/24 and 2024/25:

		Total Fees 2023/24 £000	Total Fees 2024/25 £000
Current Directors			
John Coghlan	17 February 2017 - present	20.5	51.9
Sally Jones-Evans	1 April 2018 - present	38.1	39.8
Mohammed Mehmet	1 April 2018 - present	32.8	34.3
Christine Hodgson ¹	1 April 2020 - present	0.0	0.0
Iain Mansfield	1 September 2024 - present	0.0	20.3
Sarah Legg	18 March 2025 - present	0.0	0.7
Former Directors			
Ann Beynon	1 April 2018 - 4 October 2024	32.8	17.5

1. Due to remuneration from her position as Chair of the ST Plc Board, Christine Hodgson received no additional remuneration in respect of her role as a Director of Hafren Dyfrdwy during 2024/25 or 2023/24.

Board Changes

Adam Stephens retired from the position of CFO of Hafren Dyfrdwy on 31 December 2024. Rob McPheely was appointed to the role, with effect from 1 January 2025, and remains the current CFO of Hafren Dyfrdwy.

During the year, we welcomed Iain Mansfield to the Board, who has taken up a Non-Executive Director role with effect from 1 September 2024. Sarah Legg, who has been a member of the ST Plc Board since 1 November 2022, was also appointed to the Hafren Dyfrdwy Board, effective from 18 March 2025.

Ann Beynon stepped down as a Non-Executive Director on 4 October 2024, after nearly seven years of service on the Board.

There were no other changes to the Board's membership during the year.

Directors' Report

The Directors' Report for the year ended 31 March 2025 comprises pages 97 to 105 of this report, together with the sections of the Annual Report incorporated by reference. The Governance Report set out on pages 61 to 96 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 60, as the Board considers them to be of strategic importance.

Specifically, these are:

- The Performance Review on pages 10 to 12, 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 2025;
- Future business developments, throughout the Strategic Report;
- Details of the Company's policy on addressing the Principal Risks and uncertainties facing the Company on pages 14 to 23;
- The Viability Statement and Going Concern Statement on pages 24 to 32;
- How we have engaged with our people and stakeholders on pages 34 to 46;
- Business relationships, throughout the Strategic Report; and
- The Section 172 Statement on pages 53 to 56.

For information on our approach to social, environmental and ethical matters, please refer to the Severn Trent Plc Annual Report and Accounts 2025.

Principal Activity

The principal activity of the Company is to treat and provide water and remove wastewater 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 2024/25, the Company had activities and operations solely in the UK.

Directors and Directors' Interests

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

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

- S Jones-Evans
- S C Legg
- I A Mansfield
- R C McPheely
- M Mehmet
- A P Stephens

Biographies of the Directors currently serving on the Board are set out on pages 62 to 66.

Detail relating to the remuneration of Directors is disclosed on pages 93 to 96.

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 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 6 to the financial statements. Hafren Dyfrdwy 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 believes that no one should be hurt or made unwell by what we do.

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

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

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

Employee Engagement

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

We provide opportunities for employees to give their feedback to the Company in a number of ways, including at team meetings and through our employee engagement surveys. More information on employee engagement can be found on pages 40 to 42.

Research and Development

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

Internal Controls

The Board is responsible for the Company's internal control systems and for reviewing their effectiveness. The Hafren Dyfrdwy Audit and Risk Committee regularly monitors and reviews the effectiveness of the Company's systems of internal control, including risk management, financial, operational and compliance aspects, in accordance with the requirements of the 2018 Code and the Guidance, and appropriate systems have been in place for the year ending 31 March 2025 and up to the date of the Annual Report. This is described in the Audit and Risk Committee Report on pages 83 to 92. The internal control system can provide only reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Treasury Management

Details on our Treasury Policy and management activities are set out in the Severn Trent Plc Treasury Committee Report within the Severn Trent Plc Annual Report and Accounts 2025.

Post Balance Sheet Events

There are no post balance sheet events to disclose.

Capital Structure

Details of the Company's issued share capital and of the movements during the year are shown in note 19 to the 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 UK Corporate Governance Code 2018 (on a voluntary basis), the Companies Act 2006 and related legislation. The Articles may be amended by Special Resolution of the

shareholders. The powers of Directors are described in the Hafren Dyfrdwy 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 (2023/24: £Nil) have been paid in the year. The Directors do not recommend the payment of a dividend (2023/24: £Nil).

Contributions for Political and Charitable Purposes

Donations to charitable organisations during the year amounted to £50,000 (2023/24: £46,582). Further details of the Company's Community Fund are set out on pages 37 to 39.

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 wastewater services which provide the opportunity for longer-term partnerships. In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes. We are also committed to supporting WaterAid, the UK's only major charity dedicated to improving access to safe water, hygiene and sanitation in the world's poorest countries.

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

Supplier Payment Policy

Individual operating companies within the Severn Trent Group are responsible for establishing appropriate policies with regard to the payment of their suppliers and prompt payment policies are reviewed on a regular basis. The companies agree terms and conditions under which business transactions with suppliers are conducted. It is Group 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 Group policy to ensure that suppliers know the terms on which payment will take place when business is agreed. You can read more about how we have worked with our suppliers and contractors on pages 43 to 44. For the payment practices reporting period ended 31 March 2025, the average time to pay for Hafren Dyfrdwy was 47 days.

Relevant Audit Information

The Directors confirm that:

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

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

External Auditor

Deloitte was first appointed as the Severn Trent Group's External Auditor for the year ended 31 March 2006 and was reappointed following a tender process at the 2016 Severn Trent Plc Annual General Meeting ('AGM'). In accordance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014, the Group undertook a mandatory tender in respect of the 2026 External Audit and, due to mandatory rotation requirements, Deloitte was not able to participate having acted as External Auditor for 20 years.

Following a robust and competitive tender process, led by the Severn Trent Plc Audit and Risk Committee on behalf of the Group, the Severn Trent Plc Board selected PwC as the External Auditor for the 2025/26 audit onwards, subject to Severn Trent Plc shareholder approval.

A resolution will be proposed to shareholders at the 2025 Severn Trent Plc AGM to appoint PwC as the Group's statutory auditor for the financial year ending 31 March 2026. The Severn Trent Plc Audit and Risk Committee will also be responsible for determining the Group audit fee on behalf of the Severn Trent Plc Board.

Our Approach to Climate Change

At a Group Level, we are committed to the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), providing our stakeholders with transparent information on climate-related risks and opportunities that are relevant to our business. Our seventh TCFD disclosure is provided on behalf of the Group and is presented in Severn Trent Plc Annual Report and Accounts 2025. This details the outputs from the risks we have assessed, the potential responses to those risks, the investment options available, and the wider considerations that need to be taken into account when making decisions. Our TCFD disclosure also complies with the requirements of the Companies Act 2006 as amended by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 ('CFD').

We also voluntarily incorporate detail using the guidance and recommendations of the Taskforce on Nature-related Financial Disclosures ('TNFD'). Combined, these disclosures provide transparent information on climate- and nature-related risks and opportunities relevant to our Group, demonstrating how interlinked our governance, risk management processes and metrics are.

What are we aiming for?

As a Group, we have committed to a Triple Carbon Pledge which is achieving net zero operational carbon emissions by 2030; 100% of energy from renewable sources and 100% electric vehicles (where available) by 2030. We have also set Science Based Targets ('SBTs') to reduce Scope 1 and 2 emissions by 46% by 2031 in line with a 1.5°C pathway, and for 70% of our supply chain (by emissions) to have set an SBT by 2026. We continue to evolve our plans and we are setting a new ambition to meet net zero across Scopes 1, 2 and 3 by 2050 across Severn Trent Plc, supported by a new intensity target to reduce our methane emissions by 30% by 2033.

Our Group Net Zero Transition Plan

Our commitment to mitigating and adapting to climate change remains a critical priority.

As ever, improving performance delivery for our customers is our priority and managing potential impacts to our customers is at the forefront of our plans, particularly to ensure that bills remain affordable. We will seek to minimise emissions whilst delivering improvements in water quality, pollutions and improved resilience.

Over the next year or two, we will develop more detailed Scope 3 plans and new targets as we deliver against our current engagement SBT in 2026, and will present these as part of an updated Net Zero Transition Plan at a Group level. Please see Severn Trent Plc Annual Report and Accounts 2024/25 for the full Net Zero Transition Plan.

Net zero in our Business Plan for AMP8

Our Business Plan emphasises our commitment to achieving net zero operational emissions by 2030. We were awarded £0.89million for Digital Twin technology, in combination with nitrous oxide containment designed to reduce operational and process emissions. These emissions, which include nitrous oxide and methane, originate from our wastewater and sludge treatment processes and are within our control. Insights from this and technologies being scaled up at Severn Trent will provide learning for the whole sector, which we will share with them to deliver further Scope 1 and 2 reductions.

Summary of performance

The following table shows our greenhouse gas performance. We report each year, starting from 2019/20, at a Group level within the Severn Trent Plc Annual Report and Accounts. Our emissions at a Group level have fallen by 25% against a 2019/20 baseline, representing good progress against our SBT of 46% reduction by 2031, driven predominantly by moving to 100% renewable backed electricity from our suppliers.

For Hafren Dyfrdwy specifically, our Scope 1 emissions have increased by 5% from 2023/24. This is due to the following factors:

- Fossil fuel emissions increased by 13 tonnes CO₂e due to an under-reporting of white diesel in 2023/24 that has been resolved with a billing reconciliation in 2024/25.
- Chemical emissions increased by 401 tonnes CO₂e. This largely stems from more complete reporting than previously captured.
- Business travel was reported for the first time, contributing to overall emissions.
- Our Group level commitment to fleet electrification continues, with 28% of our Group fleet now electric vehicles ('EVs'). This year we have also improved the accuracy of our EV charging data at Hafren Dyfrdwy and off-site/home charging is captured for the first time. These are assumed to use non-renewable electricity and are reported under market-based emissions.

For Scope 2, our energy use has been stable year on year. While there was a marginal increase in overall imported electricity usage within our water operations this was offset through a slight reduction in our waste business area.

We also report zero emissions from our 100% renewable green tariff in the market based emissions. We include emissions from employees charging vehicles at home.

Shown in our avoided emissions table is the carbon benefit of the renewable electricity which we export to the grid.

Operational greenhouse gas emissions (tonnes CO ₂ e)	2023/24	2024/25
Scope 1		
- Combustion of fossil fuels on site	15	28
- Process emissions – CAW ¹	203	228
- (Process emissions) - Revised methodology ²	930	984
- Transport fleet	721	749
Scope 1 Total Emissions ³	1,666	1,762
Scope 2 Emissions (Electricity purchased for own use) – Location based ³	4,151	4,148
Scope 2 Emissions (Electricity purchased for own use) – Market based ³	-	12
Scope 1 & 2 – Location based	5,817	5,910
Scope 1 & 2 – Market based	1,666	1,774
Scope 3 Emissions (Business travel)	-	19
Scope 3 Emissions (Outsourced bioresource activities)	572	560
Scope 3 Emissions (Electricity transmission and distribution)	359	367
Total Annual Gross Operational Emissions³ (Location based)	6,749	6,856
Total Annual Gross Operational Emissions³ (Market based)	2,597	2,720

¹ The Carbon Accounting Workbook (CAW) has been our historical and industry standard reporting method for process emissions, so is provided for transparency and comparison.

² Process Emissions revised methodology is based on:
 - Our direct monitoring and updated emission factors.
 - Direct monitoring data reported as a two-year rolling average.
 See page 104 for more details.

³ These values use the revised process emissions numbers.

Avoided emissions (tonnes CO ₂ e)	2023/24	2024/25
Estimated emissions benefit of the renewable electricity we export	786	522
Estimated emissions benefit of the renewable biomethane we export	N/A	N/A
Total	786	522

We report on our Group Scope 3 emissions in the Severn Trent Plc Annual Report and Accounts and included here for the second year is our Hafren Dyfrdwy Scope 3 emissions. See our Severn Trent Plc Annual Report and Accounts for wider reporting on our Scope 3 journey.

Our total Scope 3 footprint has increased by 14% from 2023/24 driven mainly by increased expenditure and activity on capital goods (which has increased by 51%). This reflects the significant increase in investment in our capital programme, which will continue into AMP8.

Scope 3 emissions (tonnes CO ₂ e)	2023/24	2024/25
1) Purchased goods and services	3,070	3,280
2) Capital goods	2,619	5,181
3) Fuel & energy related activities – T&D	359	367
3) Fuel & energy related activities – WTT	178	233
4) Upstream transportation and distribution	477	444
5) Waste generated in operations	610	730
6) Business travel	N/A	19
7) Employee commuting	175	196
8) Upstream leased assets	N/A	N/A
9) Downstream transportation and distribution	N/A	N/A
10) Processing of sold products	N/A	N/A
11) Use of sold products	N/A	N/A
12) End of life treatment of sold products	N/A	N/A
13) Downstream leased assets	359	554
14) Franchises	N/A	N/A
15) Investments	N/A	N/A
Total Scope 3	7,847	11,004

Greenhouse gas (GHG) reporting method for the Group

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO₂e), for the period 1 April 2024 to 31 March 2025. We report our location-based and market-based emissions separately and report on 10 Scope 3 categories. We report using a financial control boundary (which includes emissions from the assets we own and operate and can directly influence and reduce) and follow the practices set out by the GHG Protocol. All emissions reported are within the UK. We report both location-based and market-based emissions in the table.

Method for calculating process emissions

We present two Company-level emissions baselines. The first baseline is generated using the latest version of the UK Water Industry Research ('UKWIR') methodology for estimating operational GHG, known as the Carbon Accounting Workbook ('CAW'). This baseline, mandated by our regulator, applies standard emission factors to the total loads treated at each of our operational sites. Since 2021, we have invested in direct monitoring programme at several of our wastewater treatment facilities. The data available through direct

monitoring is more accurate, and consequently has supported us in publishing a second baseline.

Where direct monitoring data is available, we report this at a facility level using a two-year rolling average, which accounts for seasonal fluctuations. For the remainder of our facilities, we use an emission factor informed by internal and external monitoring work. Multi-year measurement at Severn Trent, and at other companies, indicates variation in N₂O production, believed to be due to environmental conditions and climate affecting the biology in the treatment process.

Our direct emissions monitoring encompasses facilities responsible for 43% of our wastewater treatment and 50% of our sludge treatment processes at both companies. Our fourth year of monitoring continues to confirm that real emissions are higher than UKWIR CAW estimates. However, when compared to the International Panel on Climate Change (IPCC) global factor our emissions are typically lower. The latest assured methodology has been applied to our historical emissions to enable comparison.

Assuring our data

The Group's independent non-financial assurer, Jacobs, assures our processes and GHG data in line with the principals of the ISO 14064 International Standard for GHG emissions, and concluded that our processes are consistent with the reporting requirements of the GHG Protocol. In addition, we were re-certified to the Advancing Tier for the Carbon Trust Route to Net Zero Standard which recognises the progress of an organisation on its journey to net zero. This included assurance against the principles of the ISO 14064-3 International Standard for GHG emissions for our Scope 1 and 2 data, and a small portion of our Scope 3 data along with an extensive assessment of our ambition, governance, measurement, stakeholder engagement and implementation plans to reduce emissions. We scored well against this assessment and the recommendations have been fed into our improvement plan.

Annual Performance Report for Hafren Dyfrdwy Cyfyngedig

The Annual Performance Report for Hafren Dyfrdwy is prepared and sent to Ofwat. The Annual Performance Report will be available on the Hafren Dyfrdwy website from 15 July 2025.

By order of the Board.



James Jesic
Managing Director

10 July 2025

Directors' Responsibility Statement

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

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

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

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

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

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

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

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

This Responsibility Statement was approved by the Board of Directors on 10 July 2025 and is signed on its behalf by order of the Board:



John Coghlan

Chair

10 July 2025



James Jesic

Managing Director

10 July 2025

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 2025 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

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

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

 Similar level of risk

Materiality	The materiality that we used in the current year was £800,000 (2024: £795,000) which was determined on the basis of c.2% of revenue.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There are no changes in our approach in the current year.

4. Conclusions relating to going concern

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

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

- understanding the nature of the company, its business model and related risks including the impact of the cost of living and affordability crisis;
- evaluating the underlying data and key assumptions used in the directors' assessment and evaluating the directors' plans for future financing;
- evaluating the funding available through the company's credit facilities, including their maturity period, Severn Trent Group's ability to provide such funding to support the company's forecasted future cash flows, future commitments, and the net current asset position at the balance sheet date;
- assessing the assumptions used in the cash flow forecasts, including testing for consistency with board approved budgets and future plans for Asset Management Plan ("AMP") AMP 8, together with evaluating sensitivity analysis relating to these assumptions; evaluating historical accuracy of forecasts prepared by management;
- assessing the impact of risks and uncertainties on the business model and medium-term risks;
- assessing the headroom under both the base case and sensitised forecasts; and
- reviewing the appropriateness of the disclosures 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 receivables

Key audit matter description

Hafren Dyfrdwy Cyfyngedig supplies water to residential customers in the UK and the provision represents the portion of household customers who do not, or cannot, pay their bills. Management makes estimates regarding the expected future loss rate for current receivables when calculating the appropriate level of bad debt provision.

The bad debt provision recorded as at 31 March 2025 was £8.3 million (31 March 2024: £7.2 million), which incorporates management's estimate of the future impact of external economic factors on customers' ability to pay their outstanding bills to the company.

The provision is based on the historical cash collection of debt invoiced seven to nine years ago, which is considered by the directors to be representative of collection risk, using data relating to both Hafren Dyfrdwy Cyfyngedig's customers for the Powys region and Severn Trent Water Limited's customers for the Wrexham region.

This historical collection performance is then adjusted for actual current cash collection. The final step is to adjust the provision for future economic conditions, for which management has considered the correlation between forecast cash collection and Real Household Disposable Income (RHDI).

The key audit matter is focussed on the appropriateness of the assumption that the experience of debt invoiced seven to nine years ago is a reasonable expectation for the determination of lifetime expected credit losses under IFRS 9 Financial Instruments (including whether the use of Severn Trent Water Limited's provision rates are appropriate for the debtors within the Wrexham region), and whether the assumptions used in determining the impact of forecast movements in RHDI on the expected credit loss are appropriate. Due to the high degree of estimation uncertainty associated with the recoverability of trade receivables, we have determined that there was a potential for fraud through possible manipulation of this balance.

The Audit and Risk Committee also considered this as a significant issue as discussed in the Audit and Risk Committee Report on page 91. Management has included this as a key source of estimation uncertainty in note 2b to the financial statements. The accounting policy for the provision for trade receivables is disclosed in note 1(k) 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 to address the key audit matter included the following:

- obtaining an understanding of relevant controls over the determination of the bad debt provision, including over the supporting data and assumptions;
- testing the completeness and accuracy of the data included within the bad debt provision calculation;
- assessing the allocation of cash received in the current year to debt aged between seven and nine years;
- use of data analytics to reconcile the debtor ageing for each debt category used in the bad debt provision model using source data from the billing system;
- challenging the appropriateness of the company's bad debt provision on the collection rates experienced by Severn Trent Water Ltd for the area of Wrexham for debtors aged less than six years and for specific localised collection in Powys;
- evaluating the reasonableness of economic data (both forecast and historical) used within the calculation, and performing a sensitivity analysis;
- evaluating management's assumptions used in the calculation of the bad debt provision and challenging whether this represents lifetime expected credit loss, including review of cash collection data and historical trends; and
- assessing the appropriateness of the disclosures relating to the key assumptions, and the range of sensitivities.

Key observations

We are satisfied that the assumptions applied in assessing the expected credit losses, are reasonable and that the bad debt provision has been appropriately calculated using relevant data.

5.2. Classification of capital programme expenditure

Key audit matter description

The company has a substantial capital programme which has been agreed with the regulator ("Ofwat") and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets.

During the year the company invested £26.2 million (2024: £18.1 million) in capital expenditure projects out of total additions of £37.0 million (2024: £24.9 million) disclosed in note 11. Hafren Dyfrdwy Cyfyngedig spent a further £3.8 million (2024: £3.8 million) spent on infrastructure maintenance expenditure, disclosed in note 4.

As the determination of whether expenditure is capitalised or expensed in the period directly affects the company's reported financial performance, we identified a key audit matter relating to the classification of capital expenditure, whether caused by changes to the company's capital expenditure policy implementation guidance or by incorrect application of this guidance. Due to the level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance.

The Audit and Risk Committee also considered this a significant issue as discussed in the Audit Committee Report on page 91. Management has included this as a critical accounting judgement in note 2a to the financial statements.

How the scope of our audit responded to the key audit matter

Our procedures to address the key audit matter included the following:

- obtaining an understanding of relevant controls over the application of the policy regarding expenditure incurred on projects within the capital programme during the year;
- assessing management's capitalisation policy and implementation guidance to understand any changes in the current year and to determine compliance with the relevant accounting standards; and
- for a sample of projects, assessing whether the capitalisation policy has been applied to the costs incurred by reviewing the business cases, making direct enquiries of project managers and inspecting invoices.

Key observations

We are satisfied that management has appropriately applied its capitalisation policy and implementation guidance in determining the expenditure to be capitalised.

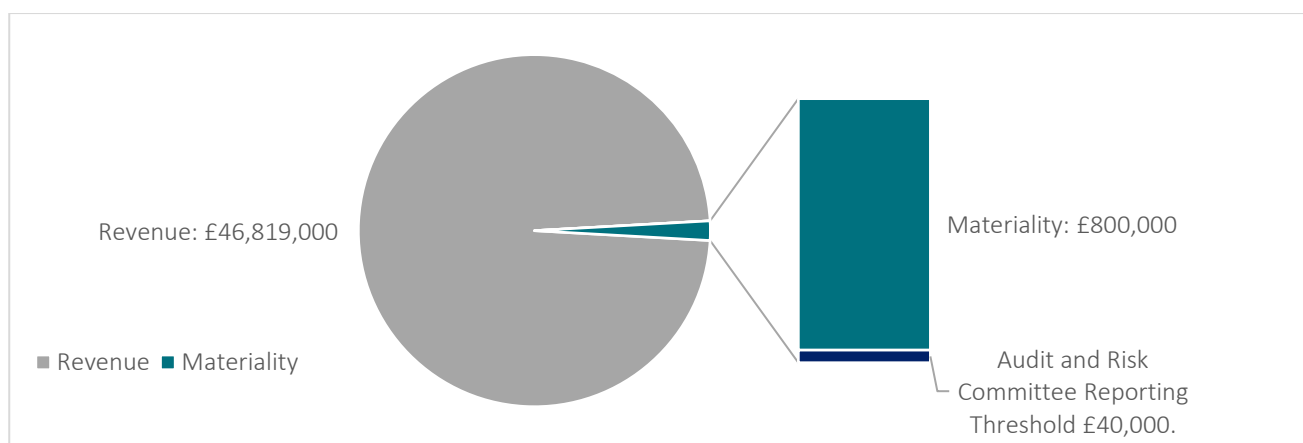
6. Our application of materiality

6.1. Materiality

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

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

Materiality	£800,000 (2024: £795,000)
Basis for determining materiality	Materiality has been determined based on 2% of revenue for the year (2024: 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 2025 audit (2024: 70%). In determining performance materiality we considered our ability to rely on general information technology controls, our assessment of the control environment, and the continuity of the business year on year. We also considered the value of uncorrected misstatements identified in previous years.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £40,000 (2024: £39,700), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

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

7.2. Our consideration of the control environment

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

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

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

7.3. Our consideration of climate-related risks

The company has assessed the risk and opportunities relevant to climate change and has included this risk as a principal risk as set out on page 22 as consistent with previous years.

As part of our audit procedures, we have obtained management's climate-related risk assessment and held discussions with management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the company's financial statements. While management has acknowledged that the transition and physical risks posed by climate change have the potential to impact the medium to long term success of the business, they have assessed that there is no material impact arising from

climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2025 as explained in note 2(a)(iii)).

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

Our audit procedures also included:

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

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise

from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

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

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation 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 programme expenditure as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

13. Corporate Governance Statement

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

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 32;

- the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 32;
- the directors' statement on fair, balanced and understandable set out on page 106;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 17;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 86; and
- the section describing the work of the Audit and Risk Committee set out on pages 83 to 92.

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

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

15. Use of our report

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



Marianne Milnes FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

10 July 2025

Hafren Dyfrdwy Cyfyngedig

Income statement

For the year ended 31 March 2025

	Note	2025 £'000	2024 £'000
Turnover	3	46,819	40,043
Operating costs before charge for bad and doubtful debts		(47,726)	(43,267)
Charge for bad and doubtful debts		(1,669)	(1,089)
Total operating costs	4	(49,395)	(44,356)
Loss before interest and tax		(2,576)	(4,313)
Finance income	7	1,929	1,959
Finance costs	8	(3,744)	(3,690)
Net finance costs		(1,815)	(1,731)
Loss on ordinary activities before taxation		(4,391)	(6,044)
Current tax	9	6,386	6,800
Deferred tax	9	(4,774)	(5,951)
Taxation on loss on ordinary activities		1,612	849
Loss for the year		(2,779)	(5,195)

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

Statement of comprehensive income

For the year ended 31 March 2025

	2025	2024
	£'000	£'000
Loss for the year	(2,779)	(5,195)
Other comprehensive loss for the year		
Items that will not be reclassified to the income statement:		
Net actuarial losses	(122)	–
Deferred tax on net actuarial losses	24	–
Total comprehensive loss for the year	(2,877)	(5,195)

Hafren Dyfrdwy Cyfyngedig

Balance sheet

As at 31 March 2025

	Note	2025 £'000	2024 £'000
Non-current assets			
Intangible assets	10	3,196	4,138
Property, plant and equipment	11	272,616	244,068
Biological assets	12	2,622	3,034
Right-of-use assets		31	45
Trade and other receivables	13	—	5
Retirement benefit surplus	14	5,277	5,400
		283,742	256,690
Current assets			
Inventory		620	714
Trade and other receivables	13	27,030	33,865
Current tax receivable		12,765	8,479
Cash and cash equivalents		92	728
		40,507	43,786
Current liabilities			
Borrowings	15	(1,138)	(68)
Trade and other payables	16	(25,632)	(23,132)
Provisions for liabilities	18	(6,185)	(8,223)
		(32,955)	(31,423)
Net current assets		7,552	12,363
Non-current liabilities			
Borrowings	15	(86,257)	(71,687)
Trade and other payables	16	(18,241)	(18,744)
Deferred tax	17	(34,229)	(29,480)
Provisions for liabilities	18	(10,982)	(4,739)
		(149,709)	(124,650)
Net assets		141,585	144,403
Equity			
Called up share capital	19	168,051	168,051
Other reserves		614	614
Fair value reserve		11,685	11,685
Total retained earnings		(38,765)	(35,947)
		141,585	144,403

The financial statements were approved by the Board of Directors on 10 July 2025.

They were signed on its behalf by:



Robert McPheely
Chief Financial Officer
10 July 2025
Company Number: 03527628

Hafren Dyfrdwy Cyfyngedig

Statement of changes in equity For the year ended 31 March 2025

	Share capital £'000	Other reserves £'000	Fair value reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2023	168,051	614	11,685	(30,754)	149,596
Loss for the year	–	–	–	(5,195)	(5,195)
Total comprehensive loss for the year	–	–	–	(5,195)	(5,195)
Share options and LTIPs					
- value of employees' services	–	–	–	41	41
Deferred tax on share based payments	–	–	–	(39)	(39)
At 1 April 2024	168,051	614	11,685	(35,947)	144,403
Loss for the year	–	–	–	(2,779)	(2,779)
Net actuarial losses	–	–	–	(122)	(122)
Tax on net actuarial gains	–	–	–	24	24
Total comprehensive loss for the year	–	–	–	(2,877)	(2,877)
Share options and LTIPs					
- value of employees' services	–	–	–	58	58
Deferred tax on share based payments	–	–	–	1	1
At 31 March 2025	168,051	614	11,685	(38,765)	141,585

Notes to the financial statements

1. Accounting policies

a) Accounting convention

The financial statements have been prepared on the going concern basis (see strategic report on page 32) 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 United Kingdom Companies Act 2006 ('the Act'). The material accounting policies, which have been applied consistently in the current and preceding year are set out below.

As at 31 March 2025, the Company has net assets of £141,485,000 (2024: £144,403,000) and a net current assets position of £7,552,000 (2024: £12,363,000).

The Directors have considered the financial position and future prospects of the Company. The Company participates in the Group's pooled banking arrangements and may draw down on funding, when required, from the Severn Trent Group in the form of intra-Group loans. The Directors have a reasonable expectation that the Company has adequate resources, including financial resources available from other Group companies, to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the report and annual financial statements.

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. The address of its registered office is Packsaddle, Wrexham Road, Rhostyllen, Wrexham, Clwyd, LL14 4EH.

b) Basis of preparation

The Company is a wholly owned subsidiary of Severn Trent Draycote Limited and of its ultimate parent, Severn Trent Plc. It is included in the consolidated financial statements of Severn Trent Plc, which are publicly available.

The Company meets the definition of a qualifying entity as defined in 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 United Kingdom adopted International Financial Reporting Standards have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as the parent company financial statements are Companies Act 2006 accounts.

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

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

c) Revenue

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

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

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

Renewable energy revenue includes sales of electricity and the related green energy incentives.

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies (continued)

c) Revenue (continued)

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

d) 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 income 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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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.

The Company applies the amendment to IAS 12 - International tax reform - Pillar Two Model Rules that was effective for accounting periods beginning on or after 1 January 2023. The adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

e) Borrowings

All 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 in the income statement.

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:

	Estimated useful life
Software	3 – 10 years

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 2 i) below).

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Notes to the financial statements (continued)

1. Accounting policies (continued)

f) Intangible assets (continued)

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 and impairment. 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. The transfer is considered to be linked to the provision of ongoing services therefore the corresponding credit is recorded in deferred income and released to turnover over the expected useful lives of the related assets. Further details regarding the judgment applied is detailed in note 2.

Where assets take a substantial period 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 and service reservoirs	10 – 80 years
Infrastructure assets	Impounding reservoirs	250 years
	Raw water aqueducts	250 years
	Water mains	80 – 150 years
	Sewers	150 years
Fixed plant and equipment	Fixed plant and equipment	5 – 50 years
	Water meters	15 years
	Mobile plant and vehicles	2 – 9 years

h) 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 wastewater 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 income statement in the period that they become receivable.

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies (continued)

i) Impairment of non-current assets

If the recoverable amount of 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 cost of capital adjusted for the risk profiles of individual businesses. For regulated businesses we use the weighted average cost of capital (WACC) from Ofwat's latest price review adjusted for market changes since this date where appropriate.

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

Impairment losses are recognised in the income statement.

j) Inventory

Inventory and work in progress is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

k) 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.

l) Retirement benefits

(i) Defined benefit schemes

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

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices.

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies (continued)

l) Retirement benefits (continued)

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 income or cost is calculated by applying the discount rate used for the scheme liabilities to the net surplus or obligation.

Changes in the retirement benefit surplus or 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 remeasurements, 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 schemes

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

m) 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.

Insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the ultimate parent company's independent insurance advisers.

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.

n) Biological assets

Biological assets consist of trees held by the Company for the purpose of commercial felling. Agricultural produce consists of felled trees and timber.

Biological assets are recognised by the Company when they are intended to be used for commercial activity and meet the following criteria as set out in IAS 41 - Forestry Assets:

- the assets are controlled by the Company;
- where required, the appropriate regulatory authority has approved the commercial felling of the asset; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at fair value less costs to sell on initial recognition. At the end of subsequent periods, biological assets are remeasured to fair value less costs to sell and the gain or loss on remeasurement is included in other income or costs in the income statement.

Biological assets are valued by independent qualified valuers on a quinquennial basis. Between independent valuations, fair values are estimated by management based on the previous quinquennial valuation and movements in market indices.

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

Agricultural produce is measured at fair value less costs to sell at the point of harvest.

2. Significant accounting judgments and key sources of estimation uncertainty

Critical accounting judgments and key sources of estimation uncertainty

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 Group has developed to facilitate the consistent application of its accounting policies.

ii) *Income from connections to water and wastewater networks*

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

- Developers transfer to the Company 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. 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 wastewater services to the properties in question requires judgment about the nature of the ongoing relationship between the Company and the customer. During the period the Company received infrastructure charges amounting to £290,342 (2024: £348,000) and other charges relating to the provision of infrastructure amounting to £4,126 (2024: £12,365).

The Company considers that the purpose of these transactions is to facilitate the ongoing provision of water and wastewater 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 wastewater 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 wastewater service, the transactions have no value. Therefore, in line with our accounting policies the amounts received are held on the balance sheet and released to turnover in the income statement over the life of the related assets.

iii) *Climate change*

The Company has performed an assessment of the impact that climate change may have on the amounts recognised in the financial statements. The natural environment in which the Company operates is continually changing, and the expected impact on the Company from climate change is set out within the 'Our approach to climate change' section of the Strategic Report on page 101.

We have considered the impact of the climate change related risks to which the Company is exposed in the preparation of these financial statements, including the consideration of the impact of climate change related risks on management's judgments and estimates, the carrying value of assets and their useful economic lives. The risks are long term in nature, and whilst they will provide a need for investment in the future, we conclude that there is no material impact on the carrying amount of assets or liabilities recognised in the financial statements, nor do they lead to any additional key sources of estimation or judgment.

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

2. Significant 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 Group's experience of similar assets. Details are set out in note 1 g).

The average useful life of property, plant and equipment by asset category is detailed as follows:

	Average useful economic life (years)
Land and buildings	35.1
Infrastructure assets	119.5
Fixed plant and equipment	13.6

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

	10 per cent increase in UEL £'000	10 per cent decrease in UEL £'000
Impact on annual depreciation		
Land and buildings	(170)	187
Infrastructure assets	(157)	172
Fixed plant and equipment	(549)	604

ii) Retirement benefit obligations

Determining the amount of the Group'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 14 to the financial statements.

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

2. Significant accounting judgments and key sources of estimation uncertainty (continued)

b) Sources of estimation uncertainty (continued)

iii) Expected credit losses on trade receivables

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

The gross carrying amounts and expected credit loss allowances for trade receivables and accrued income were as follows:

	2025 £'000	2024 £'000
Gross carrying amount	33,908	28,721
Provision for bad and doubtful debts	(8,259)	(7,192)
Net carrying amount	25,649	21,529

Movements in the expected credit loss allowance are as follows:

	2025 £'000	2024 £'000
At 1 April	7,192	6,905
Charge for bad and doubtful debts	1,669	1,089
Amounts written off during the year	(602)	(802)
At 31 March	8,259	7,192

The average expected credit loss for the outstanding trade receivables and accrued income was 1.8% as at 31 March 2025 (2024: 1.7%). An increase/decrease of 10bps in the expected credit loss would result in an increase/decrease to the charge and provision for bad and doubtful debts by £628,000 (2024: £458,000).

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

3. Turnover

	2025	2024
	£'000	£'000
Water and wastewater services	44,231	37,762
Commission	1,680	1,313
Timber income	507	410
Renewable energy	401	558
	46,819	40,043

Revenue from water and wastewater services provided to customers with meters is recognised when the service is provided and is measured based on actual meter readings and estimated consumption for the period between the last meter reading and the year end. For customers who are not metered, the performance obligation is to stand ready to provide water and wastewater services throughout the period. Such customers are charged on an annual basis, coterminous with the financial year, and revenue is recognised on a straight-line basis over the financial year.

Payments received from customers in advance of the service period represents a contract liability. Changes in the contract liabilities from payments received in advance were as follows:

	2025	2024
	£'000	£'000
Contract liability at 1 April	5,128	4,847
Revenue recognised	(25,789)	(21,730)
Cash received	26,465	22,011
Contract liability at 31 March	5,804	5,128

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

4. Operating costs

	2025	2024
	£'000	£'000
Wages and salaries	9,555	8,229
Social security costs	1,000	849
Pension costs	586	757
Share based payments	58	41
Total employee costs	11,199	9,876
Power	4,950	6,999
Raw materials and consumables	3,680	2,571
Rates	1,326	1,328
Charge for bad and doubtful debts	1,669	1,089
Service charges	5,472	5,568
Depreciation of tangible fixed assets	8,494	7,736
Depreciation of right-of-use assets	14	12
Amortisation of intangible fixed assets	960	972
Hired and contracted services	6,987	6,079
Hire of plant and machinery	304	511
Infrastructure maintenance expenditure	3,760	3,844
Ofwat licence fees	189	194
Other operating costs	7,176	7,100
Own work capitalised	(6,728)	(6,386)
Operating costs	49,452	47,493
Fair value uplift on forestry assets	(44)	(2,927)
Other operating income	(13)	(210)
Operating income	(57)	(3,137)
Total net operating costs	49,395	44,356

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

	2025	2024
	£'000	£'000
Fees payable to the company's auditors for:		
- the audit of the company's annual accounts	86	83
Total audit fees	86	83
Fees payable to the company's auditors and their associates for other services to the Company:		
- other assurance services	41	39
Total non-audit fees	41	39

No other fees were payable to the auditor (2024: nil).

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Notes to the financial statements (continued)

5. Directors' remuneration

	2025	2024
	£'000	£'000
Non-executive director remuneration	161	103

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

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

6. Employee numbers

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

	2025	2024
	Number	Number
Direct staff	226	207

7. Finance income

	2025	2024
	£'000	£'000
Interest income earned on:		
Bank deposits	5	58
Other financial income	15	1
Interest income on defined benefit scheme assets (note 14)	1,909	1,900
	1,929	1,959

8. Finance costs

	2025	2024
	£'000	£'000
Interest charged on:		
Amounts payable to group undertakings	1,205	1,288
Finance leases	34	29
Bank and other loans	866	773
Interest cost on defined benefit scheme liabilities (note 14)	1,639	1,600
	3,744	3,690

Borrowing costs of £3,417,000 (2024: £2,923,000) incurred funding eligible capital projects have been capitalised at an interest rate of 5.7% (2024: 8.6%). Tax relief of £854,000 (2024: £731,000) was claimed on these costs, which was credited to the income statement, offset by a related deferred tax charge of £854,000 (2024: £731,800).

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Notes to the financial statements (continued)

9. Taxation

a) Analysis of tax charge in the year

	2025 £'000	2024 £'000
Current UK corporation tax at 25% (2024: 25%)		
Current year	(7,976)	(6,427)
Prior year adjustment	1,590	(373)
Total current tax	(6,386)	(6,800)
Deferred tax		
Origination and reversal of temporary differences:		
- current year	6,327	4,504
- prior year adjustment	(1,553)	1,447
Total deferred tax	4,774	5,951
	(1,612)	(849)

b) Factors affecting the tax charge in the year

The tax assessed for the current year is higher (2024: lower) to the standard rate of corporation tax in the UK of 25% (2024: 25%).

The differences are explained below:

	2025 £'000	2024 £'000
Loss on ordinary activities before tax	(4,391)	(6,044)
Tax at the standard rate of corporation tax in the UK 25% (2024: 25%)	(1,098)	(1,511)
Tax effect of depreciation on non-qualifying assets	290	108
Other permanent differences	(841)	(520)
Adjustment in respect of prior years	37	1,074
Total tax credit	(1,612)	(849)

Deferred tax is provided at 25%, the rate that is expected to apply when the asset or liability is expected to be settled. Further details are provided in note 17.

c) Tax charged directly to equity

In addition to the amount charged to the income statement, the following amounts have been charged directly to equity:

	2025 £'000	2024 £'000
Deferred tax		
Tax on share based payment	(1)	(39)
	(1)	(39)

As part of the Organisation for Economic Co-operation and Development ('OECD')/G20 Base Erosion and Profit Shifting ('BEPS') project, the OECD has introduced the Pillar Two Model Rules. The Company is part of the Severn Trent Group which is within the scope of these OECD Pillar Two model rules. Disclosures required by the FRS are included in the Group financial statements and can be obtained as set out in note 23.

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Notes to the financial statements (continued)

10. Intangible assets

	Software £'000
Cost	
At 1 April 2024	9,802
Additions	18
At 31 March 2025	9,820
Amortisation	
At 1 April 2024	(5,664)
Charge for the year	(960)
At 31 March 2025	(6,624)
Net book value	
At 31 March 2025	3,196
At 31 March 2024	4,138

11. Property, plant and equipment

	Land and buildings £'000	Infrastructure assets £'000	Fixed plant and equipment £'000	Assets under construction £'000	Total £'000
Cost					
At 1 April 2024	48,943	142,270	84,910	42,732	318,855
Additions	1,618	1,863	3,478	30,083	37,042
Transfers on commissioning	131	4,291	9,311	(13,733)	–
At 31 March 2025	50,692	148,424	97,699	59,082	355,897
Depreciation					
At 1 April 2024	(7,254)	(23,086)	(44,447)	–	(74,787)
Charge for the year	(1,480)	(1,656)	(5,358)	–	(8,494)
At 31 March 2025	(8,734)	(24,742)	(49,805)	–	(83,281)
Net book value					
At 31 March 2025	41,958	123,682	47,894	59,082	272,616
At 31 March 2024	41,689	119,184	40,463	42,732	244,068

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Notes to the financial statements (continued)

12. Biological assets

Biological assets comprise forestry assets situated at Lake Vyrnwy in Wales. The forest was valued by RICS Registered Valuers, Knight Frank LLP in December 2022. The valuation was updated to the recognition date using the Standing Timber Index published by Forest Research according to arrangements approved by the UK Statistics Authority. Forest Research is the research agency of the Forestry Commission and is Great Britain's principal organisation for forestry and tree-related research.

	2025 £'000	2024 £'000
Value at 1 April	3,034	72
Reclassification (to)/from timber stock	(456)	445
Gain on initial recognition	–	1,932
Change in fair value on remeasurement	44	585
Value at 31 March	2,622	3,034

Hafren Dyfrdwy holds 177.1 hectares (2024: 224.6) of forestry assets.

13. Trade and other receivables

	2025 £'000	2024 £'000
Current assets		
Trade receivables	27,497	20,188
Bad debt provision	(8,259)	(7,192)
Net trade receivables	19,238	12,996
Amounts receivable from group undertakings	55	10,888
Other amounts receivable	1,167	1,154
Prepayments	159	294
Accrued income	6,411	8,533
	27,030	33,865
Non-current assets		
Prepayments	–	5
	–	5

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

a) Credit risk

Trade receivables and accrued income

The Company has a statutory obligation to provide water and wastewater 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 accrued income.

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Notes to the financial statements (continued)

13. Trade and other receivables (continued)

a) Credit risk (continued)

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 forecasts of the future impact of external economic factors on the Company's collection of trade receivables.

Debts are written off when there is no realistic expectation of further collection and enforcement activity has ceased. There were no amounts outstanding on receivables written off and still subject to enforcement activity (2024: nil).

b) Expected credit loss allowance

Trade receivables and accrued income

The expected credit loss at 31 March 2025 and 2024 was as set out below. The loss allowance is based on historical credit losses adjusted for expected changes in cash collection. The loss rate disclosed is calculated by applying the loss allowance to the gross carrying amount for each age category.

2025	Expected loss rate %	Gross carrying amount £'000	Loss allowance £'000	Net carrying amount £'000
Not past due	6	13,753	(874)	12,879
Up to 1 year past due	13	5,013	(638)	4,375
1 – 2 years past due	31	3,520	(1,102)	2,418
2 – 3 years past due	35	2,883	(1,018)	1,865
3 – 4 years past due	43	2,378	(1,023)	1,355
4 – 5 years past due	47	1,871	(888)	983
5 – 6 years past due	66	1,517	(995)	522
6 – 7 years past due	42	1,360	(570)	790
7 – 8 years past due	71	751	(535)	216
8 – 9 years past due	71	420	(300)	120
More than 9 years past due	71	442	(316)	126
		33,908	(8,259)	25,649

2024	Expected loss rate %	Gross carrying amount £'000	Loss allowance £'000	Net carrying amount £'000
Not past due	4	10,840	(397)	10,443
Up to 1 year past due	18	3,833	(671)	3,162
1 – 2 years past due	30	3,374	(999)	2,375
2 – 3 years past due	38	2,858	(1,073)	1,785
3 – 4 years past due	45	2,225	(1,001)	1,224
4 – 5 years past due	64	1,776	(1,134)	642
5 – 6 years past due	45	1,691	(760)	931
6 – 7 years past due	34	993	(335)	658
7 – 8 years past due	73	549	(399)	150
8 – 9 years past due	73	291	(212)	79
More than 9 years past due	73	291	(211)	80
		28,721	(7,192)	21,529

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Notes to the financial statements (continued)

13. Trade and other receivables (continued)

b) Expected credit loss allowance (continued)

Movements on the expected credit loss allowance were as follows:

	2025 £'000	2024 £'000
At 1 April	7,192	6,905
Charge for bad and doubtful debts	1,669	1,089
Amounts written off during the year	(602)	(802)
At 31 March	8,259	7,192

14. Retirement benefit scheme

a) Defined benefit pension scheme

(i) Background

The Company participates in a defined benefit pension scheme in the UK of the Water Companies Pension Scheme. This is a sectionalised Scheme which closed to future accrual on 31 March 2024. The Scheme funds are administered by trustees and are independent of the Company's finances.

The defined benefit pension scheme covers increases in accrued benefits arising from inflation and pension increases. Their assets are held in separate funds administered by trustees. The trustees are required to act in the best interests of the scheme's 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 defined benefit pension scheme and the date of the last completed formal actuarial valuation as at the accounting date is as follows:

	<u>Date of last formal actuarial valuation</u>
Water Companies Pension Scheme – Dee Valley Water Limited Section ('DVWS')	31 March 2023

The defined benefit scheme assets have been updated to reflect their market value at 31 March 2025. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income. Service cost, and the costs of administering the scheme, are recognised in operating costs and interest cost is recognised in net finance costs.

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

	2025 £'000	2024 £'000
Fair value of assets	36,179	40,200
Present value of the defined benefit obligations	(30,902)	(34,800)
Net asset recognised in the balance sheet	5,277	5,400

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Notes to the financial statements (continued)

14. Retirement benefit scheme (continued)

a) Defined benefit pension scheme (continued)

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

	2025	2024
	£'000	£'000
Fair value of scheme assets		
Annuity policies	30,329	34,200
Cash	5,420	5,500
Other	430	500
	36,179	40,200

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

	2025	2024
	£'000	£'000
Fair value at 1 April	40,200	40,800
Interest income on scheme assets	1,909	1,900
Return on plan assets (excluding amounts included in finance income)	(3,209)	(200)
Expenses paid	(271)	(300)
Benefits paid	(2,450)	(2,000)
Fair value at 31 March	36,179	40,200

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

	2025	2024
	£'000	£'000
Present value at 1 April	(34,800)	(35,100)
Service cost	–	(100)
Past service cost	–	(200)
Interest cost	(1,639)	(1,600)
Actuarial (losses)/gains arising from changes in demographic assumptions	(21)	100
Actuarial gains arising from changes in financial assumptions	3,212	500
Actuarial losses arising from experience adjustments	(104)	(400)
Benefits paid	2,450	2,000
Present value at 31 March	(30,902)	(34,800)

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Notes to the financial statements (continued)

14. Retirement benefit scheme (continued)

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

The amounts recognised in the income statement are as follows:

	2025	2024
	£'000	£'000
Current service cost	–	(100)
Past service cost	–	(200)
Administrative expenses	(271)	(300)
Interest income on scheme assets	1,909	1,900
Interest cost	(1,639)	(1,600)
Total amount charged to the income statement	(1)	(300)

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

	2025	2024
	£'000	£'000
Net actuarial gains/(losses) in the year due to:		
-Changes in financial assumptions	3,212	500
-Changes in demographic assumptions	(21)	100
-Experience adjustments on benefit obligations	(104)	(400)
Actuarial losses on assets relative to interest on assets	(3,209)	(200)
Loss to recognise in other comprehensive income	(122)	–

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

(iv) Actuarial risk factors

The scheme typically exposes the Company to actuarial risks such as investment risk, inflation risk and longevity risk for so long as the benefits are not insured.

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 these assumptions in the long term then the Company may need to make additional contributions to the scheme in order to fund the payment of accrued benefits.

The scheme'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 the liabilities and the funding level of that scheme. The scheme is primarily invested in bulk annuity insurance contracts with JUST with a small residual amount of invested assets remaining.

Inflation risk

The benefits payable to members of the scheme are linked to inflation measured by the RPI or CPI, subject to caps. The Company's contributions to the scheme are based on assumptions about the future level of inflation. If inflation is higher than the levels assumed in the actuarial calculations then the Company may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

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Notes to the financial statements (continued)

14. Retirement benefit scheme (continued)

(iv) Actuarial risk factors (continued)

Longevity risk

The Company's contributions to the schemes 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 scheme were as follows:

	2025	2024
	% pa	% pa
Price inflation – RPI	3.1	3.2
Price inflation - CPI	Pre 2030: 2.1 Post 2030: 3.0	Pre 2030: 2.2 Post 2030: 3.1
Discount rate	5.8	4.9
Pension increases in payment	3.1	3.2
Pension increases in deferment	3.1	3.2

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

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

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

	2025		2024	
	Men	Women	Men	Women
Mortality table used	S3PMA	S3PFA_M	S3PMA	S3PFA_M
Mortality table compared with standard table	98%	91%	98%	91%
Mortality projections	CMI 2023	CMI 2023	CMI 2022	CMI 2022
Long-term rate of future improvement per annum	1.0%	1.0%	1.0%	1.0%
Weighting factor given to data for 2020	0%	0%	0%	0%
Weighting factor given to data for 2021	0%	0%	0%	0%
Weighting factor given to data for 2022	20%	20%	40%	40%
Weighting factor given to data for 2023	20%	20%	n/a	n/a
Remaining life expectancy for members currently aged 60 (years)	25.8	28.7	25.8	28.5
Remaining life expectancy at age 60 for members currently aged 40 (years)	27.1	29.9	27.0	29.7

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

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Notes to the financial statements (continued)

14. Retirement benefit scheme (continued)

(v) Actuarial assumptions (continued)

Assumption	Change in assumption	Impact on disclosed obligations
Discount rate	Increase/decrease by 0.1% pa	Decrease/increase by £0.4 million
Price inflation	Increase/decreased by 0.1% pa	Increase/decrease by £0.3 million
Mortality	Increase in life expectancy by 1 year	Increase by £1.3 million

Since the Scheme's liabilities are fully insured, any change in the liabilities resulting from the above would be matched by an equal and opposite change in the value of the annuity policy.

(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 expected benefit obligation from the Section at the end of the year is 12 years.

The most recently completed formal triennial actuarial valuation and funding agreements were carried out as at 31 March 2023. There are no deficit reduction contributions payable by the Company to the scheme.

(b) Defined contribution pension schemes

The Company also operates two defined contribution schemes. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounts to £585,862 (2024: £419,687).

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

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Notes to the financial statements (continued)

15. Borrowings

	2025	2024
	£'000	£'000
Current liabilities		
Bank overdraft	1,089	—
Other loans	34	54
Lease liabilities	15	14
	1,138	68
Non-current liabilities		
Bank loans	34,862	34,828
Loans due to parent and fellow subsidiary undertakings	51,376	36,826
Lease liabilities	19	33
	86,257	71,687
	87,395	71,755

The Company has an external loan of £35.0 million, which is currently drawn at £34.9 million (2024: £34.8 million). Amounts drawn under this facility bear interest linked to SONIA +1.15%. The loan matures on 29 March 2028.

The Company has an index-linked loan adjusted annually by changes in the Retail Price Index. The balance as at 31 March 2025 is £37.4 million (2024: £35.5 million). The loan has interest charged on the indexed principal at 3.635% per annum and matures on 29 September 2032.

The Company has a revolving loan of £30.0 million with the ultimate parent company, Severn Trent Plc. Amounts drawn under this facility bear interest at 1.7% above Bank of England base rate. The loan facility matures on 8 March 2028 and is currently drawn at £14.0 million (2024: £1.3 million).

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Notes to the financial statements (continued)

16. Trade and other payables

	2025	2024
	£'000	£'000
Current liabilities		
Trade payables	3,358	2,648
Amounts owed to fellow subsidiary undertakings	8,206	9,039
Social security and other taxes	409	352
Other payables	985	1,030
Contract liabilities	5,804	5,128
Deferred income	192	192
Accruals	6,678	4,743
	25,632	23,132
Non-current liabilities		
Accruals	2,556	3,566
Deferred income	15,685	15,178
	18,241	18,744
	43,873	41,876

17. 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	Retirement benefit obligation	Fair value on loan	Other	Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2023	23,648	1,425	(1,583)	-	23,490
Charge/(credit) to income	4,487	(75)	1,544	(5)	5,951
Charge to equity	-	-	39	-	39
At 1 April 2024	28,135	1,350	-	(5)	29,480
Charge/(credit) to income	4,778	6	-	(10)	4,774
Credit to equity	-	(24)	-	(1)	(25)
At 31 March 2025	32,913	1,332	-	(16)	34,229

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

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Notes to the financial statements (continued)

18. Provisions

	Decommissioning	Regulatory	Insurance	Total
	£'000	£'000	£'000	£'000
At 1 April 2024	3,292	9,567	103	12,962
Charged to income statement	218	–	85	303
Other net additions	–	7,615	–	7,615
Utilisation of provision	(3,090)	(506)	(117)	(3,713)
At 31 March 2025	420	16,676	71	17,167

	2025	2024
	£'000	£'000
Included in		
Current liabilities	6,185	8,223
Non-current liabilities	10,982	4,739
	17,167	12,962

Decommissioning provision relates to the estimated cost of discontinuing a reservoir. The associated outflows are estimates to arise over a period of one year from the balance sheet date.

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

19. Share capital

	2025	2024
	£'000	£'000
Total issued and fully paid share capital		
168,051 ordinary shares of £1 each (2024: 168,051)	168,051	168,051

20. Capital commitments

At 31 March 2025 the Company had capital commitments as follows:

	2025	2024
	£'000	£'000
Contracted for but not provided in the financial statements	14,143	15,852

21. Related party transactions

During the year £111,401 (2024: £102,931) was paid to non-executive directors of the Company. There have been no other transactions with the Directors of the Company.

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Notes to the financial statements (continued)

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

22. Post balance sheet events

There are no post balance sheet events to disclose.

23. Ultimate parent undertaking

The immediate parent undertaking is Severn Trent Draycote Limited.

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