

Hafren Dyfrdwy Cyfyngedig
Annual Report and Financial Statements
for the year ended 31 March 2022

Company number: 03527628

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Hafren Dyfrdwy Cyfyngedig

Company information

Company number	03527628
Directors	J B Coghlan A Beynon C M Hodgson J Jesic S Jones-Evans M Mehmet H M Miles S Nebhrajani (appointed on 1 April 2021)
Secretary	H Woodall-Pagan
Registered office	Packsaddle Wrexham Road Rhostyllen Wrexham Clwyd LL14 4EH
Solicitors	Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG
Auditor	Deloitte LLP Statutory Auditor 2 New Street Square London EC4A 3BZ

Taking care of one of life's essentials



Strategic Report

What we do

As one of the 11 regulated water and waste water companies in England and Wales, Hafren Dyfrdwy provides Mid and North East Wales with high-quality water services at the most affordable price in England and Wales.

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

The Directors of Hafren Dyfrdwy Cyfyngedig are pleased to present their Strategic Report on the affairs of the Company, along with the Directors’ Report, the audited financial statements and the Auditor’s Report for the year ended 31 March 2022.

Highlights

Turnover £35.0 million (2020/21: £32.9 million)	Litres of drinking water supplied each day 63 MI/d (2020/21: 61 MI/d)
Loss before interest and tax £2.5 million (2020/21: £5.3 million)	Litres of waste water treated 6,351 MI/y (2020/21: 6,649 MI/y)
Households and businesses served 107,443 (2020/21: 107,684)	Employees¹ 133 (2020/21: 132)
¹ Average during 2021/22 see note 5 to the financial statements	

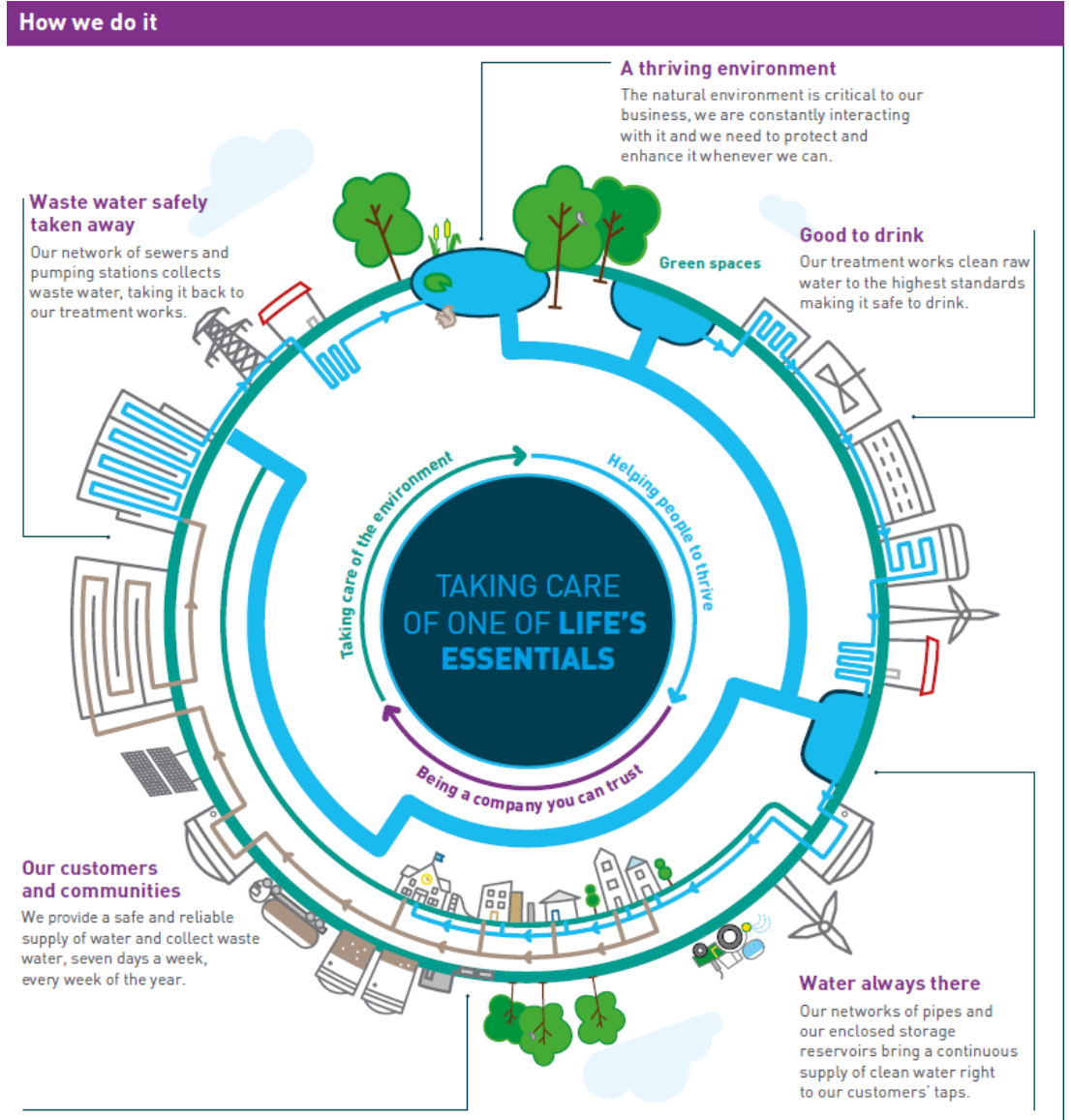
Business Model

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

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

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

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



Our Purpose, Values and Culture

The Board, supported by the Executive Team, is committed to the long-term sustainable success of the Company, which means focusing on how best to deliver for the customers we serve and our wider stakeholders. 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**' and we are guided by our Values:

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

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

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

To fulfil its role of monitoring and assessing Values and culture, and satisfy itself that behaviour throughout the business is aligned with our Purpose, the Board considers culture at every meeting, through a standing people update from the Managing Director, which is complemented by dedicated reports on topics such as employee engagement, health, safety and wellbeing and diversity and inclusion. Through an independent lens, the Board reviews the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chain and fully endorses the Group's Anti-Slavery and Human Trafficking Statement. In addition, to deepen their understanding of the Company's Values and culture, Board members undertake site visits throughout the year to meet colleagues in person, observe the true culture of the Company, the way in which the workforce apply our Values in all that they do and discuss first-hand the key issues identified by them. Board members also attend the Company Forum, to listen directly to what employees have to say and to provide updates on matters being considered by the Board. During the year, the Board also took part in our 'Ask the Board' event, where colleagues were invited to pose questions to the Board in a live Q&A environment, without scripted briefings, providing a further opportunity for the Board to engage with our people and gain an appreciation of the Company's culture.

The Board believes that our strong Values and culture are a key strength and there are resulting benefits in employee engagement, retention and productivity, which is why questions around our Purpose, Values and culture feature heavily within our annual employee engagement survey, QUEST. It is clear from the results that our Purpose and Values strongly resonate with our employees, as demonstrated by the overall employee engagement score of 8.7 out of 10 – placing us in the top quartile of all businesses and in the top 5% of energy and utility companies globally. Employees agree that our Values align with our Purpose and provide a good fit with the things they consider important in life and they feel inspired by the Purpose of our Group. The Board considers both the positive and more challenging aspects of the QUEST survey and discusses the action plans to be put in place for areas of employee focus, in order to ensure any misalignment with our Values and culture is addressed.

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

Details of how the Board monitors culture and engages with employees are set out on pages 32 and 37 to 39.

Setting aspirations and performing for all those we serve

Our PR19 business plan, for the current AMP7 period, was built around what matters to our customers and their expectations of Hafren Dyfrdwy, both as a water and waste water service provider and as a company which can and should play a positive role in wider society.

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

Business Overview

Hafren Dyfrdwy is a wholly owned subsidiary of Severn Trent Draycote Limited, part of the Severn Trent Plc Group. The Company is one of 11 water and waste water companies operating in England and Wales, supplying services at the most affordable price in the UK to c.100,000 customers. Our strategy is that prevention is better than cure and we adopt a calm network approach aimed at delivering multiple benefits to stakeholders. Our plans have been developed in full consideration of the Well-being of Future Generations (Wales) Act 2015, aspiring to always operate in a way that is socially and environmentally sustainable.

This Strategic Report covers the year ended 31 March 2022, which is the second year of our five-year regulatory period (known as 'AMP7'). We are pleased to present our progress against the delivery of our customer outcomes. Whilst we maintained our 71% performance on customer measures in 2021/22, we have seen improvement across our suite of performance measures. This improvement is a result of our teams' hard work and the continued development of our standalone offering as the smallest and most agile water and waste water company.

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

Performance Summary

Our Purpose, 'Taking care of one of life's essentials' from start to finish, ensures our customers and communities experience the very best of our essential product every day. We're looking after every drop of water all the way from our upland catchments to our customers' taps, taking waste water safely away and recycling it back into the environment – cleaner than when we took it.

We are pleased to present our progress against the delivery of our customer outcomes for the second year of our business plan for the 2020-2025 period.

We have maintained our 71% ODI performance in 2021/22, but as you will see, we have improved performance across the suite of our performance measures, reducing our net of tax penalty to £0.40m. Our performance is as a result of the hard work of our teams and the continued development of our standalone offering as the smallest and most agile water and waste water company.

Improving core service in water and waste water

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

In water, we have delivered strongly on the measures of importance to our customers, including one of the industry-leading Compliance Risk Index ('CRI') scores of 0.16, exceeding our lead pipe replacement target four times over for the second year in a row and delivering a 2.1% leakage reduction to deliver on our challenging three-year average target for the AMP.

Whilst we improved our supply interruptions performance by 45%, two major incidents in the year over 10 minutes each, have had a significant effect on our total time performance. Whilst we can see an improvement in response times and reparations, our focus continues to be on innovative and cost-effective resilience in our rural network that will have lasting benefits for customers.

In waste, we have focused on optimising our asset performance to drive greater control and improvement. As a result of this activity, we have seen a 60% reduction in pollutions, critical in returning water safely to rivers. We have also seen a 10% reduction in sewer blockages as our pee, poo and paper education campaign continues to improve behaviour.

Supporting our customers and communities

Despite having the lowest average combined bill in England and Wales, we recognise the difficulties in our region and anticipating future challenges as household incomes are squeezed by the current inflation crisis. As such, we have proactively engaged with customers and worked with local partners, Wrexham County Borough Council, Newydd Housing and Mid-Wales housing, to promote support schemes – WaterSure and Here2Help – making an additional £105,000 available above our 2020-2025 plan. In addition to this, we have created a Hafren Dyfrdwy Community Fund to promote wider initiatives and offer support to our community in different and meaningful ways, awarding over £52,000 to seven projects to date.

We have increased the number of customers supported through bill reductions and water efficiency schemes by 50% year-on-year, helping reduce their cost and outstanding debts. We have again ensured that 100% of customers registered on our Priority Services Register ('PSR') receive the right support during an incident. We have also collected 1,100 customer commitments to change behaviour through our education programme and supported the thriving Welsh language with 100% compliance against our performance commitment.

Enhancing the natural environment

Our ambition is to be an environmental leader in land and water management and we have demonstrated this by improving 340 hectares of land, 127% over target. This includes the continued investment in our exemplar site Lake Vyrnwy and is critically focused on peatland restoration activities. We continue to deliver all requirements of the National Environment Programme ('NEP') in year.

In July 2022, we announced our commitment to the Wales Better River Quality Taskforce by launching five pledges to improve river water quality by 2030. We have also become the latest UK water company to join 'Get River Positive' to transform river water quality. You can read more about our Get River Positive pledges within our Annual Performance Report, available on our website.

Delivering for Wales

Our approach embraces the synergies across the entire water cycle with customers and communities at its heart. This is underpinned by our strategy that prevention is better than cure and creating a calmer network will deliver multiple benefits. Our plan has been developed in full consideration of the Well-being of Future Generations (Wales) Act 2015 and we aspire to always operate in a way that is socially and environmentally sustainable.

Financial Performance

Our financial performance has demonstrated great underlying cost control that has allowed us to offset significant pressure caused by the global increases in the wholesale cost of energy. Further to this, we have seen the benefits of the investment in our estate yielding increased income generation from diverse sources, boosting our financial stability.

We have increased the investment in our asset base through capital schemes totalling £13.4 million and infrastructure renewals expenditure of £4.1 million. This investment is driving performance improvements, including increased resilience of water supplies, reducing leakage across our network, reducing downtime caused by supply interruptions and protecting the rivers in our region through investment in our waste treatment capabilities.

Disappointingly, we hit the maximum ODI penalty for supply interruptions this year. The effects of Storm Arwen were prevalent in our region – causing multiple power failures across a number of rural sites. We are confident that our planned investment in a new depot in Powys as well as targeted investment in further resilience schemes and recovery options will help deliver improvements in the coming year.

Turnover increased in the year by 6.4% to £35.0 million (2020/21: £32.9 million). The key components of the year-on-year movement were a rebalancing of consumption between domestic and commercial properties, with better understanding of the effects of COVID-19 on demand coupled with inflationary bill increases. Further, we saw a 58.6% increase in our other revenue streams, driven primarily by our renewable energy generation performance and visitor experience sites as we look to realise value from our natural resources to reinvest and provide enhanced visitor experiences.

Despite the inflationary cost pressure being observed at a national level, customers continue to pay the lowest average combined average bills in England and Wales, and most customers saw price increases below 6%. We recognise that even with the lowest average bill, there are customers who are unable to pay which is why we offer the most meaningful support with the largest discount available being 90%.

Operating costs decreased by 1.6% to £37.6 million (2020/21: £38.2 million).

Our net labour costs have decreased by 3.4% to £5.7 million (2020/21: £5.9 million), driven primarily by our insourcing strategy enabling us to more efficiently deliver capital and infrastructure work, whilst also building our skills capability. Our headcount at the start of the year was 135 and this has increased by 9% to 147 at the end of March. A further 40 jobs are also being created in the Powys region and we are excited to see the performance improvements this will bring.

The charge for bad and doubtful debts decreased by 47.6% to £1.1 million (2020/21: £2.1 million) due to:

- A top up provision in 2020/21 for legacy acquisition balances that are not economic to collect not repeating in 2021/22;
- An improvement in cash collection performance in year as our new debt management system becomes embedded with targeted management activities; and
- A £0.1million release for expected future losses provision driven by reduced unemployment offsetting the expectation of significant household income squeeze in the coming year.

Our loss before interest and tax for the year was £2.5 million (2020/21: £5.3 million).

Net finance income for the year was £0.4 million (2020/21: £0.3 million). Due to high forecast RPI, the accounting unwind for our RPI linked debt was higher than the prior year, resulting in a reduced finance cost this year, increasing net finance income. Capitalised interest of £1.3 million was lower year-on-year due to reduced capital expenditure in the year at £13.4 million.

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

The loss for the year was £7.3 million (2020/21: £4.3 million).

Our defined benefit pension scheme surplus was £17.5 million (2020/21: £17.1 million). The funding level stays strong at 138% (2020/21: 136%).

We finished the year with a strong balance sheet, net assets of £150.0 million (2020/21: £157.8 million), net current liabilities of £15.8 million (2020/21: £9.4 million) and RCV gearing of 40.2% (2020/21: 45.6%).

Risk Management

Our approach to risk

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

2021/22 Risk Landscape

2021/22 has been a year in which COVID-19 and its economic and societal consequences have continued to evolve. The global economic outlook remains weaker than it would have been without the pandemic. Geopolitical instability including the conflict in Ukraine, cyber crime, rising inflation, commodity and energy prices, and debt levels, have all disrupted the world economy, and have introduced new risks that need to be considered.

At a local level, we have seen an acceleration in changing stakeholder attitudes to climate, nature and the environment, and the part corporations play in protecting them, all relevant to our sector.

Our risk priorities

Hafren Dyfrdwy prioritises the following:

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. We aim to enhance the natural environment and improve biodiversity.

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

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 shareholders.

Overseeing risk

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

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

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

Risk reporting

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

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

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

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

Our Principal Risks

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

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

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

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

CYBER SECURITY & TECHNOLOGY RESILIENCE

RISK 1

Our critical technology capabilities are not maintained due to cyber threats or system failures, impacting the services we deliver through our key infrastructure assets or core systems.

Risk Mitigations

We have a Group Information Security Team and Data Privacy Officer responsible for monitoring information security and cyber threats.

Mandatory annual cyber security training for all employees.

We have a robust operational security programme, including physical access controls, on-site system protection and remote system protection. A programme of regular internal and third party testing of our security network and systems.

We have an effective vulnerability management system, including penetration testing of publicly accessible systems, behavioural alerts, patching processes, data disposal and access control, including Multi-Factor Authentication.

Migration to cloud platforms improving the resilience of our disaster recovery and business continuity plans.

All operational and office sites have business continuity and crisis management plans in place, which are tested on a regular basis. There has been a general increase in the risk of cyber-attacks due to recent geopolitical instability.

Change in Year: ^

HEALTH & SAFETY

RISK 2

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

Risk Mitigations

Hafren Dyfrdwy has a well-established Health, Safety and Wellbeing Framework to ensure all our operations and processes are conducted in compliance with Health and Safety legislation and in the interests of the safety of our people and our contractors. The Framework is subject to regular review.

We employ a competency framework and compliance with mandatory training is regularly monitored.

Health and safety bulletins are cascaded throughout the Company, including the supply chain.

A dedicated Health, Safety and Wellbeing toolkit, called Safety Net, allows real time data recording to capture, analyse and report on all Health, Safety and Wellbeing incidents and implement targeted interventions in a timely manner.

The Severn Trent Group 'Goal Zero' policy, applicable to all Group companies, clearly sets out our target that no one should be injured or made unwell by what we do.

Change in Year: <>

INFRASTRUCTURE FAILURE & ASSET RESILIENCE

RISK 3

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

Risk Mitigations

We have developed comprehensive resilience plans, such as, our Draft Water Resources Management Plan ('DWRMP') and Draft Drought Plan, which feed into our capital investment programme and Business Plans.

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

We have invested in in-house capability to bolster repair teams and facilitate accelerated response times.

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

We run strategic modelling to assess potential changes to supply and demand on our water network and the impact of climate change.

We regularly review and update processes, standards and operation procedures.

Change in Year: <>

INFRASTRUCTURE FAILURE & ASSET RESILIENCE

RISK 4

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

Risk Mitigations

We run strategic modelling to assess potential changes to supply and demand on our waste network, to reduce service issues or potential damage to the environment.

Our 24/7 control centre monitors our asset performance, including real time telemetry coverage. We operate an in-house Waste Network Response Team.

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

We run educational programmes with customers to promote safe use of the waste water system, including ensuring appropriate disposal of wet wipes and cooking fat.

Change in Year: <>

POLITICAL, LEGAL AND REGULATORY

RISK 5

Changing societal expectations leading to regulatory reform or policy changes from Welsh Government, increase the risk of non-compliance.

Risk Mitigations

Our Governance Framework, policies, procedures and continuous training ensure compliance with the Welsh regulatory framework.

We are committed to working with the Welsh Government to develop its water strategy. We have strong relationships and engage regularly through open dialogue with the Welsh Government, local and national Senedd Members, Wales Water Forum, Natural Resources Wales, the Drinking Water Inspectorate and Ofwat.

We consult external legal advisers providing detailed reviews in respect of upcoming legislation that may impact Hafren Dyfrdwy.

The increase in monitors being installed has improved our view of site performance which was not previously available.

Change in Year: ^

CLIMATE CHANGE, ENVIRONMENT & BIODIVERSITY

RISK 6

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

Risk Mitigations

Our AMP7 Business Plan supports increased resilience against the potential impacts of climate change through capital scheme delivery.

Climate Change Steering Groups bring together expertise from across the Group.

Our Group Triple Carbon Pledge – committing all Group companies to net-zero carbon emissions, 100% renewable energy and an all-electric fleet (where available) by 2030.

At a Group level we utilise scenario data modelling to understand the impact climate change could have on our ability to deliver Hafren Dyfrdwy's essential services.

Change in Year: <>

CLIMATE CHANGE, ENVIRONMENT & BIODIVERSITY

RISK 7

We fail to influence positively the natural capital in our region.

Risk Mitigations

We have strategic plans to enhance biodiversity in our region and a number of ODI commitments to protect our local environment, including river water quality, pollution incidents, biodiversity improvements and environmental compliance.

We run strategic modelling to estimate the increasing pressures on nature, for example, from climate change, including, drought or extreme weather events and biodiversity loss that has potential to impact ecosystems.

Our in-house ecology expertise to enhance our capability to work towards enhancing biodiversity. We will be launching five new, industry-leading pledges with the aim of enhancing our rivers and habitats.

Change in Year: ^

Viability Statement

Assessment of current position and long-term prospects

The Directors' assessment of the Company's current financial position is set out in the Financial Performance on pages 10 to 11.

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

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

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

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

The Company has significant investment programmes that are largely funded through intra-group borrowing under multi-year agreements and facilities. The tenor of the facilities is set out in note 15 to the financial statements. There are no financial covenants included in these agreements.

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

The Severn Trent Group's Treasury Policy requires that it maintains sufficient liquidity to cover cash flow requirements for a rolling period of at least 15 months in order to mitigate the risk of restricted access to capital markets. The Company's refinancing requirements are managed within the Group Treasury department to spread the timing of refinancing requirements and to enable such requirements to be met under most market conditions. The weighted average maturity of debt at the balance sheet date was nine years.

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

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

Impact of COVID-19 on the Company's prospects

As expected, the consumption and revenue from the Company's non-household customers recovered to close to their pre-pandemic levels in the year. We have also seen continued strong collection performance on our household customers as unemployment did not reach the levels forecast at the outset of the pandemic. The cost-of-living pressures now being experienced by our customers are expected to have some impact on cash collection, notwithstanding our additional support to help make bills affordable for our customers most in need. We have made allowance for this in our balance sheet at 31 March 2022 and in our medium-term plan.

Period of assessment

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

However, the changing nature of regulation of the Water industry and the impacts of the COVID-19 pandemic increase the uncertainty inherent in our financial projections. We have an established planning and forecasting process and the Board considers that the assessment of the Company's prospects is more reliable if based on an established process. Our latest medium-term plan extends in detail to the end of the AMP7 period in 2025, with less detailed projections looking beyond this.

A longer period of assessment introduces greater uncertainty because the variability of potential outcomes increases as the period considered extends.

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

Assessment of viability

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

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

The risks and scenarios tested are described below.

Risk assessed	Severe but plausible scenario	Stress test applied
We 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.

Risk assessed	Severe but plausible scenario	Stress test applied
We fail to provide a safe and secure supply of drinking water	<p>Catastrophic breach of a large raised reservoir (>25,000 cubic metres).</p> <p>Service failure leads to increased operating expenditure or failure to meet performance commitment targets.</p>	<p>An extreme one-off event.</p> <p>Totex underperformance in each year of the forecast.</p> <p>ODI penalty in a single year.</p>
Key suppliers are unable to meet contractual obligations causing disruption to capital delivery and/or critical operational services	<p>Significant increase in capital programme costs.</p> <p>Service failure leads to increased operating expenditure or failure to meet performance commitment targets.</p>	<p>Totex underperformance in each year of the forecast.</p> <p>ODI penalty in a single year.</p>
We fail to maintain our critical technology capabilities due to cyber threats or system failures	A cyber attack results in a critical loss of personal data leading to regulatory action.	An extreme one-off event.
Changing societal expectations, resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the risk of non-compliance	A breach of law or regulations results in a significant one-off penalty.	A financial penalty.

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

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.
Opex underperformance	An increase in opex of £2.5 million in each year of the forecast.
Totex underperformance	An increase in totex of £4.0 million in each year of the forecast.
ODI penalty	A penalty of £0.6 million in each year of the forecast.
Financial penalty	A penalty of £100 million in a single year.
Combined scenario	Low inflation, an increase of totex of £2.0 million in each year, an ODI penalty of £0.6 million in one year, and a financial penalty of £50 million in one year.
Higher inflation in one year	Increase of 3% in CPIH.
Lower inflation in one year	Decrease of 3% in CPIH.
Higher interest rates	New debt financed at 2% above the iBoxx index.

We assessed the impacts of the scenarios on our financial and credit metrics. Where the result of the stress test indicated more than a limited impact, 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	Insufficient funds to satisfy debt payments in single year, increased gearing and deterioration in credit metrics.	Obtain short term funding facility from Group to facilitate new long term debt strategy. Manage liquidity by temporarily reducing working capital. Reprofile capital programme to ease short-term pressure on free cash flows. Raise additional equity.
Opex underperformance	Headroom against interest payments reduced in AMP7.	Cost reduction programme focused on reducing discretionary expenditure to support profitability.

Stress test applied	Potential impacts on viability without mitigating action	Mitigation available (see below)
Totex underperformance	<p>Headroom against interest payments reduced in AMP7.</p> <p>Increased gearing outside OFWAT expected gearing levels in AMP8.</p>	<p>Cost reduction programme focused on reducing discretionary expenditure to support profitability.</p> <p>Reprofile capital programme.</p>
ODI penalty	<p>The penalty would flow through revenue two years after the Performance Commitment was breached.</p> <p>No material impacts.</p>	N/A
Financial penalty	Insufficient funds to satisfy debt payments in single year, increased gearing and deterioration in credit metrics.	<p>Obtain short term funding facility from Group to facilitate new long term debt strategy.</p> <p>Manage liquidity by temporarily reducing working capital.</p> <p>Reprofile capital programme to ease short-term pressure on free cash flows.</p> <p>Raise additional equity.</p>
Combined scenario	Insufficient funds to satisfy debt payments in single year, increased gearing and deterioration in credit metrics.	<p>Obtain short term funding facility from Group to facilitate new long term debt strategy.</p> <p>Manage liquidity by temporarily reducing working capital.</p> <p>Reprofile capital programme to ease short-term pressure on free cash flows.</p> <p>Cost reduction programme focused on reducing discretionary expenditure to support profitability.</p> <p>Raise additional equity.</p>

Stress test applied	Potential impacts on viability without mitigating action	Mitigation available (see below)
Higher inflation in one year	Marginal impacts to base case.	N/A
Lower inflation in one year	Marginal impacts to base case.	N/A
Higher interest rates	Marginal impacts to base case.	N/A

The mitigating actions available are described in more detail below:

Mitigating action	Details
Manage liquidity by temporarily reducing working capital	We would seek to accelerate collection of amounts receivable with particular focus on overdue accounts. We would work with our suppliers to negotiate longer credit terms where appropriate.
Cost reduction programme	We would review discretionary expenditure to identify costs that could be avoided or reduced without a detrimental impact to customer service.
Reprofile capital programme	By deferring elements of capital expenditure, we could mitigate the impact of significant events on our cash flow and smooth the effect on key ratios over a number of years, reducing the size of the impact in any one year.
Obtain short-term funding facility from Group to facilitate new long term debt strategy	The Group has access to a wide range of capital markets and maintains a diverse range of funding sources with an ability to provide short-term financing to the Company until it can acquire its own external debt. There are also instruments that we do not currently use that would be available when more traditional funding was not. Hybrid debt instruments are a form of debt that has some of the characteristics of equity, for example a bond that features an option to convert to equity.

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.

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

Under all scenarios considered, the Company would remain solvent and have access to sufficient funds in normal market conditions. The Group's Treasury Policy requires that it retains sufficient liquidity to meet its forecast obligations, including debt repayments for the next 15 months.

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

- Any period in which the Company is unable to access capital markets to raise finance during the period under review will be shorter than 15 months.
- On this basis, the stress tests indicated that none of these scenarios, including the combined scenario, would result in an impact to the Company's expected liquidity, solvency

or debt covenants that could not be addressed by mitigating actions and are therefore not considered threats to the Company's viability.

Governance and assurance

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

This statement is subject to review by Deloitte, our external auditor. Their audit report is set out on pages 80 to 90.

Assessment of viability

The Board has assessed the viability of the Company over a seven-year period to March 2029, 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 2029.

Going Concern Statement

In preparing the financial statements the Directors considered the Company's ability to meet its debts as they fall due for a period of one year from the date of this report, taking into account the forecast future cash flows, the future commitments for the Company, the net current liability position of £15.8 million at 31 March 2022 and the financing facilities available to the Company.

As at 31 March 2022, the Company has drawn down £3.5 million of the £30 million revolving credit facility ('RCF') from its ultimate parent company, Severn Trent Plc. This facility matures on 8 March 2024.

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

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

Sustainability at the Heart of our Approach

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

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

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

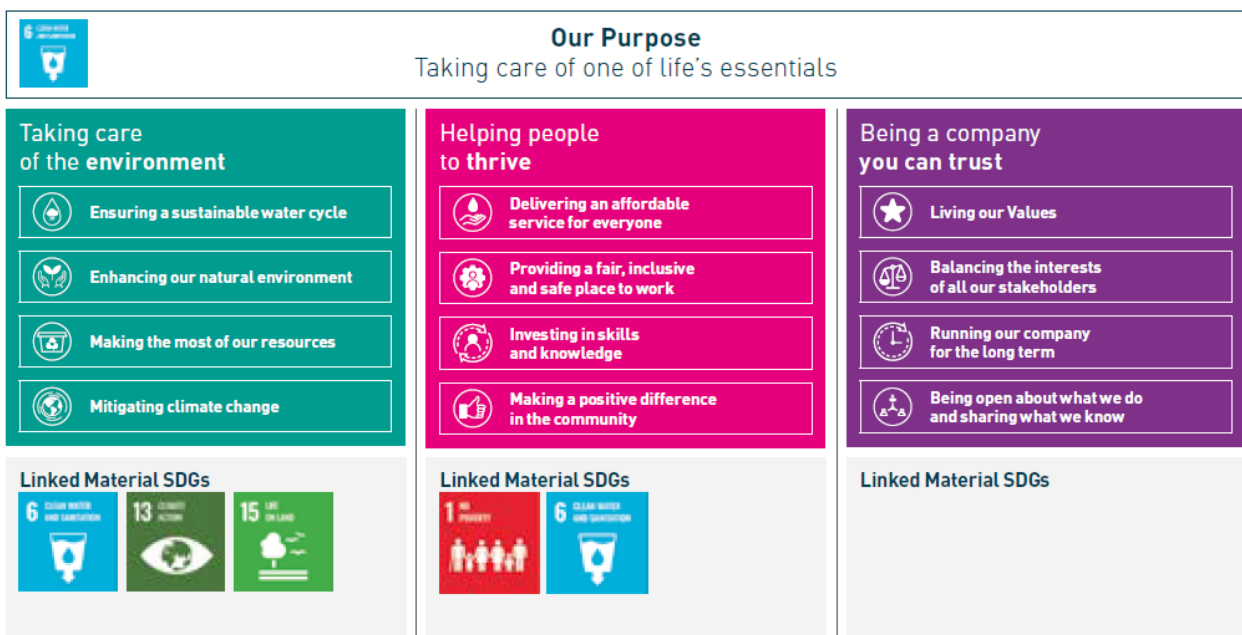
In 2020, we formally launched our Group Sustainability Framework (below) supported by an initial £1.2 billion investment by the Group over AMP7.

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

When we developed our 2020-2025 business plan, we took a long-term view that was inextricably entwined with sustainability, delivering for customers today whilst putting the building blocks in place to continue to improve our services and protect them for future generations. The three most important aspects of our plan map to our Group Sustainability Framework:

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

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








We show the material United Nation’s Sustainable Development Goals (‘SDGs’) that are relevant to the pillars of our Sustainability Framework.

Engagement with Our Stakeholders

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

This section provides insight into how the Board engages with our stakeholders to understand what matters to them and further inform the Board’s decision making and the actions taken as a consequence. You can read more in our formal Section 172 Statement (‘S172’) on pages 40 to 42, which sets out our approach to S172 and provides examples of decisions taken by the Board, including how stakeholder views and inputs have been considered in its decision making.

The principles underpinning S172 are not only considered at Board level, but they are also part of our culture. They are embedded in all that we do and impacts on stakeholders are considered in the business decisions we make across the Company, at all levels, strengthened by our Board setting the right tone from the top. Pursuant to the Companies Act, this information is incorporated by cross reference in the Governance Report from page [xx]. 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.

Customers	Communities	Employees	Suppliers and Contractors	Regulators and Government
 <p>In serving our customers, we want to provide both value and a great experience.</p>	 <p>Our aim is to be a force for good in the communities we serve and, in doing so, create value for all our stakeholders.</p>	 <p>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.</p>	 <p>Along with our employees, our suppliers support us in delivering for our customers. Strong supplier relationships ensure sustainable, high-quality delivery for the benefit of all stakeholders.</p>	 <p>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.</p> <p>Below the policy framework, our industry is regulated by Ofwat and others. We agree commitments with</p>

			Our geographic area contains many small suppliers, and we recognise that fostering relationships with them is vital to the communities we serve.	our regulators and continually report our performance against these. We work closely with our regulators to shape our industry to help ensure the right outcomes for customers and the environment.
What matters to them	What matters to them	What matters to them	What matters to them	What matters to them
<ul style="list-style-type: none"> • Customer service and performance • Leakage and supply reliability • Affordability and value for money • Assistance in times of need • Responsible investment 	<ul style="list-style-type: none"> • Operational impact and disruption • Local employment • Economic contribution • Protection of the environment 	<ul style="list-style-type: none"> • Health, safety, and wellbeing. • Diverse and inclusive workplace • Opportunities to reach full potential • Open and honest environment • Fair pay and reward 	<ul style="list-style-type: none"> • Fair engagement and payment terms • Collaboration • Responsible supply chain. • Stability of work 	<ul style="list-style-type: none"> • Outcomes for customers, the environment and long-term resilience • Performance against regulatory targets • Trust and transparency • Governance and compliance • Reduced environmental impact
How we engage at Board Level	How we engage at Board Level	How we engage at Board Level	How we engage at Board Level	How we engage at Board Level
<ul style="list-style-type: none"> • Customer Delivery performance is discussed at every Board meeting. • Customer perceptions of value for money is reported to the Board. • Our Board approved extensive customer engagement shapes our strategy and Business Plan. 	<ul style="list-style-type: none"> • Employees who live and work in our communities' met members of the Board during the year. • The Board supported the establishment of the HD Community Fund during the year, which has received extensive interest and resulted in £52,270 being donated to seven local projects as at May 2022. • The Board, in conjunction with the Board of Dŵr Cymru Welsh Water, has developed a shared Vision for 2050, as a first 	<ul style="list-style-type: none"> • Individual Board members attend the Company Forum and feedback on discussions at subsequent Board meetings. • 'Ask Our Board' events provide a platform for colleagues to ask questions to the Board in a live and unscripted environment, without management present. • The Board undertakes site visits to meet colleagues in person and discuss their experiences first-hand. • Employee culture and engagement are discussed at Board meetings. 	<ul style="list-style-type: none"> • Commercial performance discussed at Board meetings, including updates on relationships with suppliers where appropriate. • The Board regularly monitors progress on sustainability in our supply chain. • Board has oversight of our Supplier Code of Conduct and endorsed the Group Modern Slavery Statement. 	<ul style="list-style-type: none"> • To deepen Board level understanding of our regulators, our Chair formally met with Ofwat during the year. • Regulatory matters are regularly considered by the Board, including Water Resources Management Plan ('WRMP') and scheme of wholesale charges. • Regulatory stakeholders attend Board meetings and events, including from Drinking Water Inspectorate ('DWI') and Natural Resources Wales ('NRW') during the year. • Regulatory consultation updates are considered by the Board.

	<p>step to enhancing our collaborative approach to water services in Wales.</p> <ul style="list-style-type: none"> • Board members met with CBI Wales Council to discuss Green Recovery measures in Wales. • Environmental and sustainability matters are regularly considered by the Board. • Members of the Board visited the Community Fund project in Wrexham and Bangor on Dee. 	<ul style="list-style-type: none"> • Diversity and inclusion are regularly considered by the Board. • Company Purpose and culture discussed at Board meetings. • The Board considers QUEST survey results and the steps taken to address feedback. 		<ul style="list-style-type: none"> • The Board met with NRW, representatives from Ofwat and Welsh Government to discuss potential schemes at Lake Vyrnwy and Clywedog. • Annual attendance at the Wales Water Forum with representatives from the Welsh Government as well stakeholders from CCW, Natural Resources Wales and the Drinking Water Inspectorate. • Members of the Board attended the Storm Overflow Taskforce Meeting with members of NRW, Welsh Government, Welsh Water and Ofwat. • Members of the Board attending the CBI Wales Dinner. • Members of the Board attended the Annual MP Dinner.
How we engage across the Company	How we engage across the Company	How we engage across the Company	How we engage across the Company	How we engage across the Company
<ul style="list-style-type: none"> • Regular meetings with CCW Wales and the Welsh Government at management level discussing issues such as water sector security and resilience, customer experience and affordability. • Frequent discussion and consultation with our online customer community. • Quarterly tracking of customer perceptions against key indicators 	<ul style="list-style-type: none"> • Regular meetings with NRW and other key stakeholders to discuss environmental regulation matters. • Regular attendance at the Wales Land Management Forum, Agri-Pollution sub forum with NRW and other key water sector organisations to discuss Agri-pollution regulations. • Regular engagement with Government officials and elected representatives on water and 	<ul style="list-style-type: none"> • Employee engagement survey ranked us in the top 5% of global utility companies this year. • In addition to Board attendance, our Company Forum brings together employee representatives at quarterly meetings, including Trade Union representatives. • Continual communication to employees on COVID-19 impacts and mental and physical health awareness. 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Regular meetings with our regulators at management level including, Welsh Government, Natural Resources Wales and Ofwat. • Regular engagement with Government officials and elected representatives on water and environment related issues. • Representatives met with the Welsh Government at the Cost-of-Living Summit. • Representatives attended the Water UK Invasive Non-Native Species Network to share learnings for AMP7 drivers.

<p>including trust and satisfaction.</p> <ul style="list-style-type: none"> • Ensured customers could contact us 24/7. • Meetings with Wrexham County Borough Council to discuss Home Water Efficiency Project. 	<p>environment related issues.</p> <ul style="list-style-type: none"> • 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 		<p>Conduct Doing the Right Thing.</p> <ul style="list-style-type: none"> • Audits and inspections of suppliers. • Periodic performance and commercial reviews. • Supplier whistleblowing hotline. • 'Thinking Differently' Supplier Conference 2021. 	<ul style="list-style-type: none"> • Representatives attended the End Sewer Flooding Misery campaign and Vulnerability Forms hosted by CCW.
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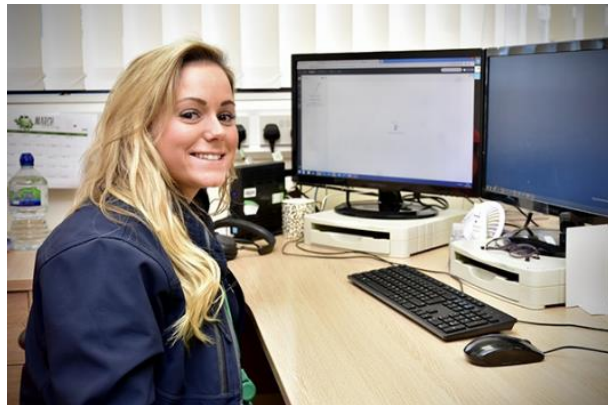
ENGAGEMENT IN ACTION – OUR CUSTOMERS

Customers are at the heart of everything we do, and our continuous engagement with them ensures that we are truly able to understand what matters to them and deliver improvements in service.

Engaging to support our customers

We have seen a 53% increase in the number of customers supported year-on-year. Our increases have been achieved by focusing on building relationships across Wrexham and Powys to raise awareness of the schemes and support that we have in place. We have established partnerships with Wrexham and Powys Citizens Advice and Wrexham and Powys Councils in addition to local housing associations across the region.

During the year we have also improved all routes on our website to encourage more customers to sign up to our Priority Service Register ('PSR') and have created a data sharing partnership with Western Power Distribution to proactively enrol customers of a pensionable age. The PSR ensures those who need additional support are prioritised during an incident so we can provide them with bespoke communication and a personalised service. We have again ensured that 100% of customers registered on our PSR receive the right support during an incident.



Celebrating our Welsh heritage

Hafren Dyfrdwy is Welsh for 'Severn Dee' and represents the two major rivers in the Welsh region that we proudly serve. Adopting a Welsh name was the first of many steps we have taken to truly embed the Company in the Welsh communities we operate in.

We are delighted to have also given colleagues access to a range of Welsh Language courses giving them the opportunity to learn or improve their Welsh language skills. To date, all of our Executive Committee members have enrolled and we look forward to wider participation of all employees following our recent launch.

The three courses on offer are free of charge and can be studied in our colleagues' own time and at their own pace. For those wanting an extended and more in-depth learning option, we are also offering a 120 hour self-study course free of charge with access to a tutor who will support their learning.



Our customer winter campaign

Throughout winter we have been advising customers through the use of social media, emails and over the telephone how to protect their homes against the elements. This has included an email campaign, whereby we sent emails direct to those customers who have given us permission, covering ways to identify blockages early in their homes and how these can present themselves in our assets out in the road, as well as educating customers on the difference between a blockage and a flooding.

We have also been engaging with customers around how they can protect their homes against the cold weather and prevent potential leaks/bursts on their pipework. This has been part of a wider approach to educating our customers on their water usage generally and how they can reduce the amount of water they're using and what it can mean if a leak is left unrepaired.

ENGAGEMENT IN ACTION – OUR COLLEAGUES

Ask Our Board

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

Company Forum

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

QUEST

Our annual employee engagement survey, QUEST, helps us to understand what is going well and where we can improve. QUEST is conducted by an independent research company to ensure the results are anonymous. The Board believes that our strong Values and culture are a unique strength and there are resulting benefits in employee engagement, retention and productivity, which is why questions around our Purpose, Values and culture feature heavily within QUEST. It is clear from the results that our Purpose and Values strongly resonate with our employees, as demonstrated by the overall employee engagement score of 8.7 out of 10 – placing us in the top quartile of all businesses and in the top 5% of energy and utility companies globally.

Engagement with all employees

We know that coming together and taking time to connect with our Company strategy and ambitions is important to our colleagues and drives engagement and curiosity in our teams. We take pride in delivering engaging leadership events each year, that bring our leaders together to build networks and performance opportunities. This is an important foundation of our culture.

With restrictions largely lifted, we have been able to run in-person events once again and to provide more opportunities for colleagues to comment on our strategy and to ask questions and engage on our focus areas.



In September 2021, we held our Group leadership events at Draycote Water and in March 2022, we held our annual Business Leaders Event. Sessions included Getting River Positive and Keeping our Promises to our Customers. The event was hugely engaging with colleagues saying that it was a positive use of their time, and they were confident in being able to communicate the message to their teams. To ensure that the messages reached across the whole organisation, a cascade pack was provided for managers to use with their teams.

ENGAGEMENT IN ACTION – REGULATORS AND GOVERNMENT

Our relationships with the Government, our regulators, and other agencies support us in ensuring that we meet the highest customer service and environmental standards, while offering our customers the lowest prices. We continue to maintain a positive relationship with our economic regulator, Ofwat, grounded in our sector-leading performance for customers and all of our stakeholders.

Despite the COVID-19 restrictions of the last year, we have continued to work closely with our colleagues at Natural Resources Wales and Welsh Government to identify opportunities for contributing to environmental and wellbeing improvements in Wales.



In September 2021 we hosted David Black, Ofwat's interim CEO, alongside Jonson Cox, Ofwat's Chair at Lake Vyrnwy in Powys.

After a performance update on Hafren Dyfrdwy and our environmental plans for AMP7, we undertook a site visit with our partners RSPB Cymru to see the work done to restore the peatland in the uplands of Lake Vyrnwy. This restoration work is continuing across the AMP.

On 1 November 2021, Gwenllian Roberts joined Ofwat as its new Director of Wales and on 8 December 2021 we hosted her at our Packsaddle offices and several Hafren Dyfrdwy sites were visited.

Having shared the history of Hafren Dyfrdwy and our operating performance, the impounding reservoir at Tŷ Mawr was visited followed by the water treatment works site at Oerog Springs in Langollen. The water treatment works at Llwyn Onn that supplies homes and businesses in Wrexham and the surrounding area was also visited completing an overview of Hafren Dyfrdwy's water supply network.



The visit also showcased a mains replacement project at Heniarth Bridge in Powys with oversight of the proposed investments plans for the coming year, and the work our customer team do to support our Hafren Dyfrdwy customers. This support is tailored to each customer's requirements as there are several financial assistance schemes available, such as Hafren Dyfrdwy's Here2Help Scheme that offers a reduction of between 30% and 90% from the average Hafren Dyfrdwy water bill.

ENGAGEMENT IN ACTION – COMMUNITIES

We work hard to make our water wonderful and keep our customers ‘on tap’ every day. But there is more to Hafren Dyfrdwy than that. We think it is important to give back to the communities where our customers live. Not because we have to, but because we think we should. Whether that means caring for the environment, supporting the next generation, or just making our region a better place to live, we want to make a positive difference in our communities.

HD Community Fund

In July 2021 we announced our brand new £50,000 Hafren Dyfrdwy Community Fund to support community projects in their local region, from Powys to Wrexham and Flintshire. Since then, the Community Fund Team has been working hard behind the scenes to promote the support to community groups in the area.

The HD Community Fund supports projects that aim to improve community wellbeing across three core themes – people, place, and environment. We also invited our colleagues and customers to join a panel and help us decide which projects would benefit the most from the support. In November 2021 we awarded £28,882 from the first round of funding to four projects and in May 2022 we awarded a further £23,838 from the second round of funding to three projects, taking the total amount of funding to £52,720.

“It’s so important for us to be right at the heart of our community, and now more than ever, we want to make sure we’re able to help and support in any way we can. We know there are plenty of local groups out there that could benefit from a grant from our new Fund and we look forward to supporting them to make a positive difference.”

James Jesic, Managing Director of Hafren Dyfrdwy



Supporting the Llangollen Round Challenge



We were delighted to have taken part in the 4th Llangollen Round Challenge walking 35 miles at the end of May 2022 in aid of Cancer Research UK, raising over £2,300. Like many charities, Cancer Research UK has been hit hard by a drop of donations as a result of COVID-19 and we want to help to ensure they get their vital research into the treatment of cancer back on track.

As the local water supplier, Hafren Dyfrdwy also provided all the wonderful water for all the walkers taking part, provided in reusable, sustainable containers, saving an estimated 2,500 plastic bottles.

ENGAGEMENT IN ACTION – OUR SUPPLIERS AND CONTRACTORS

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

HD Supplier Conference 2021

In December 2021, we held our first Hafren Dyfrdwy supplier event, bringing over 50 existing and potential new suppliers to Wrexham to share our key priorities, ambitions and the key part our suppliers play.

As well as a great opportunity to learn more about Hafren Dyfrdwy, the agenda for the session also included a focus on our customers, environment and sustainability as well as an overview on how we buy. We also welcomed guests from Business Wales who were able to outline the additional support they can provide for potential Welsh bidders in our sector.

It was a really engaging event and the feedback received from the suppliers that attended was very positive. We will look to continue to arrange similar events in the future, not only to keep our existing suppliers engaged in our journey but to continue attracting potential local suppliers to work with us.



OUR PEOPLE

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

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

This section is dedicated to showcasing our people and our culture. You can read more about how we have listened to and engaged with our colleagues on page 32.

Keeping our people safe and well

We believe passionately that no one should be hurt or made unwell by what we do. We experienced four Lost Time Incidents ('LTIs') during the year. On 7 March 2022, we held our first meeting of our new dedicated Hafren Dyfrdwy Health and Safety Forum with all departments across the business represented to enable a refreshed Health and Safety plan to be created, to understand common practices across business areas and to share best practice.

If there are any positives to come from a global pandemic, it seems that we are all more aware of our wellbeing than ever before. Following the success of our 'Caring for our Colleagues' campaign' and 'Share a Smile' initiative over the last two years and having received great engagement from our colleagues, this year we launched our 'Tap into Wellbeing' programme designed to showcase the five key ways that our colleagues could all help to look after their wellbeing.

In August 2021 we launched YuLife, a new free wellbeing app offering our employees 24/7 virtual GP services, mental wellbeing support, nutritionist consultations and rewards for daily healthy activities. In April 2022 we introduced our new Elective Treatment Fund, a temporary, short-term solution aimed at offering financial support for our colleagues, for a range of elective treatments that have been significantly and disproportionately affected by the increased NHS waiting lists as a result of the pandemic.

Wonderfully You – Providing a diverse and inclusive place to work

Our diversity and inclusion ('D&I') strategy is included within our Group Sustainability Framework under the 'Providing a Safe, Inclusive and Fair Place to Work' pillar. In September 2021, we launched 'Wonderfully You' across the Group, our new D&I ambition, which for the first time also includes targets.

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

The Group senior management team was left energised after a very moving D&I training session last year, and we hosted another D&I session at our business leaders event in April 2021. We have since followed up with a company-wide conversation on D&I and have lots of new training courses available via the Severn Trent Academy to help support managers who may want or need extra support on this topic. We have also recently held a session with all operational managers in Hafren

Dyfrdwy specifically on D&I to encourage them to think differently and explore this further within their teams.

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

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

Progress on Diversity

Female representation in the Company was 24% (36 women) with male representation at 76% (111 men).

Five members of our Board were female (62.5%) and three were male (37.5%). Page 66 sets out a gender breakdown of Directors, senior managers (as defined in the 2018 UK Corporate Governance Code ('2018 Code') and Companies Act 2006) and employees of the Company as at 31 March 2022.

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

Attracting and Retaining Talent

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

Long term, one of our greatest opportunities to improve diversity is through our New Talent Programmes. We have committed to our largest ever intake of apprentices for 2022 having created five apprenticeship opportunities in line with our ambition to reflect the communities we serve. We will be supporting a number of Schools Events each year, enabling us to partner up with a School in Wrexham and achieve School Valued Partner status.

In 2021 we announced that we had embraced the Government Kickstart Scheme. We are delighted that to date three Kickstarters have joined Hafren Dyfrdwy, one of which has secured a permanent role with us.

We will be supporting 65 undergraduates this year through the #10000BlackInterns Programme and we are delighted to have offered one placement within Hafren Dyfrdwy. We are working with the business to ensure we provide the optimal experience for all of our interns and will be keeping in touch with them in the hope that some will join us permanently once they complete their placements.

Fairly rewarding our people

At the start of the COVID-19 pandemic, we committed to no furloughing, no redundancies, honouring our all-employee bonus and agreeing a 2.3% annual pay increase for three years for our frontline teams, with 2022 being the final year of the three-year pay deal.

Developing our people

This year the Group celebrated the first official birthday of the Severn Trent Academy at Hawksley Park. The Academy opened in February 2021, supporting our ambition to be a socially purposeful company in all that we do, giving back to the communities we live and work in, and providing opportunities for people to learn, retrain and develop with us in our industry.

During the past year, over 17,000 learners have passed through the doors, it has hosted over 2,600 events and is working to deliver 100,000 hours of free employability training for our communities. We have made some wonderful partnerships in the delivery of our community offer, an example of true collaboration is our relationship with the charity Sense, helping to ensure our learning is accessible to all.

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

We have developed some exciting virtual reality learning solutions for manual handling, coaching, sewage treatment and chemical deliveries, offering a safe place for individuals to practice and build essential practical skills. As part of our Academy offering, we also facilitate mentoring and coaching, helping employees develop or giving them the chance to help develop others.

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 in our dedicated Stakeholder Engagement section entitled 'Engagement in Action – Our Colleagues'.

Remuneration: Find out more

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

Section 172 Statement

Stakeholder engagement is central to the formulation and execution of our strategy and is critical in achieving long-term sustainable success. The needs of our different stakeholders as well as the consequences of any decision in the long term, are well considered by the Board. It is not always possible to provide positive outcomes for all stakeholders and the Board sometimes has to make decisions based on balancing the competing priorities of stakeholders.

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

The principles underpinning S172 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 S172 evaluation to identify the likely consequences of any decision in the long term and the impact of the decision on our stakeholders.

In performing their duties during 2021/22, the Directors have had regard to the matters set out in S172 of the Companies Act 2006.

Examples of decisions taken by the Board and how stakeholder views and inputs, as well as other S172 considerations, have been considered in its decision making are set out below:

- = likely consequences of decisions in the long term


● = the need to foster relationships with suppliers, customers and others

● = high standards of business conduct
- = the interests of the Company's workforce

● = impact of operations on the community and environment

● = the need to act fairly between members of the Company

Key Decisions made in 2021/22	S172 Considerations	Consideration of S172 impacts by the Board in its decision making	Outcomes and impact on the long-term sustainable success of the Company
Environmental Sustainability	●●●●●●	In June 2021 the Board considered and reviewed the Company's Environmental and Sustainability Strategy, setting out the actions taken and future commitments to ensure that the Company maintains and enhances the natural environment and associated benefits that could result for the Company's stakeholders.	The Board agreed that the Environmental Strategy was vital to support the Welsh Government's development of

		<p>Customers - In the development of its 2020-2025 Business Plan, proposals for environmental improvements were supported by customers who recognised the importance of protecting and improving their local environment. A key factor in all Board decisions is ensuring customer bills remain affordable and customer bill impacts were considered in the Company's development of its Environmental Plan and Natural Environment Programme.</p> <p>Regulators - The Board recognises the importance of working with the Welsh Government and regulators in development of its plans in order to deliver benefits for multiple stakeholders whilst also enhancing the quality of the natural environment.</p> <p>Employees - The Board encourages employees to volunteer as Community Champions and engage in environmental improvement projects within the Company's region, when possible. The Board considered the feedback from employees in respect of Community Champion participation, noting that this supported high engagement levels in the Company's QUEST survey.</p> <p>Environment and the Community - The Board considered feedback from the community on environmental matters and the work already underway with NRW, local wildlife trusts, the RSPB Cymru, Open Newtown and neighbouring water companies to maximise benefits to the local environment and local communities from its investment.</p> <p>Suppliers - The Board considered the benefits of working in partnership with industry partners to pool resources to maximise benefits for stakeholders and increase the resilience of eco-systems in response to climate change. The Board listened to the views of partners and local communities, who were focused on enhancing biodiversity at publicly accessible sites and factored these views in Board discussions.</p>	<p>a clear vision for the wellbeing of the people of Wales and the future management of natural resources in the region.</p>
<p>Strategic Direction Statement</p>		<p>At its Strategy Day in 2021, the Board had considered the requirement for the Company to develop its first Strategic Direction Statement ('SDS'). At that time, the Board had discussed initial thoughts on key trends and had identified emerging priority areas. Using this insight, the Strategy and Regulation Team developed a draft SDS for the Board's consideration and feedback. Ofwat has reinforced the necessity for such a document within its PR24 guidance, including that</p>	<p>As we enter a period of potentially higher investment across the water sector to meet higher resilience and environmental standards, it is critical that we</p>

		<p>companies' future delivery plans should be set in the context of long-term strategies.</p> <p>The Board approved the priorities set out in the SDS, particularly and the proposals to deliver for customers and wider stakeholders</p> <p>Customers - The Board was satisfied that the SDS was focused on the Company's priority to provide safe and consistently high-quality drinking water to customers, ensure that supply interruption and low-pressure events were effectively managed and ensure that bills remain affordable and represent good value. The Board also considered that the SDS would facilitate a continued high-quality customer experience.</p> <p>Employees - The Board considered that the SDS would also provide clarity to employees on its strategic priorities which would in turn support internal planning activity. The SDS also provided clarity on the skills and capabilities required to deliver upon the priorities outlined, increased employee engagement through creating an aligned purpose for employees at all levels of the organisation, giving back to the communities in which we serve and reinforcing the Company's socially purposeful culture.</p> <p>Environment and the Community - The Board reviewed the appropriateness of the SDS to support the continued protection and improvement of our region's natural environment, and the creation of new community resources – through supporting local community projects, giving support to vulnerable and disadvantaged members of society and, crucially, increasing the availability of jobs and training opportunities.</p> <p>Regulators - The Board has a strong track record of engagement with its regulators in respect of strategic topics. As such, the Board engaged with key regulators (including Ofwat) on the intended approach. The Board considered that releasing the SDS as a consultation document provided an invaluable opportunity to engage with the Company's regulators, and broader stakeholders, and reinforce that the Company's thinking process was maturing but not fixed. This approach would also allow incorporation of areas of interest with regulators and wider stakeholders.</p>	<p>have a clear view of our long-term direction. This will enable us both to plan investments more effectively, but also to optimise our drivers of value creation across AMPs.</p> <p>Our SDS defines the company we want to be in 2050 and the supporting 30-year investment roadmap required to achieve it.</p> <p>In July 2022 we will publish the SDS for consultation to ensure the consideration of stakeholder views are factored into its final form.</p>
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Non-Financial Information Statement

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

Reporting Requirement	Policies and standards which govern our approach	Additional information and risk management (pages)
STAKEHOLDERS	<ul style="list-style-type: none"> • Our Customer Policy outlines how our people are responsible in ensuring we keep our promises and deliver great customer service. • Our Group Data Protection Policy supports our people in protecting our employee and customer data when performing their work and making decisions. • Our Group Commercial Policy outlines what is expected of those involved in procurement activities, enabling them to uphold our Values and maintain proper standards of fairness and integrity in our relationships with all stakeholders. 	Stakeholder Engagement, pages 26 to 36 s.172 Statement, pages 40 to 42 Key Activities of the Board, pages 54 to 55
ENVIRONMENTAL MATTERS	<ul style="list-style-type: none"> • 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. 	Sustainability Report, severntrent.com Stakeholder Engagement, pages 26 to 36 s.172 Statement, pages 40 to 42
EMPLOYEES	<ul style="list-style-type: none"> • Group Health, Safety and Wellbeing Policy – We believe no one should be hurt or made unwell by what we do and this policy outlines expectations of all employees to ensure we achieve our Goal Zero. • Group Speak Up Policy – Our Values are an essential part of Severn Trent, and we take seriously any reports about illegal practices or inappropriate conduct. We 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, supportive and nurturing, and which makes the most of everyone’s growth potential. 	Our People, pages 37 to 39 Stakeholder Engagement, pages 26 to 36 Culture, page 5 Governance Report, pages 45 to 71 Audit and Risk Committee Report, pages 58 to 65 Directors’ Remuneration Report, pages 70 to 71
RESPECT FOR HUMAN RIGHTS	<ul style="list-style-type: none"> • Anti-Slavery and Human Trafficking Statement, available on our website • Diversity and Inclusion Policy – Wonderfully You. 	Governance Report, pages 45 to 71 Our People, pages 37 to 39
ANTI-CORRUPTION AND BRIBERY	<ul style="list-style-type: none"> • Our Group Financial Crime and Anti-Bribery and Anti-Corruption Policy outlines acceptable and non-acceptable behaviours to ensure compliance with anti-bribery and anti-fraud laws. • Our Group Conflicts of Interest Policy provides guidance around managing conflicts of interests arising from obligations pursuant to the CA2006, the 2018 Code and FCA rules and guidance. 	Governance Report, pages 45 to 71 Audit and Risk Committee Report, pages 58 to 65

	<ul style="list-style-type: none"> • Our Group Security Policy aims to minimise the likelihood of a threat being realised through the use of appropriate security solutions. • Group Competition and Competitive Information Policy – We take our position within the market, and our compliance with competition and antitrust laws, seriously. In everything we do, we strive to do it with openness, fairness and honesty. 	
SOCIAL MATTERS	<ul style="list-style-type: none"> • Doing the Right Thing, our Code of Conduct, helps us put our Values into practice and embody the principles by which the Group operates, and provides a consistent framework for responsible business practices. • Group Environment Policy. • Customer Policy. 	<p>Directors' Report, pages 72 to 77</p> <p>Sustainability Report, severntrent.com</p> <p>Stakeholder Engagement, pages 26 to 36</p>
DESCRIPTION OF PRINCIPAL RISKS AND IMPACT OF BUSINESS ACTIVITY		<p>Our Approach to Risk, page 12</p> <p>Principal Risks, pages 13 to 17</p> <p>Our Business Model, page 4</p>
DESCRIPTION OF THE BUSINESS MODEL		Our Business Model, page 4
NON-FINANCIAL AND FINANCIAL KEY PERFORMANCE INDICATORS		<p>Strategic Report, pages 3 to 44</p> <p>Performance Summary, pages 8 to 9</p>

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.

The Strategic Report has been approved by the Board.

By order of the Board



Hannah Woodall-Pagan
Company Secretary

14 July 2022

Governance Report

2018 UK Corporate Governance Code Compliance Statement

The Hafren Dyfrdwy Cyfyngedig Board is fully committed to Ofwat's principles for Board leadership, transparency and governance with its emphasis on the importance of strong Board leadership and the special responsibilities attached to regulated monopoly companies providing an essential public service. As Hafren Dyfrdwy is not a listed company, it is not required to comply with the 2018 UK Corporate Governance Code (the '2018 Code'). However, Hafren Dyfrdwy has elected to comply with the 2018 Code, where appropriate and reasonably practicable, to ensure the highest standards of governance.

For the whole of the financial year ended 31 March 2022, Hafren Dyfrdwy was compliant with the 2018 Code, with the following exceptions:

1. Audit and Risk Committee and Remuneration Committee at Company Level

In 2021, the Board decided to constitute a dedicated Hafren Dyfrdwy Audit and Risk Committee to commence discharging its duties with effect from 15 July 2021, with membership comprising independent Non-Executive Directors only (excluding the Chair, in line with the 2018 Code). Read more on pages 58 to 65

The Remuneration Committee at Severn Trent Plc Group level operates on behalf of Hafren Dyfrdwy. There have been no Remuneration matters for consideration by the Hafren Dyfrdwy Board during the year. In the event such consideration is required, the matters will be considered at Hafren Dyfrdwy Board level. The Severn Trent Plc Remuneration Committee comprises independent Non-Executive Directors of Severn Trent Plc only. Two members of the Committee also serve as a Non-Executive Directors on the Board of Hafren Dyfrdwy.

The Severn Trent Plc Remuneration Committee provides advice, assurance and recommendations only, ahead of the Hafren Dyfrdwy Board making final decisions. Details of the Severn Trent Plc Remuneration Committee can be found in the Severn Trent Plc Annual Report and Accounts. A copy of the Hafren Dyfrdwy Governance Framework can be found on page 53.

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 AGM, 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 Effectiveness

The Company does not comply with the provisions relating to an annual Board Effectiveness evaluation, as this process has been deferred to August 2022 to enable the effectiveness of the newly constituted Audit and Risk Committee to be evaluated following approval of the Company's Annual Report and Accounts and Annual Performance Report. However, Severn Trent Plc does fully comply with these requirements.

LEADERSHIP AND EFFECTIVENESS**Board of Directors****1. Ann Beynon, OBE****BA (Hons)****Independent Non-Executive Director – Appointed to the Board on 1 April 2018**

Ann is a Non-Executive Director on the Board of Farmers' Union of Wales Insurance Services, an Independent Advisor to Senedd Cymru/Welsh Parliament and a member of the CBI Wales Council. Previously, Ann was a Director for BT Wales, S4C's Head of Political and International Affairs and Equality and Human Rights Commissioner for Wales. Prior to this, Ann was a member of the Royal Commission on Reform of the House of Lords.

Other roles

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

**2. John Coghlan****BCom, ACA****Chair – Appointed to the Board on 17 February 2017**

John has a wealth of experience in financial and general management. He spent 11 years at Exel PLC as Chief Financial Officer and ultimately as Deputy Chief Executive Officer until retiring in 2006. Since then, he has been a Director of publicly-quoted and private companies across several sectors. John has recent and relevant financial experience as a member of the Institute of Chartered Accountants in England and Wales. John is our designated Non-Executive Director in respect of Cyber Security.

Other roles

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



3. Christine Hodgson, CBE

BSc (Hons), FCA

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

Christine brings extensive Board and governance experience to the Company as well as a deep understanding of business, finance and technology leadership. She is a committed advocate of the need for companies to serve all of their stakeholders effectively and deliver their social purpose. Until her appointment as Chair of the Severn Trent Board, she was the Executive Chair of Capgemini UK Plc, one of the world's largest technology and professional services groups. Christine joined Capgemini in 1997 and built her career in a variety of roles including CFO for Capgemini UK Plc and for the Global Outsourcing business, CEO of Technology Services North West Europe and the Global Head of Corporate Social Responsibility. Christine was previously an Independent Non-Executive Director of Ladbrokes Coral Group PLC until 2017. She is a fellow of the Institute of Chartered Accountants in England and Wales.

Other roles

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



4. James Jesic

BEng (Hons), PhD, MChemE, CEng

Managing Director – Appointed to the Board on 15 July 2020

James brings a wealth of operational, strategic and environmental expertise to the Board. James is a chartered engineer, with a PhD in Chemical Engineering, and he also attended Harvard Business School. He has extensive regulated business experience, gained in a number of senior leadership roles spanning the water sector. Throughout his career, James has delivered industry-leading customer service, environmental performance and operational transformation. James was appointed as Managing Director of Hafren Dyfrdwy in 2020 and is also Operations Director for Severn Trent Water. He has responsibility for the operation of the Group's multi-billion pound asset base, the production and supply of drinking water and provision of waste water services to Severn Trent's 4.5 million customers and the Group's Bioresources business.



5. Sally Jones-Evans

FCIB, MSC, MBA

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

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

Other roles

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



6. Dr Mohammed Mehmet

BSc (Hons), PhD

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

Mohammed has been Chief Executive of two local authorities: Denbighshire County Council between April 2009 until April 2018, and interim CEO for Powys County Council from May 2018 to February 2019. He is currently a Trustee of Macmillan Cancer Support, Non-Executive Director of Public Health Wales Trust and Director of MIND in Enfield.

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

Other roles

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

7. Helen Miles **CIMA**

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



Helen joined Severn Trent in November 2014 as the Chief Commercial Officer, and in 2020 became the Capital and Commercial Services Director. She brings with her a breadth of commercial experience having worked within regulated businesses and sectors across Telecoms, Leisure and Banking. As a member of the UK Board, Helen was instrumental in delivering HomeServe's future growth strategy and ensuring a sustainable, customer-focused business. An experienced finance professional, Helen was previously Chief Financial Officer for Openreach, part of BT Group Plc, and has extensive experience of delivering major business transformation across the Group. Prior to BT Group, Helen worked in a variety of sectors and organisations such as Bass Taverns, Barclays Bank, and Compass Group. Helen was appointed as Chief Financial Officer of Hafren Dyfrdwy in 2020 and is also Capital and Commercial Services Director for Severn Trent Water.

Other roles

- Non-Executive Director of Breedon Group Plc

8. Sharmila Nebhrajani, OBE **MA (Hons), ACA**

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



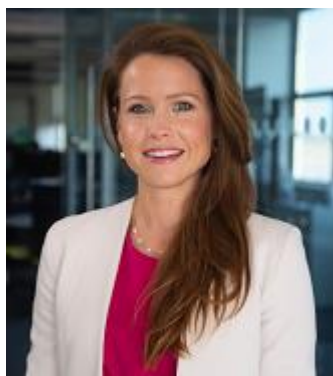
Sharmila brings extensive Board and governance experience, gained in a variety of roles spanning the private sector, public sector and NGOs. She brings sectoral experience from a range of regulated sectors including medicine, bioethics, financial services and the media. She is Chairman of the National Institute of Health and Care Excellence (NICE), the organisation that assesses clinical and cost effectiveness of drugs, medical devices and interventions in health and social care.

Her previous executive roles include Chief Executive of the Association of Medical Research Charities and Chief Operating Officer at BBC Future Media & Technology, where she managed the business functions of bbc.co.uk, including the launch of iPlayer. Previous non-executive roles include Chair of the Human Tissue Authority, Deputy Chair of the Human Fertilisation and Embryology Authority and Non-Executive of the Pension Protection Fund.

Sharmila read Physiological Sciences (Medicine) at the University of Oxford. She is a chartered accountant and was awarded an OBE in 2014 for services to medical research.

Other roles

- Chair of National Institute of Health and Care Excellence
- Non-Executive Director of ITV Plc
- Non-Executive Director of Halma Plc
- Non-Executive Director of Coutts & Co
- Non-Executive Director of Severn Trent Water Limited, the Group's licenced entity in England, and Severn Trent Plc

**Hannah Woodall-Pagan****BSc (Hons), FCG****Company Secretary – Appointed 12 October 2018**

Hannah was appointed as Company Secretary on 12 October 2018. She has extensive listed company experience, gained in a number of senior leadership roles spanning the FTSE100 and FTSE250. She is responsible for providing governance advice and guidance to the Board and senior management, as well as leading the Company Secretariat function.

Hannah is a Chartered Company Secretary, being a Fellow of the Chartered Governance Institute, and she also attended INSEAD business school. She joined the Group in 2015 from Mitchells & Butlers Plc, where she spent five years in a variety of roles of increasing responsibility within the company secretarial, governance and risk functions.

Other roles

- Deputy Company Secretary, Severn Trent Plc and Severn Trent Water Limited

Board meeting attendance 2021/22

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

Director	Position	Board Meetings
Ann Beynon	Independent Non-Executive Director	5/5
John Coghlan	Chair	5/5
Christine Hodgson	Independent Non-Executive Director	5/5
James Jesic	Executive Director	5/5
Sally Jones-Evans	Independent Non-Executive Director	5/5
Mohammed Mehmet	Independent Non-Executive Director	5/5
Helen Miles	Executive Director	5/5
Sharmila Nebhrajani*	Independent Non-Executive Director	3/5

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

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

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

Our Board

As at 31 March 2022, 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 Independent Non-Executive Directors. The details of their career background, relevant skills, Committee membership, tenure and external appointments can be found within their individual biographies on pages 46 to 50.

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

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

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

In respect of the Board Committees, Independent Non-Executive Directors form the majority of the membership of both the Audit and Risk and Nominations Committees, with no Executive Directors serving on either Committee. Following the resignation of Sharmila Nebhrajani from the Board, the Audit and Risk Committee will be chaired by Sally Jones-Evans, an Independent Non-Executive Director with recent and relevant financial experience. The Board would like to thank Sharmila Nebhrajani for her commitment and valuable contribution to the Company during her tenure.

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

The composition and effectiveness of the Board is subject to review by the Nominations Committee which, in particular, considers the balance of skills, experience and independence of

the Board, in accordance with the Group's Board Diversity Policy. The Board Diversity Policy Statement is available on the Severn Trent Plc website.

Any new appointments to the Board of Hafren Dyfrdwy result from a formal, rigorous and transparent procedure, responsibility for which is delegated to the Nominations Committee (although decisions on appointments are a matter reserved to the Board). Further information on the work of the Nominations Committee can be found on pages [xx] to [xx].

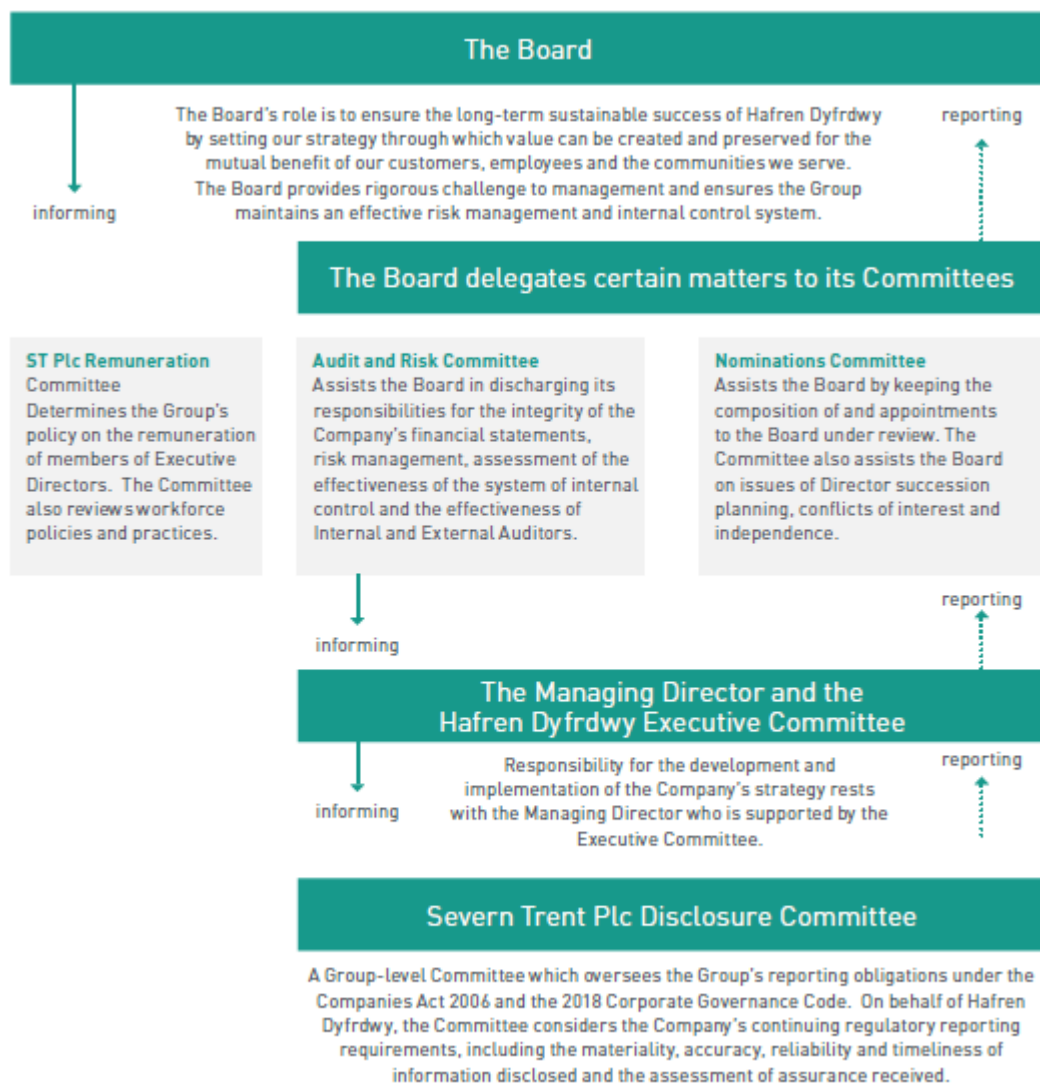
Severn Trent Plc and Hafren Dyfrdwy Cyfyngedig operate as distinct legal entities. The Hafren Dyfrdwy Board's role is to ensure the long-term success of Hafren Dyfrdwy. Maintaining the highest standards of governance is integral to the effective delivery of our strategy and ensuring that the Board takes decisions that create sustainable long-term value for the mutual benefit of our stakeholders, customers, employees and the communities we serve. The operation of our Board is supported by the collective experience of the Directors and the diverse skills and experience they possess. This enables the Board to reach decisions in a focused and balanced way, supported by independent thought and constructive debate between the Directors. Trust and mutual respect are the cornerstones of relationships between our Directors, with a Board dynamic that supports open and honest conversations to ensure decisions are taken for the benefit of the Company in full consideration of the impact on all stakeholders. Responsibility to all of our stakeholders for the approval and delivery of the Company's strategy and for creating and overseeing the framework to support its delivery sits with the Board.

The requirements of the Board are clearly documented in the Hafren Dyfrdwy Articles of Association and Schedule of Matters Reserved to the Board. They are assisted through the management of agendas, meetings and minutes by Company Secretariat and advised in their meetings by the Company Secretary, where appropriate. There is a clear division of responsibilities between the roles of Chair and Managing Director. To allow these responsibilities to be discharged effectively, the Chair and the Managing Director maintain regular dialogue outside of the Boardroom, to ensure an effective flow of information. The Non-Executive Directors have direct access to senior management at all times. Informal as well as formal contact with the wider business is encouraged to develop a deeper understanding of the Company's operations and requests for further information are welcomed. This broadens the Non-Executive Directors' sources of information and enables them to consider the wider impact of any Board decisions on stakeholders more broadly.

Governance Framework

The Board is supported by the Hafren Dyfrdwy Governance Framework, which is set out below. The Governance Framework comprises the Board, Executive Committee and the respective Committees. In line with the 2018 Code, the Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the Board on decisions and actions taken, and making any necessary recommendations to the Board in line with their respective Terms of Reference. The Board regularly reviews the Terms of Reference of each Committee.

The Governance Framework is also subject to periodic review to ensure that it remains appropriate. In 2021, the Board decided to constitute a dedicated Hafren Dyfrdwy Audit and Risk Committee, effective 15 July 2021, with membership comprising Independent Non-Executive Directors only (excluding the Chair, in line with the 2018 Code). Sharmila Nebhrajani chairs the Audit and Risk Committee and, following her resignation from the Board, effective July 2022, the Committee will be chaired by Sally Jones-Evans.



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

The Seven Trent Plc Executive Disclosure Committee oversees the Group's reporting obligations under the Companies Act 2006, the 2018 Code, the UKLA Listing Rules, Disclosure Guidance and Transparency Rules and the Company's annual and continuing regulatory reporting requirements, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received.

Stakeholder Engagement

Hafren Dyfrdwy's success depends on the Board taking decisions that deliver mutual benefit to our customers, communities and other stakeholders, as set out in section 172 of the Companies Act. Please read more in our separate Section 172 Statement on pages 40 to 42. The Board also engages with stakeholders throughout the year, a summary of which can be found on pages 26 to 36.

KEY ACTIVITIES OF THE BOARD IN 2021/22

The key activities considered by the Board during the year are set out below. The Board recognises the value of maintaining close relationships with its stakeholders, understanding their views and the importance of these relationships in delivering our strategy and the Company's Purpose.

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

Board meetings follow a carefully tailored agenda that is agreed in advance by the Chair, in conjunction with the Company Secretary. A typical Board meeting will comprise reports on operational and financial performance, legal and governance updates and one or two detailed deep dives into areas of particular strategic importance. Details of the Directors' attendance at the scheduled meetings that took place during the year can be found on page [xx].

Main topics discussed by the Board during the year:

Regular Updates

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

Financing Strategy

- Budget 2022/23
- Long-term Viability and Going Concern
- Investment Grade Credit Rating
- Investment Opportunities

Governance and Stakeholders

- Stakeholder Engagement Reports
- Governance and Regulatory Updates

Regulatory

- Annual Report and Accounts
- Annual Performance Report
- Wholesale Charges for 2022/23
- GDPR
- Final Charges for 2022/23
- Water Quality
- Reservoir Safety
- Group Anti-slavery and Human Trafficking Statement

Strategy

- Environmental Leadership in Wales
- Environmental Sustainability
- Societal Sustainability
- Llyn Clywedog – Strategic Resource Option Submission

- Innovation
- Strategic Direction
- Storm Overflows
- River Pledges
- Customer Experience and Engagement
- PR24
- Capital Programme

Culture and Values

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

Risk Management

- Regulatory Updates
- Enterprise Risk Management Reports
- Review of Effectiveness of Internal Controls and Risk Management

Site Visits

- Lake Vyrnwy
- Newtown Sewage Treatment Works
- Powys Operational Hub

Stakeholder Engagement and Attendance

- Stakeholder Engagement Plan
- Stakeholder Engagement – Drinking Water Inspectorate
- Stakeholder Engagement – Natural Resources Wales

Board Training and Development

The environment in which we operate is continually changing. It is therefore important for our Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date. Our Board Effectiveness process includes training discussions with the Company Secretary and, as required, we invite professional advisers and subject matter experts to provide in-depth updates. These updates are not solely reserved for legislative developments but aim to cover a range of strategic issues including, but not limited to, the economic and political environment, environmental, technological and social considerations. Our Company Secretary also provides regular updates to the Board on regulatory and corporate governance matters. The Key Activities of the Board on pages 54 to 55 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.

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 Board discussions. Senior management and external stakeholders are often invited to attend these sessions.

Directors' Resources

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

Directors' Skills and Experiences

An effective Board requires the right mix of skills and experience. Our Board is a diverse and effective team focused on promoting the long-term success of the Company. The matrix below details some of the key skills and experience that our Board has gained across a range of comparably sized companies. These are particularly valuable to the effective oversight of the Company and execution of our strategy.

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

Induction Programme

We develop a detailed, tailored induction for each new Non-Executive Director. This includes one-to-one meetings with the Chair and each of the existing Non-Executive Directors. One-to-

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

Operational and Site Visits

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

Audit and Risk Committee Report

Audit and Risk Committee meeting attendance 2021/22

The Committee met twice during the year. The members of the Committee in 2021/22 were the Non-Executive Directors of the Board. Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Managing Director, the Chief Financial Officer, the Company Secretary, senior management and external advisers may be invited to attend meetings as and when appropriate.

Membership and attendance

Committee Member	Role	Meetings attended during 2021/22
A Beynon	Independent Non-Executive Director	1/1
S Jones-Evans	Independent Non-Executive Director	1/1
M Mehmet	Independent Non-Executive Director	1/1
S Nebhrajani (Chair)	Independent Non-Executive Director	1/1

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, the Chief Financial Officer, the Company Secretary, other members of senior management, representatives from the External Auditor, Deloitte, and non financial regulatory performance and data assurers, Jacobs. None of these attendees are members of the Committee.

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

The Committee assists the Board by establishing, reviewing and monitoring the formal and transparent policies and procedures to ensure the independence and effectiveness of the Internal and External Audit functions, the integrity of financial and narrative reporting, the Company's internal control framework and the adequacy of the process that enables the Board to assess the extent of Principal Risks the Company is willing to take to achieve its long-term strategic objectives. The Committee, and its individual members, act in a way that we consider is most likely to promote the success of the Company for the benefit of its members as a whole, including shareholders, as set out in s.172 of the Companies Act 2006. This ensures that the interests of our stakeholders are properly considered and reflected in our 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 40 to 42.

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 our key roles is to advise the Board that we are satisfied that the Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. In doing so, we ensure that management's disclosures reflect the supporting detail, or challenge them to explain and justify their interpretation and, if necessary, re-present the information. The External Auditor supports this process, in the course of its statutory audit, by auditing the accounting records of the Company against agreed accounting practices, relevant laws and regulations. Deloitte's audit report can be found on pages 80 to 90.

We were pleased to advise the Board that the 2021/22 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.

Our review process is described in further detail on pages 60 to 61.

Key Areas of Focus 2021/22

Internal Audit	Internal Controls and Risk Management	Financial and Regulatory Reporting	External Audit
<ul style="list-style-type: none"> • Considered Internal Audit reports presented to the Committee and satisfied itself that management had resolved or was in the process of resolving any outstanding issues or actions. • Reviewed and approved the Internal Audit plan and approach for 2021/22. • Reviewed the quality and effectiveness of Internal Audit and the effectiveness of the current co-source arrangements. 	<ul style="list-style-type: none"> • Reviewed the effectiveness of the Company's Enterprise Risk Management processes and procedures and internal control systems, and integration of the components of the risk framework into Board and Committee reporting, prior to making a recommendation to the Board. • The Committee also reviewed the Company's Risk Appetite Statement prior to making a recommendation to the Board. • Monitored fraud reporting and incidents of 	<ul style="list-style-type: none"> • Reviewed and discussed reports from the Chief Financial Officer on the financial statements, considered management's significant accounting judgments and the policies being applied, and assessed the findings of the statutory audit in respect of the integrity of the financial reporting of full year results. • Reviewed the integrity of the regulatory reporting process relating to the Annual Performance Report, and other regulatory submissions as 	<ul style="list-style-type: none"> • Oversaw the 2021/22 statutory audit, including the key audit risks and level of materiality applied by Deloitte, audit reports from Deloitte on the financial statements and the areas of particular focus for the 2021/22 audit.

	<p>whistleblowing, including a review of the adequacy of the Company's whistleblowing processes and procedures, prior to reporting to the Board on this activity.</p> <ul style="list-style-type: none"> • Oversight and monitoring of the Company's compliance with the Bribery Act 2010, including a review of the adequacy of the anti-bribery, corruption and fraud processes and procedures (and associated policies). 	<p>required to be submitted to Ofwat.</p> <ul style="list-style-type: none"> • Reviewed the 2021/22 Annual Report and Accounts and provided a recommendation to the Board that, as a whole, they complied with the 2018 Code principle to be 'fair, balanced and understandable and provide the information necessary to assess the Company's position, performance, business model and strategy'. 	
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The Committee also reviewed and approved the Committee's Terms of Reference, prior to making a recommendation to the Board. In completing its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties. The Committee is authorised to seek external legal or other independent professional advice as it sees fit but did not need to do so during the year.

Fair, Balanced and Understandable ('FBU') Reporting

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

1 - Regular Disclosure Committee Review

The Committee reviewed the Annual Report and Accounts throughout the process and undertook a detailed FBU assessment ahead of tabling a detailed report to the Audit and Risk Committee. This process was conducted in a timely manner to enable sufficient time for the Audit and Risk Committee to comment and review on the report and ensure overall balance and consistency.

2 - Regular Audit and Risk Committee Review

The Committee reviewed the Annual Report and Accounts at an early stage, and throughout the process, to enable sufficient time for comment and review and ensure overall balance and consistency.

3 - Internal Audit Verification and Oversight

Internal Audit reviewed the Annual Report and Accounts and oversaw a verification process for all factual content and reported back to the Committee on its assessment and findings.

4 - FBU Assessment

The Committee reviewed and approved the process in place to support the FBU assessment and reviewed the findings of this process. The Committee was satisfied that all the key events and issues reported to the Board by management (both positive and negative) had been adequately referenced or reflected within the Annual Report and Accounts.

5 - External Auditor Review

The External Auditor presented the results of its audit work. The significant issues and risks considered as a Committee were consistent with those identified by the External Auditor in its report (see page 65 for more detail).

6 - Recommendation to Board

The Board approved the Committee's recommendation that the FBU statement could be made, which can be found in the Directors' Responsibility Statement on page [xx] of this Annual Report.

Internal Audit

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

Internal Audit Plan and Actions

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

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

Once approved by the Committee, regular reporting enables the Committee to monitor delivery of the audit plan and ensure that Internal Audit performs its work in accordance with the mandatory aspects of the International Professional Practice Framework of the Chartered Institute of Internal Auditors (the 'CIIA'), with integrity (honestly, diligently and responsibly) and objectively (without conflicts of interest). Following the completion of each planned audit, Internal Audit seeks feedback from management and reports to the Committee on the findings of the audit, including any action that may be required. Where any failings or weaknesses are identified in the course of the review of internal control systems, management puts in place robust actions to address these on a timely basis.

No material weaknesses were identified during the year. Action closure is reported to, and monitored by, the Committee and we are pleased to confirm that our review established that management places a strong focus on closing audit actions and ensuring timely completion. The Internal Audit function also liaises with the statutory auditor, discussing relevant aspects of their respective activities which ultimately supports the assurance provided to the Committee and Board.

Effectiveness

To ensure continued efficiency, an annual review of the effectiveness of the Internal Audit function is undertaken in line with the CIIA Internal Audit Code of Practice and the FRC Guidance on Audit Committees. The CIIA guidance states that Audit Committees should obtain an independent and objective external quality assessment at least every five years, however the Group considers it prudent to carry out external effectiveness reviews every three years. As planned, the Group commissioned an external review of the effectiveness of the Internal Audit function in December 2021. The review was carried out by BDO who concluded that the Internal Audit function remained fit for purpose, was operating efficiently and effectively, and in line with good practice. BDO's findings also highlighted clear evidence that the Internal Audit function operated with strategic alignment, a focus on risk and an emphasis on quality and continuous improvement, all underpinned by objectivity and integrity. Taking all these elements into account, the Committee concluded that the Internal Audit function was an effective provider of assurance over the Company's risks and controls and appropriate resources were available as required.

Internal Controls and Risk Management

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.

The Audit and Risk Committee welcomes the response issued by the Department of Business, Energy and Industrial Strategy ('BEIS') to the 'Restoring trust in audit and corporate governance' white paper issued last year. We are fully committed to ensuring that the Company's audit and governance arrangements reflect best practice and we will address all new requirements within the expected time frames.

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

Risk Management

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

The Committee reviews the processes for, and outputs from, the Company's ERM activity, through which our Principal Risks and related controls are identified. It also reviews the effectiveness of the risk management system on behalf of the Board and keeps under review ways in which the control and assurance arrangements can be enhanced. Throughout the year, improvement activities were identified to complement the Audit and Risk Committee with an updated Strategic Risk Forum as a value-adding function, assisting the Committee in reviewing the risk management system, internal controls that mitigate risks and undertaking reviews of assurance risk reports prior to Audit and Risk Committee meetings. The Central ERM Team also undertook a review of the integration of the components of the risk framework into Board and Committee reporting, prior to making a recommendation to the Board.

The Committee received half yearly reports from the Head of Risk, detailing the significant risks and uncertainties faced by the Company.

Each risk submitted for review includes an assessment of the overall risk status, status of the control environment and a summary of the risk mitigation plan to take the risk to the target risk position, which needs to be in line with the risk appetite. The risk mitigation plan covers action plans to improve controls where this has been assessed as necessary and assesses whether actions are on target, with the correct prioritisation in place. Further details of the Company's risk management systems and controls and Principal Risks can be found in the Strategic Report.

Whistleblowing

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

All investigations are carried out independently with findings being reported directly to the Audit and Risk Committee. The Board as a whole monitors and reviews the effectiveness of the whistleblowing arrangements annually, to ensure that it has sufficient oversight of whistleblowing to support its work on assessing culture, risk and stakeholder engagement. The Audit and Risk Committee receives reports on investigations and any significant whistleblowing matters are reported directly to the Board. There have not been any instances of whistleblowing in Hafren Dyfrdwy to date. The Board also receives regular updates from the Committee and the Board completes an assessment of the effectiveness of the Company's whistleblowing procedures. The Board has reviewed these arrangements again this year and is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

External Auditor

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

Effectiveness and Competence

The Committee considers audit quality the principal requirement of the annual audit process and as such a full effectiveness review is conducted annually. This year, it involved assessment of the External Auditor by the Committee, key Executives and relevant senior management including an evaluation of whether the External Auditor met the minimum standards of qualification, independence, expertise, effectiveness and communication. All members of the Committee, as well as key members of management and those who have regular contact with the External Auditor, completed a feedback questionnaire focusing on the following areas:

- Robustness of the external audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity.
- Appropriateness of the scope of the audit and the planning process for the delivery of an effective and efficient audit.
- Quality of the delivery of the audit, the service provided by the External Auditor and its knowledge and understanding of the Company's business.
- Expertise of the audit team conducting the audit.
- Degree of independence applied by the External Auditor and that policies and procedures were consistently applied.
- Views on the quality of the interaction between the audit partner and senior members of the audit team and the Company.

- Whether the statutory audit contributed to the integrity of the Company's financial reporting.

Feedback was collated and presented to the Committee in March 2022, without the External Auditor present. The Committee discussed the conclusions and any opportunities for improvement, which were brought to the attention of the External Auditor. No significant issues were reported as part of this process, and it was concluded that the External Audit process and services provided by Deloitte were satisfactory and effective.

Independence

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

The Committee recognises that independence is also a key focus for the External Auditor, and Deloitte has confirmed that it has complied with its own ethics and independence policies which are consistent with the FRC's Revised Ethical Standard (2019). This includes the External Auditor's assurances that all of its partners and staff involved with the audit are independent of any links to the Company. 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 2021/22 audit.

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 our Non-Audit Services Policy (the 'Policy'). The Severn Trent Plc Audit and Risk Committee reviewed and updated the Policy during 2019/20 to reflect the FRC's Revised Ethical Standard and the more restrictive list of services that are now permitted. The Policy requires 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 £71,000 in fees for work relating to the audit services it provides to the Company. The only Non-audit related work undertaken by Deloitte during the year was in relation to the audit of the Annual Performance Report and amounted to fees of £33,000, which amounts to 46.5% of the total audit fees paid to it.

The more significant non-audit services provided by Deloitte were the audits of the financial information contained within the Annual Performance Report. Audit and non-audit fees paid to Deloitte are set out in note 4 to the financial statements on page 104. In approving these non-audit fees, we considered the overall ratio of non-audit fees to audit fees and, given the scope of work, considered that Deloitte was best placed to perform these services. Where Deloitte was chosen, this was as a result of its detailed knowledge of our business and understanding of our industry, as well as demonstrating that it had the necessary expertise and capability to undertake the work cost effectively and whilst maintaining its objectivity and independence.

Statutory Auditor Reappointment for the Year Ending 31 March 2023

During the year, the Severn Trent Plc Audit and Risk Committee recommended to the Severn Trent Plc Board that Deloitte be proposed for reappointment for the year ending 31 March 2023. There are no contractual obligations that restrict the Committee's choice of auditor; the recommendation is free from third-party influence and no auditor liability agreement has been entered into.

Significant issues considered and addressed in relation to the financial statements

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

The Committee discussed the range of possible treatments both with management and with the External Auditor confirming that the judgments made by management were robust and supportable. For all the matters described below the Committee concluded that the treatment adopted in the financial statements was appropriate Going Concern basis for the financial statements and long-term Viability Statement.

The Committee reviewed and challenged the evidence and assumptions underpinning the use of the going concern assumption in preparing the accounts and in making the statements in the Strategic Report on going concern and long-term viability. In particular, the Committee considered severe but plausible scenarios modelled in relation to the Company's principal risks, noting the stress tests performed by management and the potential mitigating actions identified.

Our business model can be found on page 4. Principal Risks and uncertainties can be found on pages 13 to 17. The Viability Statement can be found on pages 18 to 23 and the Going Concern Statement on page 24.

Nominations Committee Report

Nominations Committee meeting attendance 2021/22

The Committee did not meet during the year. However, it met once following year end to discuss the composition of the Board and to recommend the appointment of Sally Jones-Evans as Chair of the Audit and Risk Committee. The members of the Committee in 2021/22 were the Non-Executive Directors of the Board. Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Managing Director, the Company Secretary, senior management and external advisers may be invited to attend meetings as and when appropriate.

Members of the Committee

J B Coghlan (Chair)
 A Beynon
 C M Hodgson
 S Jones-Evans
 M Mehmet
 S Nebhrajani

Diversity

The Board continues to drive the agenda of diversity across the Company and is proud of the progress made. A breakdown by gender of the number of persons who were Directors of the Company, senior managers, as defined in the 2018 Code and Companies Act 2006, and other employees as at 31 March 2022 is set out below, alongside details of the ethnic minority population of these same groups.

Employee Population	Male	Female	Ethnic Minority
Board	3	5	2
Senior Leader*	0	0	0
All Employees	111	36	0
Graduates	0	0	0
Apprentices	0	0	0

*No employees met this definition for 2021/22

Board Diversity

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

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

the diversity of our region, including the gender, social and ethnic background, skills and experience amongst our customers and the communities we serve.

In reviewing the Policy, recognition was given to the importance and benefits of greater diversity, including gender diversity, social and ethnic backgrounds and cognitive and personal strengths, throughout the Group, including on the Boards themselves.

The objectives and targets of the Policy, and an update against each of them in respect of Hafren Dyfrdwy, are set out below.

Board Diversity Policy – Objectives and progress against targets

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

<p>Ensure focus is given to the development of a pipeline of diverse high calibre candidates for Board level roles and report annually on the diversity of the Executive pipeline as well as the diversity of the Board.</p>	<p>Regular Board consideration of the importance and benefits of greater diversity including gender diversity, social and ethnic background and cognitive and personal strengths. This includes representation of these cohorts in the Company's talent pipeline and on the Board itself.</p>	<p>Consideration was given during the year to diversity and inclusion within the Company.</p>
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Policy Targets for 2021/22	Progress against Target	Policy Targets for 2022/23
<p>Maintain at least 40% female Directors on the Board over the short to medium term.</p>	<p>62.5% female representation on our Board as at 31 March 2022.</p>	<p>Maintain at least 40% female Directors on the Board over the short to medium term.</p>
<p>Maintain at least 10% Directors from a minority ethnic background on the Board over the short to medium term.</p>	<p>Two Directors from an ethnic minority background on our Board as at 31 March 2022.</p>	<p>Maintain at least one female in the Chair and Senior Independent Director roles on the Board and/or maintain at least one female in the Chief Executive and Chief Financial Officer roles in the Company.</p> <p>Maintain at least 10% Directors from a minority ethnic background on the Board over the short to medium term.</p>

Talent Development

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

Director Conflicts and Independence

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

Additionally, the Hafren Dyfrdwy Board conducted an annual review of individual Director conflict authorisations as recorded in our Conflicts of Interest Register in 2022. The Conflicts of Interest Register sets out any actual or potential conflict of interest situations which a Director has disclosed to the Board in line with their statutory duties and the practical steps that are to be taken to avoid conflict situations. When reviewing conflict authorisations, the Board considers

any other appointments held by the Director as well as the findings of the Board Effectiveness evaluation.

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

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

Human Rights and Modern Slavery

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

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

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

Freedom of Association and Collective Bargaining

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

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

Directors' Remuneration Report

Remuneration Details

Non-Executive Directors' Fees

The three independent Non-Executive Directors of Hafren Dyfrdwy Cyfyngedig received an annual fee for the year ended 31 March 2022. All fees were recharged to the Company.

Non-Executive Director fees will increase by 2.3% to £32,120 from 1 July 2022; in line with the wider workforce increase.

	2022/23	2021/22	Increase %
Fee paid to all Non-Executive Directors	£32,120	£31,400	2.3%

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

The total single figure of remuneration below sets out the remuneration received by the Directors for 2021/22:

Non-Executive Directors	Year ended 31 March 2022		Year ended 31 March 2021	
	Salary and Fees (£'000)	Total (£'000)	Salary and Fees (£'000)	Total (£'000)
Sally Jones-Evans	31.2	31.2	30.5	30.5
Ann Beynon	31.2	31.2	30.5	30.5
Mohammed Mehmet	31.2	31.2	30.5	30.5

Chair Fees

John Coghlan was remunerated as a Director of Hafren Dyfrdwy Cyfyngedig and received an additional fee of £10,230 for 2021/22 in relation to his responsibilities as Chair of Hafren Dyfrdwy Cyfyngedig. His fee will increase by 2.3% to £10,470 from 1 July 2022; in line with the wider workforce increase.

Sharmila Nebhrajani was remunerated as Chair of the Audit and Risk Committee of Hafren Dyfrdwy Cyfyngedig and received an additional fee of £5,000 for 2021/22. The fee for this role will increase by 2.3% to £5,115 from 1 July 2022; in line with the wider workforce increase.

Christine Hodgson received no additional remuneration in respect of her role as a Director of Hafren Dyfrdwy Cyfyngedig during 2021/22.

Executive Directors' Remuneration

A recharge is made to Hafren Dyfrdwy in respect of a proportion of their time for duties carried out by the Executive Directors on behalf of the Company in 2021/22 and this amounted to 8.0% in relation to the Managing Director, James Jesic, and 7.9% in relation to the Chief Financial Officer, Helen Miles.

The recharge for Executive Directors' time during 2021/22 reflects the fully embedded resource provided by other senior Severn Trent employees in respect of Hafren Dyfrdwy.

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

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

Summary of the implementation of the Remuneration Policy in 2022/23

Shareholders overwhelmingly approved the Severn Trent Plc Remuneration Policy (the 'Policy') at the Severn Trent Plc AGM in July 2021 (99.66% voted in favour); full details of the Policy can be found on the Severn Trent Plc website. A summary of how the Policy will be implemented in 2022/23 is contained in the Severn Trent Plc Directors' Remuneration Report on pages 135 to 136.

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

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

Annual Bonus 2022/23

In March 2022, the Committee approved a change to the bonus design for 2022/23, to include an element linked to our newly launched River Pledges. This element will carry a weighting of 8% of the total bonus and is created by incorporating the Customer Experience measure (C-MeX) into the 'minimise disruption to customers' ODI category. By adding in this River Health element, 20% of the total bonus will be linked to measures relating to the environment. There are five distinct River Pledges, each with a series of sub-measures beneath them. In selecting which of the measures to build into the bonus scheme, we have focused on those that are most pertinent to stakeholders, namely reducing the harmful impact we have on river health and increasing opportunities for people in our region to enjoy our waterways.

Specifically for the Executive Directors of Hafren Dyfrdwy, James Jesic and Helen Miles, 3% of their bonus is attributed to Hafren Dyfrdwy performance. The annual bonus performance measures and weightings for 2022/23 financial year will be as follows:

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

The Committee considers the forward-looking performance targets to be commercially sensitive and has, therefore, determined not to disclose them in advance. Details of the targets used will be disclosed in the 2022/23 Severn Trent Plc Directors' Remuneration Report.

Directors' Report

The Directors' Report for the year ended 31 March 2022 comprises pages 72 to 77 of this report, together with the sections of the Annual Report incorporated by reference. The Governance Report set out on pages 45 to 71 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 44, as the Board considers them to be of strategic importance.

Specifically, these are:

- Performance Review which provides detailed information relating to the Company, its business model and strategy, operation of its businesses, future developments and the results and financial position for the year ended 31 March 2022;
- Future business developments (throughout the Strategic Report);
- Details of the Company's policy on addressing the Principal Risks and uncertainties facing the Company are set out in the Strategic Report on pages 3 to 33;
- Engagement (pages 26 to 39); and
- Business relationships (throughout the Strategic Report).

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

Principal activity

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

Areas of operation

During the course of 2021/22, the Company had activities and operations solely in the UK.

Directors and Directors' Interests

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

J B Coghlan
A Beynon
C M Hodgson
J Jesic
S Jones-Evans
M Mehmet
H M Miles
S Nebhrajani (appointed on 1 April 2021)

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

Directors' remuneration is disclosed on pages 70 to 71.

Directors' indemnities

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

Employees

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

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

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

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

Employee engagement

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

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings and our employee survey, QUEST. More information on employee engagement can be found on page 32.

Research and development

Innovative use of existing and emerging technologies will continue to be crucial to the successful development of new products and processes for the Company and our products must continue to deliver value for customers. Expenditure on research and development is set out in the Company financial statements.

Internal controls

The Board is responsible for the Company's Internal Control systems and for reviewing their effectiveness. The Hafren Dyfrdwy Cyfyngedig Audit and Risk Committee regularly monitors and reviews the effectiveness of the Company's systems of Internal Control, including Risk management, financial, operational and compliance aspects, in accordance with the requirements of the 2018 Code and the Guidance, and appropriate systems have been in place for the year ending 31 March 2022 and up to the date of the Annual Report. This is described in the Audit and Risk Committee Report on pages 58 to 65. The Internal Control system can

provide only reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Treasury management

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

Post balance sheet events

Details of post balance sheet events are set out in the Company financial statements in note 22.

Capital structure

Details of the Company's issued share capital and of the movements during the year are shown in note 20 to the Company financial statements. The Company has one class of Ordinary Shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company. The issued nominal value of the Ordinary Shares is 100% of the total issued nominal value of all share capital.

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

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

Group structure

The Company's position within the Severn Trent Plc Group can be found on the Severn Trent Plc website. During the year the entire share capital was transferred to the Company's immediate parent, Severn Trent Draycote Limited on 31 March 2022 through completion of a dividend in specie. For more information, see note 22 to the financial statements.

Dividends

No dividends (2021/22: £Nil) have been paid in the year. The Directors do not recommend the payment of a dividend (2020/21: £Nil).

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £28,882 (2021: £Nil). In 2020, the Severn Trent Group established a COVID-19 Emergency Fund to support charities and community projects at the forefront of our region's COVID-19 response. You can read more about the Company's Community Fund on page 34.

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

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

Supplier payment policy

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

Relevant audit information

The Directors confirm that:

- so far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- each of them has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

External Auditor

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

We reduce our carbon footprint

We play a leading role in reducing our greenhouse gas ('GHG') emissions. The Severn Trent Group has committed to a Triple Carbon Pledge to achieve net zero operational carbon emissions by 2030; generate or procure 100% renewable electricity and move our fleet to 100% electric vehicles by 2030. We have also set Science Based Targets to reduce Scope One and Two emissions by 46% by 2031 in line with a 1.5c pathway, and for 70% of our supply chain (by emissions) to have set a Science Based Target by 2026.

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

The Group has held the Carbon Trust Standard continuously since 2009, which recognises our consistent emissions reductions and effective carbon management processes. The Group continues to report to the Carbon Disclosure Project ('CDP') each year which means our climate change information is publicly accessible. CDP requests information about climate change from companies on behalf of investors and scores each company on the quality and completeness of their responses. In 2020/21 the Group's CDP score was A, an improvement from B in 2019/20.

To reduce our operational emissions further we will continue to focus on improving our energy efficiency to offset the additional demands of a growing population and more stringent treatment quality requirements and increase the amount of renewable-backed energy we buy. We will also continue to decarbonise our fleet and encourage employees to take up low-carbon electric cars as part of our Triple Carbon Pledge.

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

As we have successfully reduced our Scope Two emissions, we are now focusing on our Scope One emissions, which will require more innovation to solve.

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO₂e), for the period 1 April 2021 to 31 March 2022. Our total net emissions have fallen again this year, due to increased generation of renewable energy and a reduction in the emissions intensity of UK grid electricity, including from our 100% renewable-backed electricity procured in our contract supply. We have reported this market-based benefit separately in the table below.

Hafren Dyfrdwy Carbon Footprint kt CO₂e

Our gross emissions total in the table below applies the 'location-based' accounting methodology for grid emissions, which is consistent with previous years and shows the 'market-based' accounting method in parallel. Operational Greenhouse Gas Emissions (Tonnes CO₂e) Location based Market based-based' accounting method in parallel.

Operational Greenhouse Gas Emissions (Tonnes CO ₂ e)	Location Based	Market Based
Scope 1 Emissions (Combustion of fossil fuel on site)	25	25
Scope 1 Emissions (Process emissions)	216	216
Scope 1 Emissions (Transport Fleet)	486	486
Scope 2 Emissions (Electricity Purchased for own use)	4500	0
Scope 3 Emissions (Electricity Transmission and Distribution)	398	0
Total Annual Gross Operational Emissions	5624	726
Benefit of exported renewable electricity	-640	-640
Total Annual Net Operational Emissions	4984	86

Our GHG data is reported internally during the year to the Severn Trent Plc Corporate Sustainability Committee and to the Severn Trent Plc Board. The Group's GHG data and processes are subject to external assurance by Jacobs. Our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard. We have included only emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary. We have not reported on indirect 'Scope Three' emissions. We report these in our Severn Trent Plc CDP Disclosure and in our Severn Trent Plc Annual Report.

For the appointed UK water businesses, both Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, we have calculated our emissions using the updated 'Carbon accounting in the UK Water Industry: methodology for estimating operational emissions, Version 16' (released in 2022). This is a peer-reviewed calculation tool developed and used by all the major water companies in the UK. It is updated each year to include the latest available emissions factors. All emissions arise in the UK.

Annual Performance Report for Hafren Dyfrdwy Cyfyngedig

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

By order of the Board

A handwritten signature in black ink, appearing to read 'James Jesic', written in a cursive style.

James Jesic
Director
14 July 2022

Directors' Responsibility Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

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

Responsibility statement

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

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

Auditor and disclosure of information to the auditor

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

- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Deloitte LLP has indicated its willingness to continue as auditor.

This Responsibility Statement was approved by the Board of Directors on 14 July 2022 and is signed on its behalf by:

By order of the Board



John Coghlan
Chair
14 July 2022



James Jesic
Director
14 July 2022

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 2022 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 Principles).

2. Basis for opinion

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

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

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





3. Summary of our audit approach

Key audit matters

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

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

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

-  Newly identified
-  Increased level of risk
-  Similar level of risk
-  Decreased level of risk

Materiality

The materiality that we used in the current year was £700,000 which was determined on the basis of 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;
- understanding the funding available through the company credit facilities, including consideration of their maturity period, evaluating the company's ability to provide such funding to support the company's forecasted future cash flows, future commitments and the net current liability position at the balance sheet date;
- challenging the assumptions used in the cash flow forecasts, including testing for consistency with board approved budgets and future plans for AMP 7, and performing sensitivity analysis relating to these assumptions;
- assessing the headroom under both the base case and sensitised forecasts considering the reduced facilities available from the immediate parent; and
- reviewing the appropriateness of the disclosures provided in the financial statements.

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

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

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

5. Key audit matters

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

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

5.1. Valuation of the provision for trade and other receivables

Key audit matter description

A portion of household customers do not, or cannot, pay their bills which results in the need for provisions to be made for non-payment of the related receivables. Management makes estimates regarding the expected future loss rate for current receivables when calculating the appropriate level of bad debt provision.

The bad debt provision recorded as at 31 March 2022 was £6.0 million (31 March 2021: £5.3 million), which incorporates management's estimate of the future impact of external economic factors on customers' ability to pay their outstanding bills to Hafren Dyfrdwy Cyfyngedig.

Provisions are made against the trade receivables balance based on historical cash collection rates of debt invoiced seven to nine years ago, which is considered by management to be representative of collection risk on the whole population of household debtors. A further amount has been recorded to reflect anticipated changes to cash collection as a result of forecast reductions in real disposable household income. The adjustment is based on the historical correlation between real disposable household income and the bad debt charge and is impacted by the level of decline and length of the impact on the UK economy.

We identified a key audit matter relating to the valuation and accuracy of the bad debt provision, in particular the appropriateness of management's use of Severn Trent Water Limited provision rates to calculate the company's provision, specifically in Wrexham, and the additional provision recorded to recognise the risk arising from the impact of cost of living crisis on the economy. Due to the high degree of estimation uncertainty associated with the recoverability of trade receivables, we have determined that there was a potential for fraud through possible manipulation of this balance.

The Audit and Risk Committee also considered this as a significant issue as

discussed in the Audit and Risk Committee Report on page 66. The accounting policy for the provision for trade receivables is disclosed in note 1(m) and trade and other receivables are disclosed in note 15 to the financial statements

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

Our procedures included the following:

- Obtaining an understanding of relevant controls over the calculation of the bad debt provision, including over the supporting data and assumptions;
- testing the completeness and accuracy of the data included within the bad debt provision calculation;
- testing the allocation of cash received in the current year to debt aged between seven and nine years;
- Challenging the appropriateness of the company basing its bad debt provision on the collection rates experienced by Severn Trent Water Limited (STW) for debtors aged less than five years in the Wrexham area and localised collection in Powys;
- use of data analytics to reconcile the debtor ageing for each debt category used in the bad debt provision model to source data from the billing system;
- evaluating the reasonableness of economic data (both forecast and historical) used within the calculation, and performing a sensitivity analysis; and
- 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.

Key observations

We are satisfied that the assumptions applied in assessing the impairment of trade receivables, including the impact of external economic factors, are reasonable and that the bad debt provision has been properly calculated using appropriate relevant data and in accordance with IFRS 9.

5.2. Classification of capital programme expenditure

Key audit matter description

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

During the year the company invested £12.2million (2021: £9.5 million) in capital expenditure projects out of total additions of £13.4 million (2021: £16.9 million) disclosed in note 11.

As the determination of whether expenditure is capitalised or expensed in the period directly affects the company’s reported financial performance, we identified a key audit matter relating to the classification of capital expenditure, whether caused by changes to the company’s capital expenditure policy

implementation guidance or by incorrect application of this guidance. Due to the level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance.

The Audit and Risk Committee also considered this a significant issue as discussed in the Audit and Risk Committee Report on page 65. Management has included this as a critical accounting judgement in note 2a to the financial statements.

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

Our procedures to respond to this key audit matter included the following:

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

Key observations

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

6. Our application of materiality

6.1. Materiality

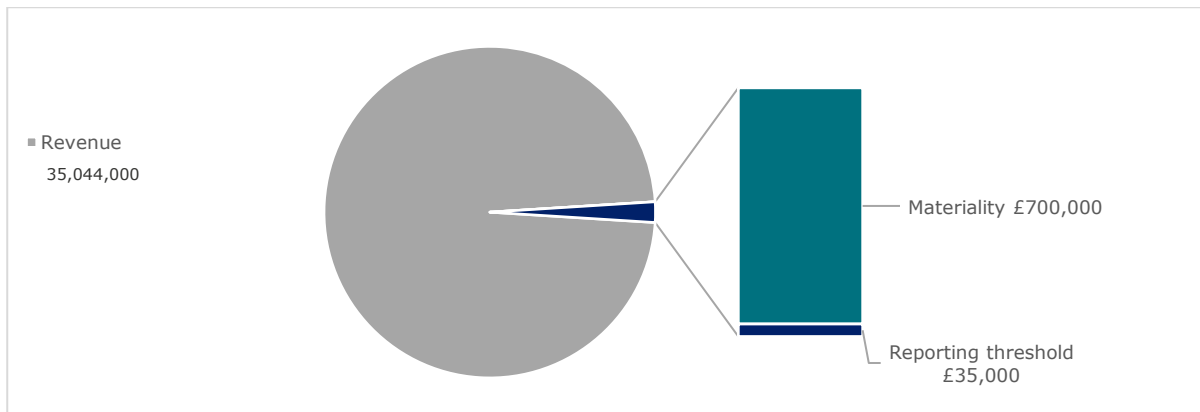
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

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

Materiality	£700,000 (2021: £652,000)
Basis for determining materiality	Materiality has been determined based on 2% of revenue for the year (2021: 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 2022 audit (2021: 70%). In determining performance materiality we considered our ability to rely on general information technology controls, our assessment of the control environment, and the continuity of the business year on year. We also considered the value of uncorrected misstatements identified in previous years. Taking these factors in to consideration led us to keep the performance materiality consistent with prior year being at 70% of materiality.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £35,000 (2021: £32,600), 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 17 consistent with previous years.

As a part of our audit procedures performed at Company, we have obtained management's climate-related risk assessment and held discussions with management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Company's financial statements. While management has acknowledged that the transition and physical risks posed by climate change have the potential to impact the medium to long term success of the business, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2022 as explained in note 2(a) (iii).

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

Our audit procedures at Company also included:

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

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

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

We obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provision 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 highlighted above our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing 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 as set out on page 25;
- the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate as set out on page 20;
- the directors' statement on fair, balanced and understandable set out on page 79;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 14;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on page 63; and
- the section describing the work of the audit committee as set out on page 46.

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

14 July 2022

Income statement

For the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Turnover	3	35,044	32,891
Operating costs before charge for bad and doubtful debts	4	(36,440)	(36,033)
Charge for bad and doubtful debts	4	(1,130)	(2,128)
Total operating costs		(37,570)	(38,161)
Loss before interest and tax		(2,526)	(5,270)
Finance income	7	1,301	1,601
Finance costs	8	(943)	(1,285)
Net finance income		358	316
Loss before taxation		(2,168)	(4,954)
Current tax	9	1,120	1,546
Deferred tax excluding exceptional deferred tax	9	(1,435)	(873)
Exceptional deferred tax	9	(4,781)	-
Taxation on loss on ordinary activities		(5,096)	673
Loss for the year		(7,264)	(4,281)

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

Hafren Dyfrdwy Cyfyngedig

Statement of comprehensive income

For the year ended 31 March 2022

	2022	2021
	£'000	£'000
Loss for the year	(7,264)	(4,281)
Net actuarial gains/(losses)	200	(4,596)
Deferred tax on net actuarial gains	(50)	874
Deferred tax arising on rate change	(699)	-
	(549)	(3,722)
Total comprehensive loss for the year	(7,813)	(8,003)


Hafren Dyfrdwy Cyfyngedig

Balance sheet

At 31 March 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Intangible assets	10	6,022	7,022
Property, plant and equipment	11	217,870	211,614
Right-of-use assets		3	3
Retirement benefit Surplus	12	17,500	17,103
		241,395	235,742
Current assets			
Inventory	13	649	404
Biological assets	14	158	-
Trade and other receivables	15	32,884	24,736
Cash and cash equivalents		565	184
		34,256	25,324
Current liabilities			
Trade and other payables	16	(43,742)	(28,742)
Borrowings	17	(300)	(3,446)
Current tax payable		(1,790)	(1,188)
Provisions for liabilities	18	(4,222)	(1,393)
		(50,054)	(34,769)
Net current liabilities		(15,798)	(9,445)
Total asset less current liabilities		225,597	226,297
Non-current liabilities			
Borrowings	17	(36,441)	(32,944)
Trade and other payables	16	(14,179)	(13,938)
Deferred tax	19	(24,319)	(17,354)
Provisions for liabilities	18	(680)	(4,270)
		(75,619)	(68,506)
Net assets		149,978	157,791
Equity			
Called up share capital	20	153,051	153,051
Other reserves		614	614
Fair value reserve		11,685	11,685
Retained earnings		(15,372)	(7,559)
Total equity		149,978	157,791

The financial statements were approved by the Board of Directors on 14 July 2022. They were signed on its behalf by:


 Helen Miles
 Director
 14 July 2022
 Company Number: 03527628

Hafren Dyfrdwy Cyfyngedig

Statement of changes in equity For the year ended 31 March 2022

	Share capital £'000	Other reserves £'000	Fair value reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2020	133,051	614	11,685	444	145,794
Loss for the year	–	–	–	(4,281)	(4,281)
Net actuarial losses	–	–	–	(4,596)	(4,596)
Deferred tax on net actuarial losses	–	–	–	874	874
Total comprehensive loss for the year	–	–	–	(8,003)	(8,003)
Share issue	20,000	–	–	–	20,000
At 1 April 2021	153,051	614	11,685	(7,559)	157,791
Loss for the year	–	–	–	(7,264)	(7,264)
Net actuarial gains	–	–	–	200	200
Deferred tax arising on net actuarial gains	–	–	–	(50)	(50)
Deferred tax arising on rate change	–	–	–	(699)	(699)
Total comprehensive loss for the year	–	–	–	(7,813)	(7,813)
At 31 March 2022	153,051	614	11,685	(15,372)	149,978

Hafren Dyfrdwy Cyfyngedig

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

Hafren Dyfrdwy Cyfyngedig (the Company) is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in Wales.

b) Basis of preparation

(i) General

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

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

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

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

(ii) New accounting policies and future requirements

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

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies (continued)

c) Revenue recognition

Revenue includes turnover and interest income.

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

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

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

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

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

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

d) Exceptional items

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

e) Taxation

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

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

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

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

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

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies (continued)

f) Intangible assets

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

	Years
Software	3-10

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

Finite life intangible assets are reviewed for impairment where indicators of impairment exist (see note 1 k below).

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

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

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

Research expenditure is expensed when it is incurred.

g) Property, plant and equipment

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

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

Where items of property, plant and equipment are transferred to the Company from customers or developers, the fair value of the asset transferred is recognised in the balance sheet. Fair value is determined based on estimated depreciated replacement cost. The transfer is considered to be linked to the provision of ongoing services and therefore the corresponding credit is recorded in deferred income and released to operating costs over the expected useful lives of the related assets.

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

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

The estimated useful lives are:

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

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

1. Accounting policies (continued)

h) Leases

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

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

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

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

i) Grants and contributions

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

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

j) Impairment of non-current assets

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

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

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

Impairments are recognised in the income statement.

k) Inventory

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

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

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Notes to the financial statements (continued)

1. Accounting policies (continued)

l) Biological Assets

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

The fair value is determined using discounted expected future cash flow.

All costs related to biological assets that are measured at fair value are recognised as expenses when incurred, other than costs to purchase biological assets.

m) Loans receivable

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

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

n) Trade receivables and accrued income

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

The Company applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade receivables. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the Company's historical experience of trade receivable write-offs.

o) 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.

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

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

Changes in the retirement benefit obligation that arise from:

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

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

(ii) Defined contribution scheme

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

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Notes to the financial statements (continued)

1. Accounting policies (continued)

p) Provisions

Provisions are recognised where:

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

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

q) Borrowings

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

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

r) Share based payment

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

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

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

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Notes to the financial statements (continued)

2. Critical accounting judgements and key sources of estimation uncertainty

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

a) Critical accounting judgments

i. Classification of costs between operating expenditure and capital expenditure

Hafren Dyfrdwy's business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgments to be made. The judgments are made based on objective criteria that the Company has developed to facilitate the consistent application of its accounting policies. The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Total infrastructure renewal expenditure during the year was £4,148,000 (2021: £3,667,000). Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised and amounted to £13,440,000 (2021: £16,857,000).

ii. Income from connections to water and waste water networks

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

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

Assessing whether this income is received in relation to the provision of the connection to the Company's infrastructure networks or is to facilitate the ongoing provision of water and waste water services to the properties in question requires judgment about the nature of the ongoing relationship between the Company and the customer. During the period the Company received infrastructure charges amounting to £303,000 (2021: £250,000) and other charges relating to the provision of infrastructure amounting to £74,000 (2021: £16,000).

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

iii. Climate Change:

The Company continues to develop its assessment of the impact that climate change may have on the amounts recognised in the financial statements. The natural environment in which the Company operates is continually changing, and the expected impact on the Company from climate change is set out within the 'We reduce our carbon footprint' section of the Directors' report on pages 75 to 76. We have considered the impact of the climate change related risks to which the Company is exposed in the preparation of these financial statements. The risks are long term in nature, and whilst they will provide a need for investment in the future, we conclude that there is no material impact on the carrying amount of assets or liabilities recognised in the financial statements, nor do they lead to any additional key sources of estimation or judgment.

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Notes to the financial statements (continued)

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

b) Sources of estimation uncertainty

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

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

	Average useful economic life (years)
Land and buildings	32.1
Infrastructure assets	151.7
Fixed plant and equipment	16.1

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

	10 per cent increase in UEL £'000	10 per cent decrease in UEL £'000
Impact on annual depreciation		
Land and buildings	(130)	159
Infrastructure assets	(80)	97
Fixed plant and equipment	(444)	542

ii) Retirement benefit obligations

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

iii) Provision for impairment of trade receivables

Expected credit losses for trade receivables are based on the historical credit losses experienced and reasonable forecasts of the future impact of external economic factors on the Company's collection of trade receivables. A number of emerging economic factors such as the reduction in Universal Credit, rising National Insurance contributions and higher energy bills are expected to impact household disposable income and therefore the expected credit losses on trade receivables.

We based our assessment of the future impact of these economic factors on the Office for Budget Responsibility's most recent forecast of real disposable household incomes ('RDHI'), released in March 2022, which forecasted a 2.2% reduction in RDHI in 2022/23, with a return to 2021/22 levels not expected until 2024/25.

Previous economic assessments of RDHI had forecasted a lower expected decrease for 2022/23 than the most recent forecast's output of 2.2%. If our assessment of the future reduction in RDHI had been lower at 1.5%, the expected credit loss in the year would have been £120k lower. Similarly, if our assessment of the future change in RDHI had been higher at 2.9%, the expected credit loss in the year would have been £120k higher.

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

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Notes to the financial statements (continued)

3. Revenue

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

	2022	2021
	£'000	£'000
Water and waste water services	32,767	31,455
Commission	1,386	1,143
Timber Income	314	–
Renewable Energy	577	293
Turnover	35,044	32,891

4. Operating costs

	2022	2021
	£'000	£'000
Wages and salaries	4,939	4,804
Social security costs	523	477
Pension costs	267	660
Total employee costs	5,729	5,941
Raw materials and consumables	1,677	1,655
Rates ¹	2,991	755
Charge for bad and doubtful debts	1,130	2,128
Services charges	837	1,113
Depreciation of tangible fixed assets	7,184	7,642
Depreciation of right-of-use assets	-	1
Amortisation of intangible fixed assets	1,000	981
Hired and contracted services	8,767	9,048
Hire of plant and machinery	371	319
Infrastructure maintenance expenditure	4,148	3,667
Ofwat licence fees	86	83
Other operating costs	10,479	10,018
Other operating income	(273)	(50)
	44,126	43,301
Own work capitalised	(6,556)	(5,140)
	37,570	38,161

1. 2021 includes a £2,175,000 historic cumulo rates rebate dating from 2010.

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

	2022	2021
	£'000	£'000
Fees payable to the Company's auditor for:		
- the audit of the Company's annual accounts	71	66
Total audit fees	71	66
Fees payable to the Company's auditor and its associates for other services:		
- other assurance services	33	30
Total non-audit fees	33	30

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

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Notes to the financial statements (continued)

5. Employee numbers

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

	2022 Number	2021 Number
Direct staff	133	132

6. Directors' remuneration

	2022 £'000	2021 £'000
Non-executive director remuneration	94	92

The three Independent Non-executive directors were remunerated equally at the sum of £31,225 each (2021: £30,700 each).

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

7. Finance income

	2022 £'000	2021 £'000
Other financial income	1	1
Interest income on defined benefit scheme assets (note 12)	1,300	1,600
Total interest receivable	1,301	1,601

8. Finance costs

	2022 £'000	2021 £'000
Interest charged on:		
- Finance leases	35	29
- Bank and other loans	8	256
Interest cost on defined benefit scheme liabilities (note 12)	900	1,000
Total interest expense	943	1,285

Borrowing costs of £1,304,250 (2021: £1,472,000) incurred funding eligible capital projects have been capitalised at an interest rate of 3.0% (2021: 3.0%). Tax relief of £248,000 (2021: £280,000) was claimed on these costs, which was credited to the income statement, offset by a related deferred tax charge of £326,000 (2021: £280,000).

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Notes to the financial statements (continued)

9. Taxation

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

	2022	2021
	£'000	£'000
Current tax at 19% (2021: 19%)		
Current year	(1,340)	(1,526)
Prior year group relief	220	(20)
Total current tax credit	(1,120)	(1,546)
Deferred tax		
Origination and reversal of temporary differences:		
- current year	1,325	842
- prior year	110	31
Exceptional deferred tax arising on change of rate	4,781	–
Total deferred tax charge	6,216	873
	5,096	(673)

An exceptional deferred tax charge of £4,781,000 arose from recalculating opening deferred tax liabilities at 25%. see note 19.

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

The tax assessed for the current year is higher (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%).

The differences are explained below:

	2022	2021
	£'000	£'000
Loss before taxation	(2,168)	(4,954)
Tax at the standard rate of corporation tax in the UK 19% (2021: 19%)	(412)	(941)
Tax effect of depreciation on non-qualifying assets	96	49
Other permanent differences	(18)	207
Adjustment in respect of prior years	331	12
Current year impact of rate change	318	–
Exceptional deferred tax arising on rate change	4,781	–
Total tax charge/(credit)	5,096	(673)

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

c) Tax charged directly to equity

	2022	2021
	£'000	£'000
Deferred tax on:		
Actuarial gains/(losses)	50	(874)
Effect of change in tax rate	699	–
	749	(874)

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Notes to the financial statements (continued)

10. Intangible assets

	Computer software £'000
Cost	
At 1 April 2021 and 31 March 2022	9,741
Depreciation	
At 1 April 2021	(2,719)
Amortisation for the year	(1,000)
At 31 March 2022	(3,719)
Net book value	
At 31 March 2022	6,022
At 31 March 2021	7,022

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 2021	28,086	131,466	69,294	35,383	264,229
Additions	838	442	1,143	11,017	13,440
Transfers on commissioning	16,945	987	8,295	(26,227)	-
At 31 March 2022	45,869	132,895	78,732	20,173	277,669
Depreciation					
At 1 April 2021	(3,165)	(19,649)	(29,801)	-	(52,615)
Charge for the year	(1,428)	(876)	(4,880)	-	(7,184)
At 31 March 2022	(4,593)	(20,525)	(34,681)	-	(59,799)
Net book value					
At 31 March 2022	41,276	112,370	44,051	20,173	217,870
At 31 March 2021	24,921	111,817	39,493	35,383	211,614

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Notes to the financial statements (continued)

12. Retirement benefit schemes

a) Defined benefit pension scheme

(i) Background

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

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

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

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

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

	2022	2021
	£'000	£'000
Fair value of assets	64,100	65,103
Present value of the defined benefit obligations	(46,600)	(48,000)
Net asset recognised in the balance sheet	17,500	17,103
	2022	2021
	£'000	£'000
Fair value of scheme assets		
Liability-driven investment funds (LDI)	37,300	32,500
High-yield bonds	25,800	28,400
Cash	1,000	4,203
	64,100	65,103

All of the assets have quoted prices in active markets.

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

	2022	2021
	£'000	£'000
Fair value at 1 April	65,103	65,145
Interest income on scheme assets	1,300	1,600
Contributions from the sponsoring companies	241	154
Contributions from scheme members	(44)	-
Return on plan assets (excluding amounts included in finance income)	700	904
Scheme administration costs	(200)	(200)
Benefits paid	(3,000)	(2,500)
Fair value at 31 March	64,100	65,103

Hafren Dyfrdwy Cyfyngedig

Notes to the financial statements (continued)

12. Retirement benefit schemes (continued)

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

	2022	2021
	£'000	£'000
Present value at 1 April	(48,000)	(43,800)
Service cost	(200)	(200)
Interest cost	(900)	(1,000)
Actuarial (losses)/gains arising from changes in demographic assumptions	(200)	600
Actuarial gains/(losses) arising from changes in financial assumptions	1,200	(6,200)
Actuarial (losses)/gains arising from experience adjustments	(1,500)	100
Benefits paid	3,000	2,500
Present value at 31 March	(46,600)	(48,000)

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

The amounts recognised in the income statement are as follows:

	2022	2021
	£'000	£'000
Current service cost	(200)	(200)
Scheme administration costs	(200)	(200)
Interest income on scheme assets	1,300	1,600
Interest cost	(900)	(1,000)
Total amount credited to the income statement	–	200

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

	2022	2021
	£'000	£'000
Net actuarial gains/(losses) in the year due to:		
- Changes in financial assumptions	1,200	(6,200)
- Changes in demographic assumptions	(200)	600
- Experience adjustments on defined benefit obligations	(1,500)	100
- Actuarial gains on assets relative to interest on assets	700	904
Gain/(loss) recognised in other comprehensive income	200	(4,596)

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

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Notes to the financial statements (continued)

12. Retirement benefit schemes (continued)

(iv) Actuarial risk factors

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

Investment risk

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

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

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

Inflation risk

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

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

Longevity risk

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

(v) Actuarial assumptions

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

	2022	2021
	% pa	% pa
Price inflation – RPI	3.6	3.2
Price inflation – CPI pre 2030	2.6	2.4
Price inflation – CPI post 2030	3.5	2.4
Discount rate	2.8	2.0
Pension increases in payment	3.6	3.2

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

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

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Notes to the financial statements (continued)

12. Retirement benefit schemes (continued)

The mortality assumptions are based on those used in the latest triennial funding valuation. The mortality assumptions adopted at the year end for accounting purposes and the life expectancies at age 65 implied by the assumptions are as follows:

	2022		2021	
	Men	Women	Men	Women
Mortality table used	S3PA_L	S3PA_M	S3PA_L	S3PA_M
Mortality table compared with standard table	112%	95%	112%	95%
Mortality projections	CMI 2021	CMI 2021	CMI 2020	CMI 2020
Long-term rate of future improvement per annum	1.0%	1.0%	1.0%	1.0%
Remaining life expectancy at age 65 for members currently aged 45 (years)	21.8	23.7	21.8	23.6
Remaining life expectancy for members currently aged 65 (years)	22.7	24.8	22.7	24.8

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

Assumption	Change in assumption	Impact on disclosed obligations
Discount rate ¹	Increase/decrease by 0.1% pa	Decrease/ increase by £0.6 million
Price inflation ²	Increase/decreased by 0.1% pa	Decrease/ increase by £0.5 million
Mortality ³	Increase in life expectancy by 1 year	Increase by £2.1 million

- 1 A change in discount rate is likely to occur as a result of changes in bond yield and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the Scheme.
- 2 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.
- 3 The change in assumption is based on triennial valuations and reflect the fact that life expectancy rates are expected to increase.

(vi) Effect on future cash flows

Contribution rates are set in consultation with the Trustees for the Section and each participating employer. The average duration of the benefit obligation from the Section at the end of the year is 14 years (2021: 15 years).

b) Defined contribution pension schemes

The Company also operates a defined contribution scheme. The pension cost charge for the period represents contributions payable by the Company to the Scheme and amounts to £228,000 (2021: £195,000).

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

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Notes to the financial statements (continued)

13. Inventories

	2022 £'000	2021 £'000
Consumables	481	404
Timber stock	168	-
Total	649	404

14. Biological assets

	Standing timber £'000
At 1 April 2021	-
Change in fair value of biological asset	158
At 31 March 2022	158

At 31 March 2022, standing timber comprised approximately 152 hectares of Larch tree plantations and 112 hectares of mixed (including Larch) plantations (2021: 0 hectares), which ranged from newly established plantations to plantations that were 100+ years old that require active felling under Statutory Public Health Notices as set out by Natural Resources Wales.

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

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Notes to the financial statements (continued)

15. Trade and other receivables

	2022	2021
	£'000	£'000
Current assets		
Trade receivables	19,102	13,754
Bad debt provision	(6,040)	(5,277)
Net trade receivables	13,062	8,477
Amounts receivable from group undertakings	10,940	10,908
Other amounts receivable	253	662
Prepayments and accrued income	580	383
Accrued income	8,049	4,306
	32,884	24,736

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

Credit risk

Trade receivables and accrued income.

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

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

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

Debts are written off when there is no realistic expectation of further collection and enforcement activity has ceased. There were no amounts outstanding on receivables written off and still subject to enforcement activity (2021: nil).

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Notes to the financial statements (continued)

15. Trade and other receivables (continued)

Expected credit loss allowance

The expected credit loss at 31 March 2022 and 2021 was as set out below. The expected loss rate disclosed is calculated as the expected loss on the total amount originally billed for each age category.

2022	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	£'000	£'000	£'000
Not past due	3	13,637	(432)	13,205
Up to 1 year past due	23	3,507	(792)	2,715
1 – 2 years past due	39	2,548	(990)	1,558
2 – 3 years past due	62	1,851	(1,147)	704
3 – 4 years past due	61	1,664	(1,023)	641
4 – 5 years past due	37	1,752	(646)	1,106
5 – 6 years past due	46	1,037	(473)	564
6 – 7 years past due	46	572	(263)	309
7 – 8 years past due	46	545	(250)	295
8 – 9 years past due	48	21	(10)	11
More than 9 years past due	100	17	(17)	–
		27,151	(6,040)	21,111

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

Movements on the expected credit loss allowance were as follows:

	2022	2021
	£'000	£'000
At 1 April	5,354	3,839
Charge for bad and doubtful debts	1,130	2,128
Amounts written off during the year	(444)	(613)
At 31 March	6,040	5,354

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Notes to the financial statements (continued)

16. Trade and other payables

	2022	2021
	£'000	£'000
Current liabilities		
Trade payables	3,557	1,578
Amounts owed to ultimate parent undertaking	-	42
Amounts owed to fellow subsidiary undertakings	26,189	13,803
Social security and other taxes	218	120
Other payables	7,333	6,862
Deferred income	163	165
Accruals	6,282	6,172
	43,742	28,742
Non-current liabilities		
Other payables	-	200
Accruals	-	41
Deferred income	14,179	13,697
	14,179	13,938
	57,921	42,679

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Notes to the financial statements (continued)

17. Borrowings

	2022 £'000	2021 £'000
Current		
Other loans	106	106
Loans due to ultimate parent undertaking	–	3,340
Loans due to fellow subsidiary undertakings	194	–
	300	3,446
Non-current		
Loans due to ultimate parent undertaking	3,450	–
Loans due to parent company	32,987	32,940
Lease liabilities	4	4
	36,441	32,944
	36,741	36,390

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

	2022 £'000	2021 £'000
Index-linked	32,987	32,940

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

	2022 £'000	2021 £'000
Floating rate loan	3,450	3,340

Interest on the floating rate loan due to fellow subsidiary undertaking is charged interest at LIBOR + 1.5%. The loan facility of £30 million matured on 8 March 2022.

The Company has a revolving credit facility of £30 million with the ultimate parent company, Severn Trent Plc. Amounts drawn under this facility bear interest at 1.7% + Bank of England Base Rate. The loan facility matures on 8 March 2024.

18. Provisions

	Decommissioning £'000	Other £'000	Total £'000
At 1 April 2021	1,000	4,663	5,663
Utilised in the year	-	(761)	(761)
At 31 March 2022	1,000	3,902	4,902

	2022 £'000	2021 £'000
Included in		
Current liabilities	4,222	1,393
Non-current liabilities	680	4,270
	4,902	5,663

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

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Notes to the financial statements (continued)

19. Deferred tax

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

	Accelerated tax depreciation £'000	Retirement benefit surplus £'000	Other £'000	Total £'000
At 1 April 2020	15,036	4,063	(1,744)	17,355
Charge to income	794	59	20	873
Charge to equity	–	(874)	–	(874)
As at 31 March 2021	15,830	3,248	(1,724)	17,354
Charge to income	1,217	51	167	1,435
Charge/(credit) to income arising from rate change	4,999	326	(544)	4,781
Charge to equity	–	50	–	50
Charge to equity arising from rate change	–	699	–	699
As at 31 March 2022	22,046	4,374	(2,101)	24,319

Deferred tax is provided at the rate that is expected to apply when the asset or liability is expected to be settled. On 3 March 2021, the UK Government announced an increase in the rate of corporation tax from 19% to 25%, effective 1 April 2023. Deferred tax assets and liabilities were therefore remeasured at 1 April 2021 at the new rate of 25%. This resulted in an exceptional deferred tax charge in the income statement of £4,781,000 and a charge to reserves amounting to £699,000.

20. Share capital

	2022 £'000	2021 £'000
Total issued and fully paid share capital		
153,051 ordinary shares of £1 each (2021: 153,051)	153,051	153,051

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

21. Capital commitments

At 31 March 2022 the Company had capital commitments as follows:

	2022 £'000	2021 £'000
Contracted for but not provided in the financial statements	2,192	5,690

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Notes to the financial statements (continued)

22. Post balance sheet events

On 12 July 2022 the Company approved the issue of 15 million ordinary shares of £1 each to its parent company, Severn Trent Draycote Limited in exchange for cash.

23. Related party transactions

During the year £93,675 (2021: £91,575) was paid to non-executive directors of the Company. There have been no other transactions with the Directors of the Company.

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

24. Ultimate parent undertaking

The immediate parent undertaking is Severn Trent Draycote Limited which transferred ownership from Severn Trent Water Limited on the 31 March 2022.

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