ANNUAL PERFORMANCE REPORT 2023

HAFREN DYFRDWY CYFYNGEDIG

RHAGOROL O'R TAP
WONDERFUL ON TAP

HAFREN DYFRDWY
severn dee

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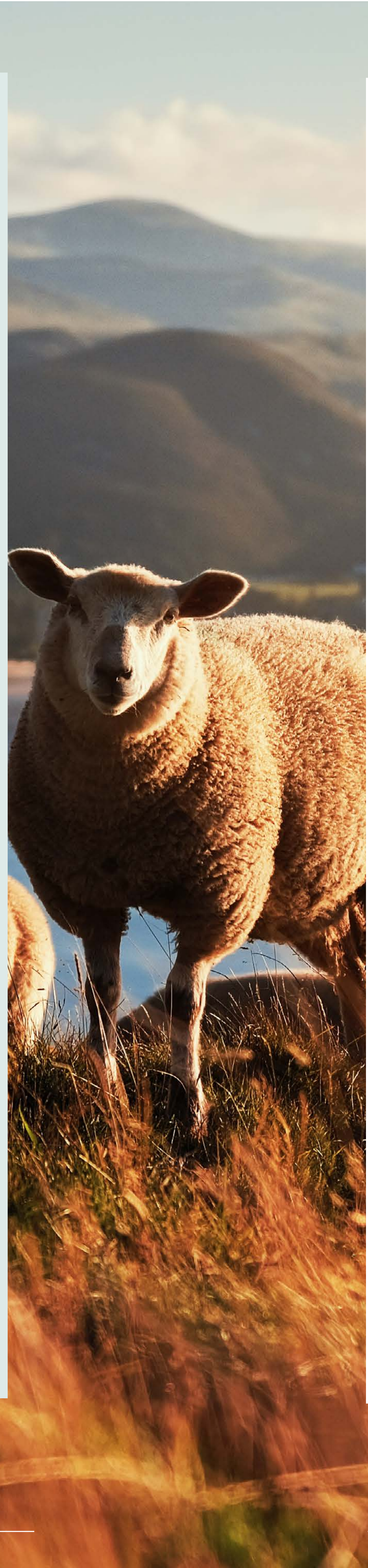


TAKING CARE OF ONE OF LIFE'S ESSENTIALS

RHAGOROL O'R TAP
WONDERFUL ON TAP

HAFREN DYFRDWY
severn dee

This Annual Performance Report ('APR') covers the year from 1 April 2022 to 31 March 2023 and is our third APR to be published for the Asset Management Plan period 2020-25 (known as 'AMP7').

WELCOME TO THE HAFREN DYFRDWY ANNUAL PERFORMANCE REPORT 2023

CROESO!

We are delighted to present this year's Annual Performance Report ('APR') for Hafren Dyfrdwy. We hope you enjoy reading about our performance and activities during the year and our plans for the future.

The APR provides our customers and other stakeholders with clear and transparent information on all aspects of our performance in 2022/23, including the progress we have made to deliver our customer outcomes.

Providing accurate and understandable information which can be trusted by our stakeholders is important to us and ensures our customers and stakeholders can clearly see how we have performed.

The aim of this APR is to provide customers and stakeholders with:

- A clear and assured account of our financial performance for each price control, based on Ofwat's regulatory accounts framework, to enable customers and stakeholders to consistently assess our relative and absolute performance.
- A clear and assured account of our performance across our 31 performance commitments in the year.
- An understanding of the actions we have taken to put things right in areas where we have not performed as well as we wanted.

John Coghlan
Chair
Hafren Dyfrdwy Cyfyngedig

James Jesic
Managing Director
Hafren Dyfrdwy Cyfyngedig

ADDITIONAL REGULATORY AND STATUTORY PUBLICATIONS

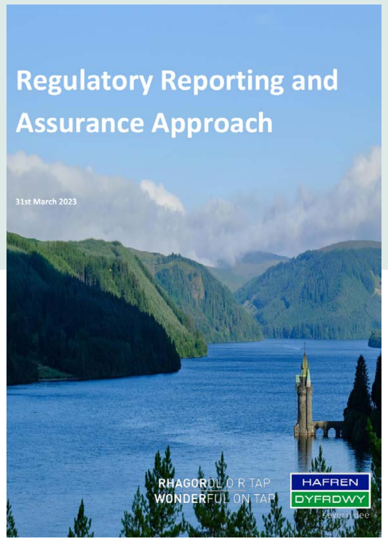
In addition to the APR, the following documents are available on our website in our Regulatory Library at **hdcymru.co.uk**:

The Hafren Dyfrdwy Cyfyngedig Annual Report and Accounts for the year ended 31 March 2023.

The APR data tables have been published separately in order to make our data freely available to everyone to access, use and share.

An accounting methodology statement which explains the systems and processes used to populate the data tables in the regulatory accounts.

Our approach to regulatory reporting and assurance which sets out the rigorous and robust assurance and performance reporting framework we have in place.



ABOUT US

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

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

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

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

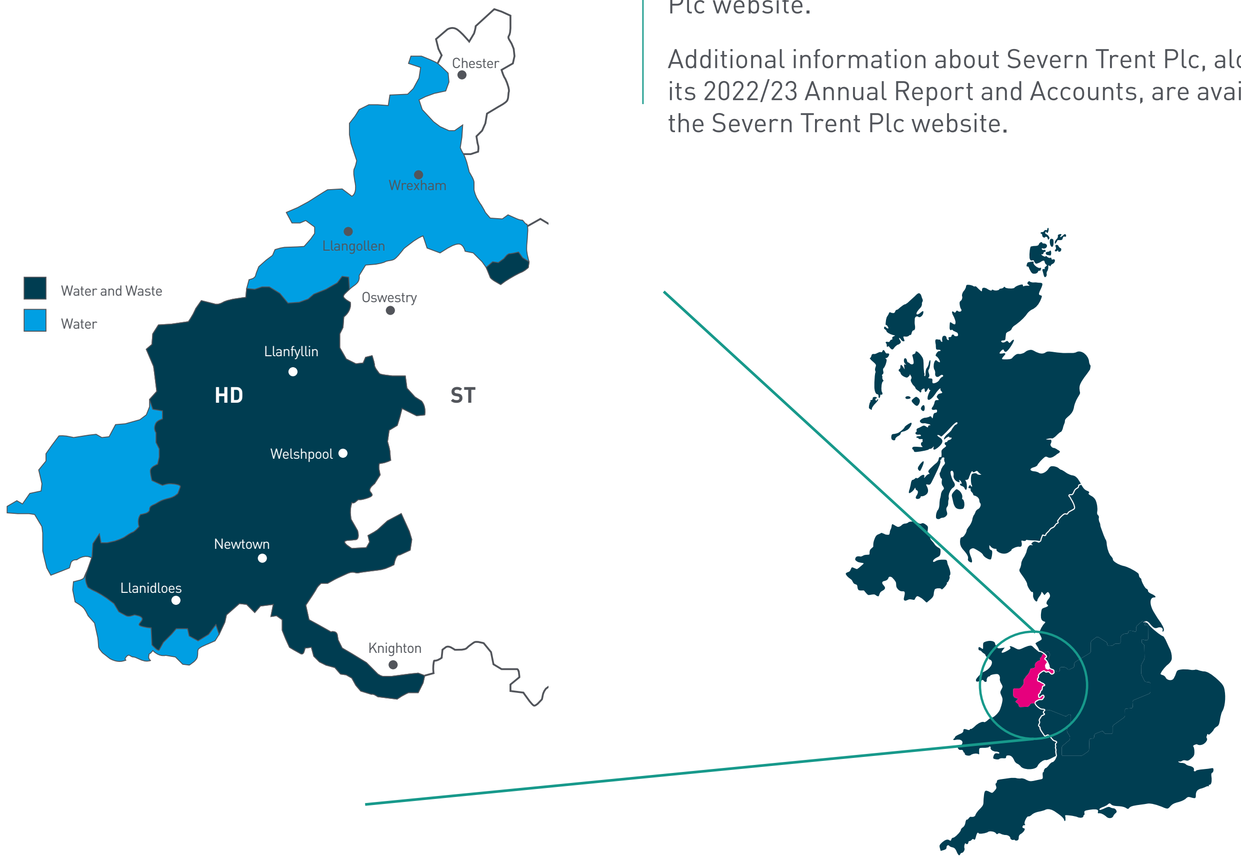
We are pleased to present our performance for the third year of AMP7 within this APR, which is produced in line with Ofwat's guidance. The report provides clear and transparent information on progress against the delivery of our customer outcomes, service levels, costs and financial and environmental performance.

We have applied our established assurance approach to the data and narrative contained within the APR and, where relevant, to the supporting publications which are referenced throughout this report. This ensures that the information we provide is appropriately challenged, reviewed and approved.

Hafren Dyfrdwy Cyfyngedig is a subsidiary of Severn Trent Draycote Limited and Severn Trent Plc is its ultimate parent company. Severn Trent Plc is listed on the London Stock Exchange.

The full ownership structure of Hafren Dyfrdwy within the Severn Trent Group can be found on the Severn Trent Plc website.

Additional information about Severn Trent Plc, along with its 2022/23 Annual Report and Accounts, are available on the Severn Trent Plc website.



2022/23 QUICK FACTS AND PERFORMANCE HIGHLIGHTS

Quick facts

61 million
Litres of drinking water supplied each day

15 million
Litres of waste water treated each day

108,508
Households and businesses served

179
Average number of employees

Delivering water that is good to drink and is always there	Waste water taken safely away	Customer, community and environment
203 Lead pipes replaced	**56%** Year-on-year improvement in supply interruption duration	**Around £1 per day** Lowest average combined bills in Wales and England
32% Year-on-year reduction in drinking water complaints	**40%** Year-on- year reduction in internal sewer flooding	**c.£45,000** Donated to eight charitable projects in the region
0.56 Compliance Risk Index score*	**25%** Increase in customers supported year-on-year	**223** Hectares of land with improved biodiversity

Read more about our performance in the Performance Summary section from page 10.

*A measure designed to show the risk from treated water compliance failures.

PERFORMANCE SUMMARY

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

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

We have maintained our Outcome Delivery Incentive ('ODI') performance in 2022/23 at 71% of measures being green. Additionally, we have improved performance across the suite of measures, reducing our next of tax penalty to £0.289 million (2021/22 £0.414 million). Our improved performance is as a result of the dedication of our teams and the continued development of our standalone offering as the smallest and most agile water and waste water company.

71%
of performance measures green

IMPROVING CORE SERVICE IN WATER AND WASTE WATER

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

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

On average, customers experienced an interruption to their supply for 16 minutes and 39 seconds over the year. This represents a 55% improvement on the event time in 2021/22 and 75% from 2020/21. We continue to embed our learnings from the Wrexham Ring Main events in 2020/21, significantly increasing resilience and responsiveness.

In waste, we have focused on optimising our asset performance. As a result of this activity, we have maintained our strong pollution performance from last year with two occurrences, beating our target again. We continue to be significantly ahead of our performance commitment for sewer blockages as our 'pee, poo and paper' education campaign continues to reduce non-flushables being disposed into the sewer system.

OUR STRATEGIC OBJECTIVES:

GOOD TO DRINK

Our treatment works clean raw water to the highest standards making it safe to drink.

WATER ALWAYS THERE

Our network of pipes and our enclosed storage reservoirs bring a continuous supply of clean water right to our customers' taps.

WASTE WATER TAKEN SAFELY AWAY

Our network of sewers and pumping stations collect waste water, taking it back to our treatment works.

0.56
an industry-leading CRI score

OUR CUSTOMERS AND COMMUNITIES

We serve 108,500 households and businesses with a safe and reliable supply of water and collect waste water, seven days a week, every week of the year.

SUPPORTING OUR CUSTOMERS AND COMMUNITIES

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

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

Following our investment of £209,000 above our 2020-25 plan into 'Help to Pay When You Need It' schemes in 2022/23, we were able to support over 8,000 customers, some of whom received discounts of up to 90% off their bill. We know that customers can experience short-term financial struggles so we continued to offer payment breaks to allow time for our customers to get back on track and remove some of the pressure they may be experiencing, and we saw the number of customers supported increase by 23% across the year.

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

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

Additional affordability support of **£211,000** awarded in 2022/23, above our 2020-25 plan

1,530
customers educated to use water wisely

A THRIVING ENVIRONMENT

The natural environment is critical to our business - we are constantly interacting with it and we need to protect and enhance it whenever we can.

ENHANCING THE NATURAL ENVIRONMENT

Our ambition is to be an environmental leader in land and water management and we have demonstrated this by improving the biodiversity of 223 hectares of land, 49% over target. We have exceeded this target by working with additional partners and utilising Hafren Dyfrdwy owned land.

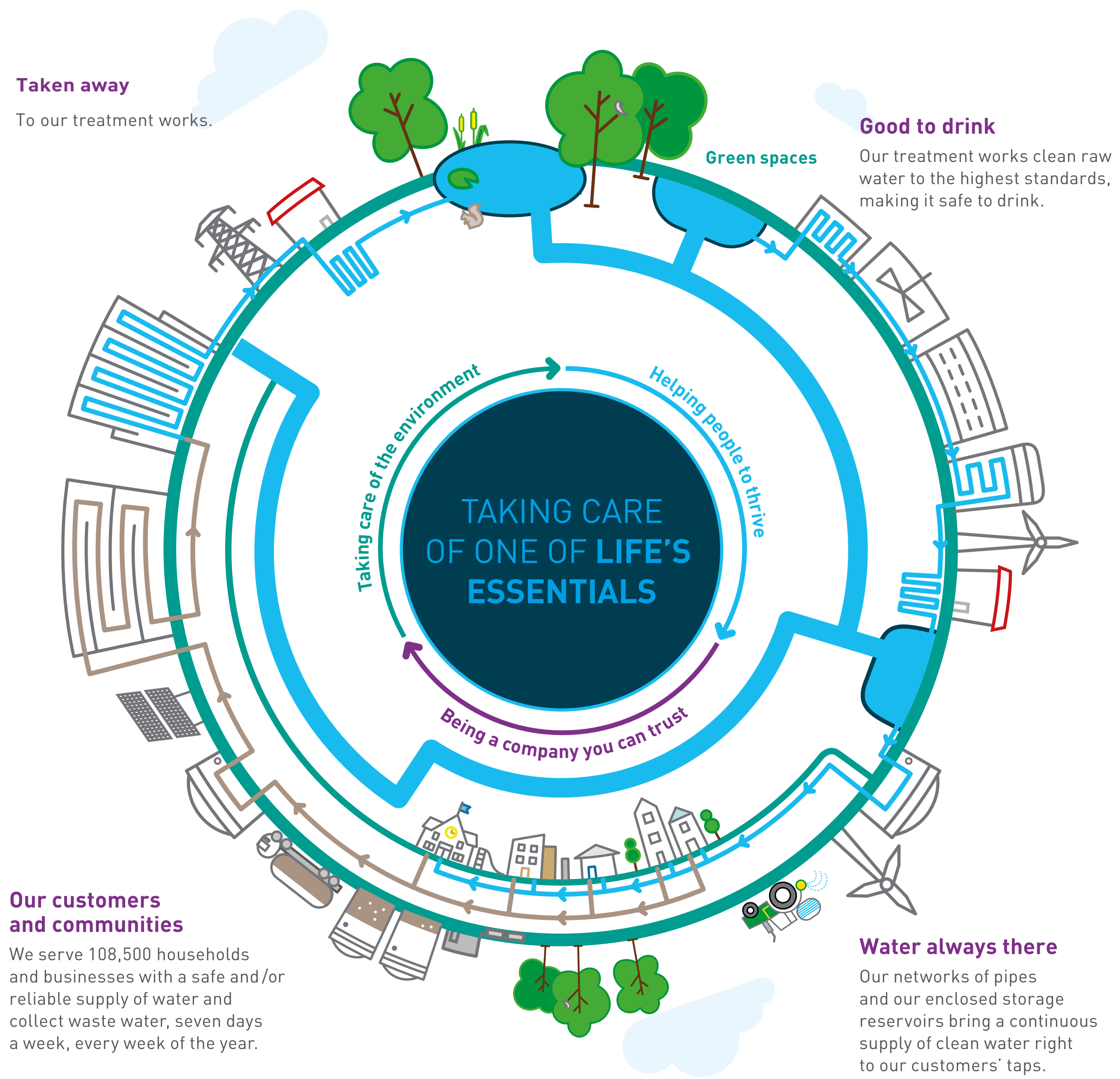
223 ha
of land with improved biodiversity

DELIVERING FOR WALES

We are really proud of being a custodian of valued Welsh assets. Working collaboratively with regulators, government, local bodies and companies in our sector in Wales, we aspire to be a leading, community-focused water and waste water company, that makes a meaningful and positive environmental and social difference. We recognise that, given our role in the Foundational Economy in Wales, we have a responsibility in delivering against the Well-being of Future Generations (Wales) Act 2015 and we are passionate about ensuring the future wellbeing of generations in our region, and within Wales as a whole.

OUR 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.



GET RIVER POSITIVE

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

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

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

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

Pledge One
Ensure storm overflows and sewage treatment works do not harm rivers

- Using better data, we will find and fix problems quicker than ever before.
- Working in partnership with the Taskforce to deliver the storm overflow roadmap.
- Based on the measure of Reasons for Not Achieving Good Status ('RNAGS'), our operations will not be the reason for unhealthy rivers in our region by 2030.

Pledge Two
Create more opportunities for everyone to enjoy our region's rivers

- Working with local clubs to increase opportunities for water-based activities at our reservoir sites.
- Raising awareness of how and where to enjoy the water within the region safely.

Pledge Three
Support others to improve and care for rivers

- Championing the banning of wet wipes that contain plastic and all wet wipes that are not 'Fine to Flush'.
- Making sure that our Community Fund continues to offer support to community groups and charities that are improving our region's rivers.
- Using our convening powers to help others address their contribution to river health and wider natural environment.

Pledge Four
Enhance our rivers and create new habitats so wildlife can thrive

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

Pledge Five
Be open and transparent about our performance and our plans

- Ensuring that our performance information is easily accessible and transparent on our website.

> The environment is intrinsic to our business and is intertwined with every aspect of our operations. We recognise that it cannot be taken for granted and the time to act is now. Our approach encompasses ensuring a sustainable water cycle, enhancing our natural environment and mitigating climate change.
>
> Our ambition is brought to life at Lake Vyrnwy, where the estate is a nationally important example of sustainable upland management, providing a range of benefits including carbon sequestration and opportunities for people to connect with nature.
>
> We recognise the importance of working across the sector, and with our customers and communities, regulators and policy makers, in a sustained effort to bring our plan to life today, tomorrow and for the future, taking an active role in tackling the nature and climate emergency.
>
> **James Jesic, Managing Director**

OUR APPROACH TO BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

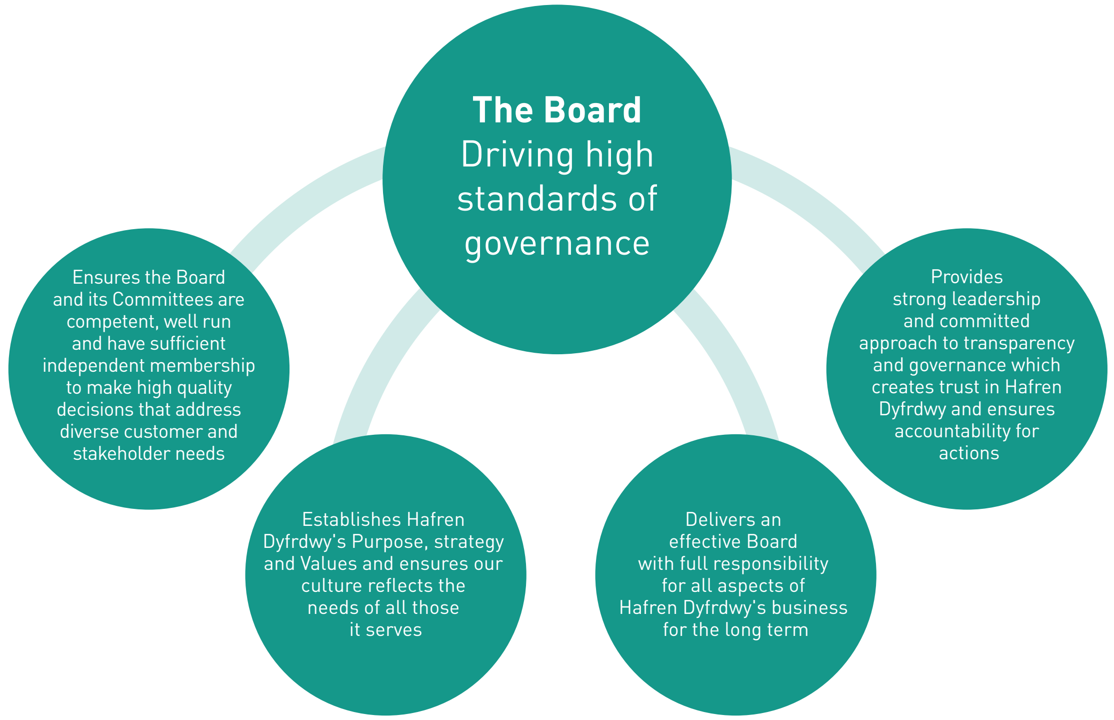
OUR APPROACH TO BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

Ofwat's revised principles, as set out in its Board leadership, transparency and governance framework (the 'Framework'), came into effect in April 2019 and reinforced the important role of effective corporate governance and strong board leadership in driving high standards and securing the proper discharge of functions.

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

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

The Board is satisfied that all objectives under the Framework have been met during 2022/23 and this section provides detail on how this has been achieved and outlines how the Company continues to deliver for its customers and other stakeholders.



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

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

Reports that we reference within this Annual Performance Report:
- Hafren Dyfrdwy Cyfyngedig Annual Report and Accounts
- Severn Trent Plc Annual Report and Accounts

Documents available at hdcymru.co.uk
- Detailed information about the Hafren Dyfrdwy Cyfyngedig Board and Matters Reserved to the Board
- Articles of Association
- Charter of Expectations
- Our Assurance Summary
- **Hafren Dyfrdwy Code of Practice**

Documents available at severntrent.com
- Group Company Structure
- Our Code of Conduct, Doing the Right Thing
- Group Conflicts of Interest Policy

1.

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

A. The Board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.

B. The Board makes sure that the company's strategy, values and culture are consistent with its purpose.

C. The Board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.

D. Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.

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

PURPOSE, VALUES AND CULTURE

The Board recognises the importance of the Company's strategy, Purpose, Values and culture in delivering long-term success and building and maintaining trust in its activities. As such, approval of the Company's strategic aims and objectives is a matter reserved to the Board. The Board reserves responsibility for establishing Hafren Dyfrdwy's Purpose, Values and strategy, and continuously seeks to satisfy itself that our culture is aligned to these.

- **Having courage** – we always do the right thing and have courage to challenge the norm and speak up if things aren't quite right. We are prepared to step out of our comfort zones and act with both today and the future in mind.
- **Embracing curiosity** – we search out safe, better and faster ways of doing things through innovation and are always curious and willing to learn.
- **Showing care** – we help keep our promises to customers and show care by treating everyone fairly and equally. We try to enhance the environment around us and spend every pound wisely.
- **Taking pride** – we make a difference for our customers every day, owning problems and working with others until they are solved. We take pride in what we do and champion our work in the communities we work and live in.

Our Purpose reflects why we do what we do	Taking care of one of life's essentials
Our strategy provides us with what we do	The Board considers progress against the Company's strategy at every meeting, taking into consideration our Purpose and the potential impact on a wide range of stakeholders.
Our Values determine how we deliver our Purpose and strategy – they are the principles that guide our behaviour	
Our Purpose and Values set the cultural tone of the Company	Doing the right thing

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

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

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

In addition, to deepen their understanding of the Company's Values and culture, Board members undertake site visits throughout the year to meet colleagues in person, observe the true culture of the Company, the way in which the workforce applies our Values in all that they do and discuss first-hand the key issues identified by them. Board members also attend the Company Forum, to listen directly to what employees have to say and to provide updates on matters being considered by the Board.

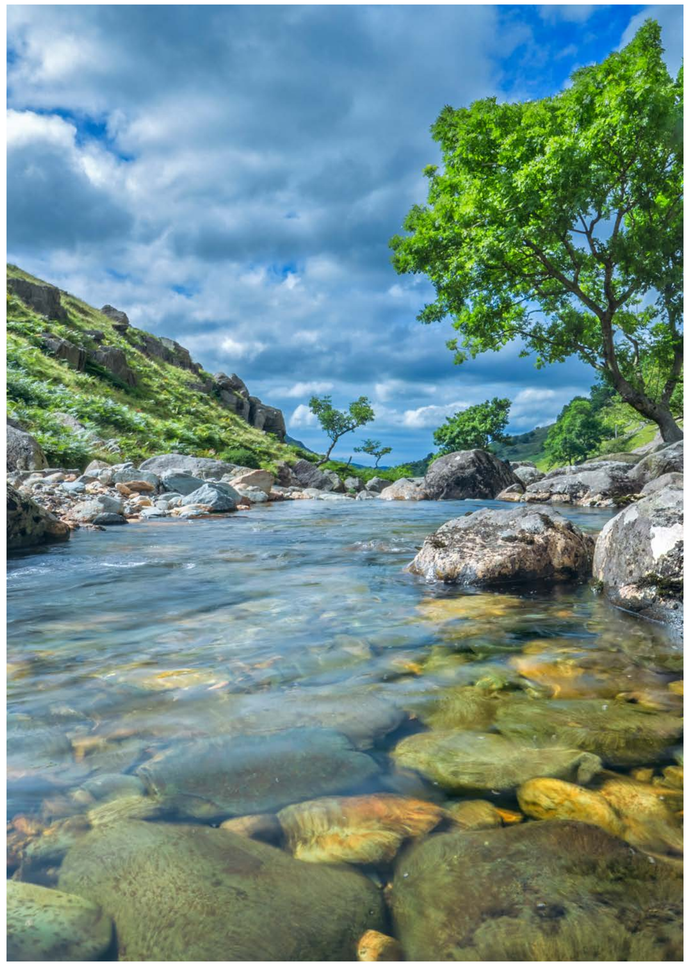
During the year, the Board also took part in our 'Ask the Board' event, where colleagues were invited to pose questions to the Board in a live Q&A environment, without scripted briefings, providing a further opportunity for the Board to engage with our people and gain an appreciation of the Company's culture.

The Board believes that our strong Values and culture are a key strength and there are resulting benefits in employee engagement, retention and productivity, which is why questions around our Purpose, Values and culture feature heavily within our annual employee engagement survey, QUEST. It is clear from the results that our Purpose and Values strongly resonate with our employees, as demonstrated by the overall employee engagement score of 8.8 out of 10 – placing us in the top quartile of all businesses and in the top 5% of energy and utility companies globally.

Employees agree that our Values align with our Purpose and provide a good fit with the things they consider important in life and they feel inspired by the Purpose of our Company. 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 included throughout the Strategic Report of the Hafren Dyfrdwy Annual Report and Accounts 2022/23.

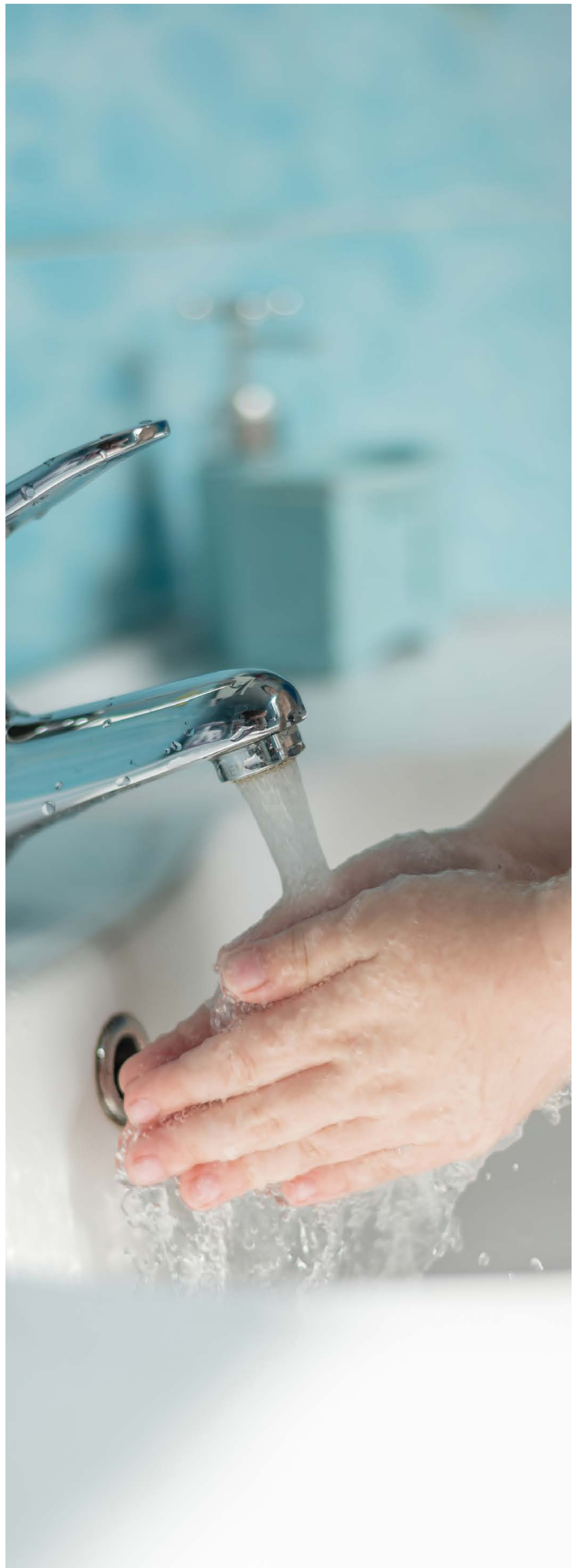


SETTING ASPIRATIONS AND PERFORMING FOR ALL THOSE WE SERVE

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

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

The Hafren Dyfrdwy Annual Report and Accounts 2022/23 demonstrates how our Purpose runs through everything we do. The Board focuses on our Purpose when determining how the Company should operate and in considering how decisions the Board make will affect each of our stakeholder groups. For further information and explanation of our approach, we would refer in particular to pages 46 to 48 of the Strategic Report and information throughout the Governance Report, from page 52.



Our Purpose
Taking care of one of life's essentials

↓

Considering the needs of those we serve

Stakeholder Engagement

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

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

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

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

↓

Setting our aspirations

Hafren Dyfrdwy Business Plan: Customer Outcome Commitments

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

↓

Delivering for customers through our collective culture

Our Values

HAVING COURAGE 'having courage'
EMBRACING CURIOSITY 'showing care'
SHOWING CARE 'embracing curiosity'
TAKING PRIDE 'taking pride'

Our Code of Conduct
Doing the right thing

STAKEHOLDER ENGAGEMENT

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

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

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

Further detail can be found in our dedicated Section 172 Statement on pages 46 to 47 within the Hafren Dyfrdwy Annual Report and Accounts 2022/23.

WORKING WITH OUR REGULATORS

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

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

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

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

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

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

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

Customer engagement

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

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

Community engagement

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

- The Board continues to support the activities of the Hafren Dyfrdwy Community Fund, which once again received extensive interest during the year and resulted in over £45,000 being donated to eight local projects.
- Environmental matters are regularly considered by the Board, including in relation to river health.
- The Board, in conjunction with the Board of Dŵr Cymru Welsh Water, has developed a shared vision for 2050, as a first step to enhancing our collaborative approach to water services in Wales.

Employee engagement

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

- Employee voice and workforce engagement are discussed at Board meetings, including the annual QUEST survey results and steps taken to address feedback.
- Individual Board members attend the Company Forum and feedback on discussions at subsequent Board meetings.
- 'Ask Our Board' events provide a platform for colleagues to ask questions to the Board in a live and unscripted environment.
- The Board undertakes site visits to meet colleagues in person and discuss their experiences first-hand.

Regulatory and Government engagement

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

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

WHISTLEBLOWING

Our Whistleblowing Policy, 'Speak Up', sets out the ethical standards expected of everyone that works for, and with us and includes the procedure for raising concerns in strict confidence. Our workforce can raise concerns through line managers, senior management and via our confidential and independent whistleblowing helpline, 'Safecall'.

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

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

WELCOMING INNOVATION

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

One of the benefits of being part of the Severn Trent Group is the opportunity to build upon our collective experience, expertise and innovation capabilities on key projects.

An example can be seen in the ongoing transformation of Severn Trent's Strongford sewage treatment facility into a Net Zero hub. You can read more about this exciting venture in the Severn Trent Plc Annual Report and Accounts 2022/23.

CELEBRATING OUR WELSH HERITAGE

The Company was launched in 2018 to provide water and waste water services solely to customers in Wales.

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

We have established dedicated hubs in Wrexham and Powys, so we now have our customer contact and customer engagement activity operating across two key sites in our region. We have also given colleagues the opportunity to learn or improve their Welsh language skills by offering a series of online courses, which give those enrolled the flexibility to broaden their knowledge at a time that is convenient for them.

The Board also considered our diversity and inclusion ambitions and priorities during the year. Our ambition is to have a workforce reflective of the communities we serve and, in order to achieve this, we are targeting areas of the workforce where this is not yet the case: 16-24 year olds, females, ethnic minorities and people with disabilities.

A programme has been developed to help us achieve our ambitions in the short to medium term, including offering placements on the #10000BlackInterns programme and committing to increase the number of apprenticeships within the Company.

HELPING THE ENVIRONMENT TO THRIVE

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

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

Our ambition is to be an environmental leader in land and water management and we have demonstrated this by improving biodiversity across 223 hectares of land, 49% over target. We have exceeded this target by working with additional partners and utilising Hafren Dyfrdwy owned land.

2.

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

A. The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.

B. Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.

C. The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.

STANDALONE REGULATED COMPANY

Hafren Dyfrdwy has been part of the Severn Trent Group since 2017. The Board confirms that there are no items or topics relating to the strategy or regulated activities of Hafren Dyfrdwy contained within the Severn Trent Plc Board's schedule of matters reserved.

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

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

There are currently two Directors that serve on our Board who also serve on the Boards of Severn Trent Plc and Severn Trent Water Limited. Hafren Dyfrdwy represents approximately 2% per cent of Severn Trent Plc's revenues and, as such, decisions taken for Hafren Dyfrdwy are unlikely to conflict with those of Severn Trent Plc and Severn Trent Water Limited (also part of the Severn Trent Group).

However, if that were to be the case, the Directors would be responsible for taking decisions on behalf of each entity in accordance with Section 172 of the Companies Act 2006, by acting in the way they consider, in good faith, would be the most likely to promote the success of the Company.

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

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

MANAGING CONFLICTS OF INTEREST

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

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

BOARD COMMITTEES

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

The Severn Trent Plc Group Remuneration Committee (the 'Remuneration Committee') operates on behalf of Hafren Dyfrdwy and all Group companies. This arrangement has been in place since the acquisition of Dee Valley Limited in 2017 and is reviewed annually to ensure its continued effectiveness.

The Remuneration Committee is wholly comprised of Independent Non-Executive Directors and the Chair of Severn Trent Plc. One member of the Remuneration Committee also serves as a Non-Executive Director on the Board of Hafren Dyfrdwy.

We consider that the governance arrangements in respect of the Remuneration Committee are appropriate as Hafren Dyfrdwy is part of the Severn Trent Plc Group of companies and employee pay is part of a unified remuneration structure and consistent policy framework. Central to the Group's remuneration policy is the use of measurable targets against which payments can be made.

These governance arrangements ensure that the Remuneration Committee has access to wide-ranging data and information on the overall performance of the Company.

The Board has a dedicated schedule of Matters Reserved to the Board and the schematic overleaf summarises the governance framework for Hafren Dyfrdwy.

The Board

The Board's role is to ensure the long-term sustainable success of Hafren Dyfrdwy by setting our strategy through which value can be created and preserved for the mutual benefit of our customers, employees and the communities we serve. The Board provides rigorous challenge to management and ensures the Group maintains an effective risk management and internal control system.

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The Board delegates certain matters to its Committees

Severn Trent Plc Remuneration Committee
Determines the Group's policy on the remuneration of Directors and other Executive Committee members. The Committee also reviews workforce policies and practices.

Audit and Risk Committee
Assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, risk management and assessment of the effectiveness of the systems of internal control.

Nominations Committee
Assists the Board by keeping the composition of and appointments to the Board under review. The Committee also assists the Board on issues of Director succession planning, conflicts of interest and independence.

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The Managing Director and the Hafren Dyfrdwy Executive Committee ('HDEC')

Responsibility for the development and implementation of the Company's strategy rests with the Managing Director who is supported by the Executive Committee.

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reporting

Severn Trent Plc Disclosure Committee

A Group-level Committee which oversees the Group's reporting obligations under the Companies Act 2006 and the 2018 Corporate Governance Code. On behalf of Hafren Dyfrdwy, the Committee considers the Company's continuing regulatory reporting requirements, including the materiality, accuracy, reliability and timeliness of information disclosed and the assessment of assurance received.

3.

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

A. An explanation of group structure;

B. An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);

C. An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;

D. The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast; and

E. An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.

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

GROUP STRUCTURE

Hafren Dyfrdwy is an operating subsidiary of the FTSE100 listed company Severn Trent Plc, which means we operate at the high standards expected of a publicly listed company. In addition to the objectives under Ofwat's Framework, Hafren Dyfrdwy has chosen to apply the principles of the 2018 UK Corporate Governance Code (the '2018 Code') to its governance arrangements where appropriate and reasonably practicable to do so. Further details of how the Code principles and provisions were applied during the year are set out in the Hafren Dyfrdwy Annual Report and Accounts 2022/23, available on our website.

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

DIVIDEND POLICY

No dividends have been paid by Hafren Dyfrdwy since its acquisition by the Group in 2017 and the Company Dividend Policy is set out on page 76. This AMP we are investing significantly in our network and the environment in Wales, which is leading to significant Regulatory Capital Value ('RCV') growth. We therefore need to manage this in a sustainable way, ensuring we maintain a resilient financing structure and stable gearing. To that end, the Severn Trent Group has invested £35 million equity in Hafren Dyfrdwy so far this AMP and we do not plan to pay any dividends during AMP7.

RISK MANAGEMENT

The Principal Risks and uncertainties to the success of the business and the ways in which these risks are managed, monitored and mitigated are set out on pages 75 to 78 of the Severn Trent Plc Annual Report and Accounts 2022/23 and pages 16 to 20 of the Hafren Dyfrdwy Annual Report and Accounts 2022/23.

BOARD AND COMMITTEE MEMBERSHIP

The table below sets out details of the membership of the Hafren Dyfrdwy Board and its Committees as at 31 March 2023, alongside the number of scheduled meetings attended and the maximum number of meetings that could have been attended during the 2022/23 year.

Committee Member	Role	Board Meetings Attended During 2022/23	Audit and Risk Committee Meetings Attended During 2022/23	Nominations Committee Meetings Attended During 2022/23
John Coghlan	Chair[1]	5/5	N/A	1/1
Ann Beynon	Independent Non-Executive Director	5/5	4/4	1/1
Christine Hodgson	Independent Non-Executive Director[1]	5/5	N/A	N/A
James Jesic	Managing Director	5/5	N/A	N/A
Sally Jones-Evans	Independent Non-Executive Director	4/5[2]	4/4	1/1
Mohammed Mehmet	Independent Non-Executive Director	5/5	4/4	1/1
Helen Miles[3]	Chief Financial Officer	5/5	N/A	N/A
Sharmila Nebhrajani[4]	Independent Non-Executive Director[1]	1/1	2/2	1/1

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

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

[3] Helen Miles retired from the Board on 1 April 2023 and was succeeded by Adam Stephens as Chief Financial Officer.

[4] Retired from the Board on 12 July 2022.

EXECUTIVE PAY POLICY

Executive pay is subject to rigorous scrutiny from the Remuneration Committee that operates on behalf of all Group companies, including Hafren Dyfrdwy, as outlined earlier in this section.

The Remuneration Committee is advised by appointed independent advisers, PwC, and their decisions are published as part of the Severn Trent Plc Annual Report and Accounts 2022/23. Matters of relevance to Hafren Dyfrdwy are disclosed within the dedicated Hafren Dyfrdwy Annual Report and Accounts 2022/23 on pages 82 to 84, ensuring full transparency about our Executive pay decisions for our customers and wider society. As a key part of our approach to demonstrate transparency, all targets are measurable so that our performance against them can be independently verified.

ANNUAL BONUS SCHEME ('ABS')

Our overall ABS is structured so that most (51%) of the reward is based on ODI performance, a health and safety measure, and river health performance.

This means that everybody in the Company is incentivised on to achieve these vitally important targets with the remainder being based on Profit Before Interest and Tax ('PBIT'). The bonus scheme design operates consistently throughout the business so that all of our people are aligned to the same measures. Base pay awards are also aligned with the wider workforce.

During 2022/23, the two Executive Directors of Hafren Dyfrdwy were also Executive Committee members of Severn Trent Plc. As such, a proportion (3%) of their potential ABS award, broadly consistent with the size of the Company within the Group, is attributed to Hafren Dyfrdwy performance and split equally between earnings and ODIs.

From 2023/24, one Executive Director of Hafren Dyfrdwy is an Executive Committee member of Severn Trent Plc and one Executive Director is a member of senior management of Severn Trent Plc.

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

Specifically for the Executive Directors of Hafren Dyfrdwy for 2023/24, James Jesic and Adam Stephens, 3% of their bonus targets are based on Hafren Dyfrdwy performance. The annual bonus performance measures and weightings for 2023/24 financial yearare set out in the table below.

Each year, as well as reviewing the calculated outturn of the incentive schemes, the Remuneration Committee uses its broad experience to assess 'performance in the round'. This determines whether the proposed remuneration outcomes are in line with our Purpose, Values, and wider business goals and whether they drive long-term sustainable performance for the benefit of all our customers and wider stakeholders.

This assessment looks at several factors, including environmental compliance, treatment of the wider workforce, and wider societal matters and is supported by an independent market assessment report prepared by PwC. Furthermore, the Company's regulators are invited to attend our Board meetings, further details of which can be found on page 21 and in the Hafren Dyfrdwy Annual Report and Accounts 2022/23 on page 64. Our regulatory stakeholders are explicitly asked about our performance and where we can improve.

Where the Remuneration Committee feels that the formulaic performance does not reflect broader performance, they can exercise discretion to increase or decrease the bonus attributable to Hafren Dyfrdwy. There have been no adjustments to any incentive plan during the tenure of the current leadership team.

Additional detail on Executive remuneration can be found within the Directors' Remuneration Report of the Hafren Dyfrdwy Annual Report and Accounts 2022/23 on pages 82 to 84.

The Severn Trent Group's Remuneration Policy is aligned to our Purpose and strategy, thereby incentivising great customer service and the creation of long-term value for all our stakeholders. Details of the Group's Remuneration Policy are set out within the Regulatory Statements Section from page 74.
This section explains how the criteria for awarding short and long-term performance elements are substantially linked to stretching delivery for customers and are rigorously applied.

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

4.

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

A. Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.

B. Independent non-executive directors are the largest single group on the board.

C. The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.

D. There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.

E. There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.

F. To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.

G. There is a majority of independent members on the audit, nomination and remuneration committees.

BOARD COMPOSITION AND INDEPENDENCE

The Hafren Dyfrdwy Board and Board Committees have the appropriate balance of skills, experience, and knowledge to take complete responsibility for setting the long-term strategy of the Company and oversee its implementation. Our Board is a diverse and effective team, focused on ensuring that the Company's Purpose continues to reflect the needs of those we serve and is delivered by colleagues who fully embrace our culture and Values. The matrix below shows some of the key skills and experience that our current Directors possess, gained from a wide range of organisations and industries. Full biographies for each of our Directors can be found on pages 53 to 57 of the Hafren Dyfrdwy Annual Report and Accounts 2022/23, available on our website. As detailed in the table on page 28, as at 31 March 2023, the Hafren Dyfrdwy Board comprised seven Directors, and this remains the case as at the date of this APR. One Executive Director resigned and another Executive Director was appointed (both with effect from 1 April 2023).

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

Of the seven Directors, two are Executive Directors and five are Independent Non-Executive Directors.

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

Of the five Independent Non-Executive Directors currently serving on the Hafren Dyfrdwy Board, two Directors also sit on the Board of Severn Trent Plc as indicated in the table on page 28. The Board is of the opinion that, when assessed against the circumstances set out in the 2018 Code and given the thorough monitoring of potential conflicts of interest, these two 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 (71%).

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

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

CHAIR INDEPENDENCE

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

The Chair's appointment to other Boards within the Severn Trent Group has the capacity to raise conflicts of interest and both the Chair and his fellow Board members are cognisant of this. Potential conflicts of interest are considered by the Board at the start of every meeting and the Board formally reviews the Conflicts of Interest Register every six months.

Further detail on our robust procedures in relation to potential conflicts of interest can be found on page 25.

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

On 8 June 2023, it was announced that John Coghlan would be retiring from the Severn Trent Plc Board with effect from 31 December 2023, having served nine years as an Independent Non-Executive Director.

Following his retirement from the Severn Trent Plc Board, John will remain as Chair of the Hafren Dyfrdwy Board.

BOARD EFFECTIVENESS

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

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

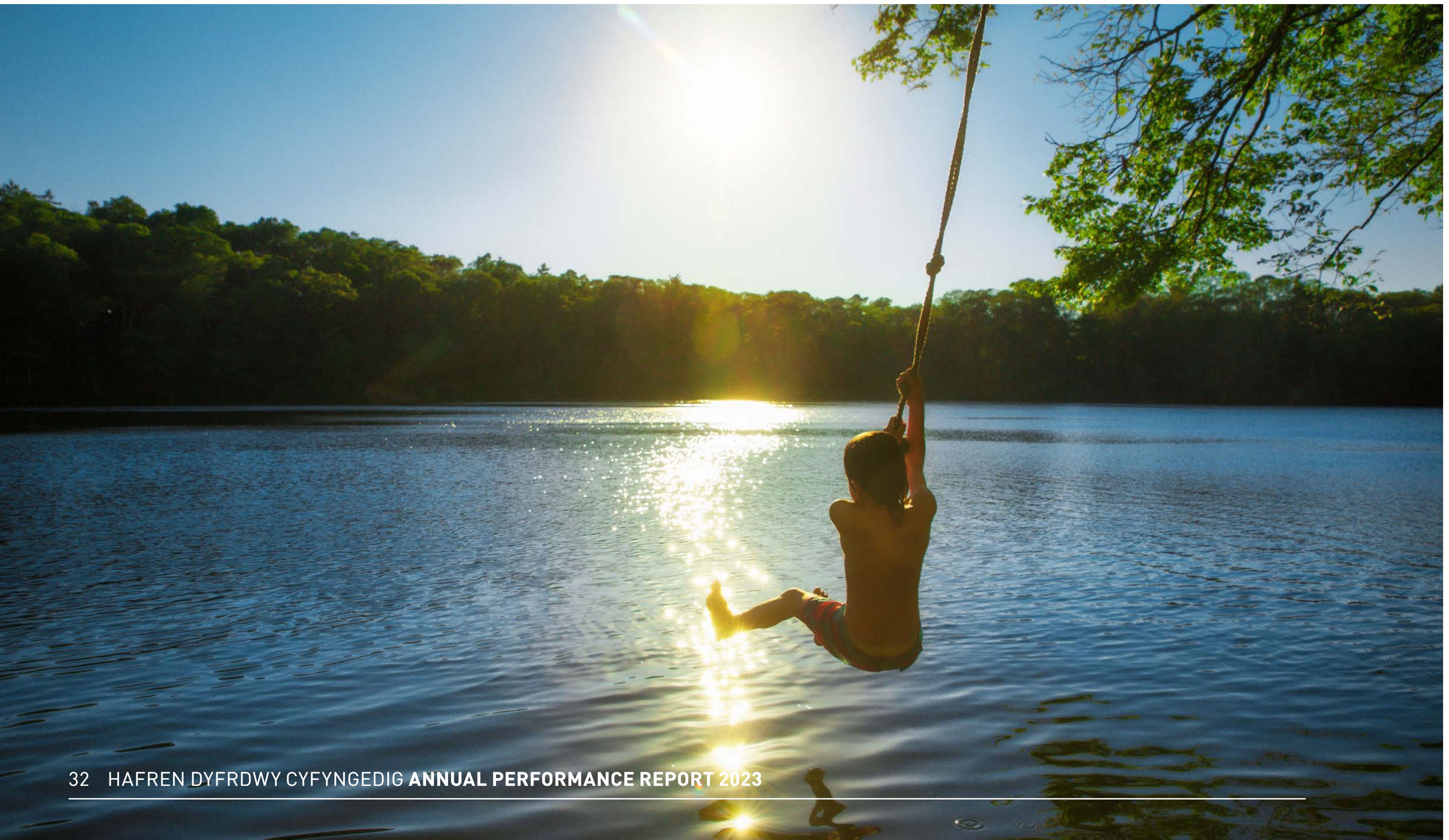
A Board Effectiveness evaluation was conducted this year, the review was facilitated internally by the Company Secretary, who is well placed as an independent sounding board to the process. One-to-one meetings took place during August and September 2022, and key themes were shared with the Board along with an action plan.

BOARD DIVERSITY

When undertaking any recruitment, the Board ensures that the recruitment processes are in line with the Board Diversity Policy (the 'Policy', available on the Hafren Dyfrdwy website) to include candidates from diverse backgrounds and those with a wide range of 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 setting 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 Board itself. The objectives and targets of the Policy, and an update against each of them in respect of Hafren Dyfrdwy, are set out on the next page.



BOARD DIVERSITY POLICY TARGETS AND OBJECTIVES

BOARD COMPOSITION

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

RECRUITMENT AND SELECTION

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

BOARD APPOINTMENTS AND INDUCTION

Any new appointments to the Board result from a formal, rigorous and transparent procedure, responsibility for which is overseen by the Nominations Committee with the decision on appointments remaining a matter reserved to the Board. All Nominations Committee members are Independent Non-Executive Directors of the Company. Further details of the activities of the Nominations Committee can be found within pages 71 to 72 of the Hafren Dyfrdwy Annual Report and Accounts 2022/23.

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

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

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

PERFORMANCE SUMMARY

DELIVERING OUR COMMITMENTS

We measure our performance against 31 Performance Commitments, or ODIs, across the AMP. This table lists all of those which are in-period, as opposed to end of AMP, together with our targets.

Outcome	Performance Commitment	Unit	2022/23 Target	2022/23 Performance Achieved		2022/23 ODI Reward/ Penalty Value (£m, 2017/18 prices)	2023/24 Target	2024/25 Target
Water	Water Quality Compliance ('CRI')[1]	score	0	0.56	✓	0.00	0.00	0.00
	Number of complaints about drinking water quality	nr	317	244	✓	0.018	317	317
	Number of lead pipes replaced	nr	35	203	✓	0.105	35	35
	Water supply interruptions	hh:mm:ss	05m 45s	16m 39s	✗	-0.414	05m 23s	05m 00s
	Leakage	Ml/d (3-yr average)	15.0	15.3*	✗	-0.031	14.5	14.1
	Per capita consumption ('PCC')[2]	litres/person/day (3-yr average)	129.0	145.7*	✗	-	127.9	127.0
	Risk of severe restrictions in a drought	%	0	0	✓	Reputational	0	0
	Mains repairs	nr/1,000km of mains	116.7	132.5	✗	-0.111	114.6	112.5
	Unplanned outage	%	2.34	0.83	✓	0	2.34	2.34
	Improving reservoir resilience	%	36.4	36.4	✓	0	36.4	81.8
	Properties at risk of receiving low pressure	%	28	39	✓	0	28	28
Waste	Treatment works compliance[3]	%	100	97.83	✗	0	100	100
	Internal sewer flooding	nr/10,000 sewer connections	1.58	1.38	✓	0.007	1.44	1.34
	Pollution incidents	nr/10,000km waste water network	117	39.84	✓	0	117	97
	Sewer blockages	nr	283	244	✓	0	279	276
	Risk of sewer flooding in a storm	%	6.64	8.69	✗	Reputational	6.64	6.64
	Sewer collapses	nr/1,000km sewer network	5.37	12.12	✗	-0.010	5.37	5.37
Customers, community and environment	Hectares managed for biodiversity	nr	150	223.81	✓	0.061	30	20
	Satisfactory sludge disposal	%	100	100	✓	0	100	100
	Inspiring our customers to use water wisely	nr	797	1,530	✓	Reputational	797	797
	Reduction in the number of void supply points	%	5.22	4.84	✓	0.030	4.86	4.5
	Customer measure of experience ('C-MeX')[4]	rank	-	7th	✓	0.031	-	-
	Developer services measure of experience ('D-MeX')[4]	rank	-	1st	✓	0.036	-	-
	Non-household customer experience	score	4.5	4.3	✗	-0.012	4.5	4.5
	Welsh language services	%	100	100	✓	Reputational	100	100
	Priority services for customers in vulnerable circumstances[5]	%	4	5.6	✓	Reputational	5.5	7
	Help to pay when you need it	%	72	66	✗	Reputational	72	73
	Supporting our priority service customers during an incident	%	100	100	✓	Reputational	100	100
	Delivery of national environment programme requirements	'met' or 'not met'	met	met	✓	Reputational	met	met
	Effectiveness of affordability support	%	N/A	N/A	-	-	N/A	10
	Length of river water quality improved	km	0.0	0.0	-	-	46.0	0
			Total [6]		71%	-0.289		

1. The regulatory target for water quality compliance, compliance risk index ('CRI'), is 0.00, but has a deadband of 2.00, which our 2022/23 performance has remained below.
2. Ofwat has confirmed that PCC is now an end of period commitment. We will continue to calculate the annual ODI earned and will accrue each year towards an end of period adjustment. Ofwat has also confirmed that it will take a view of companies' responses to the pandemic in the round at PR24 when deciding the quantum of incentive to apply for PCC.
3. The Performance Commitment agreed for this ODI was a deadband of a single failing works. This year we have unfortunately experienced one breach, remaining in the deadband and not subject to penalty.
4. C-MeX and D-MeX ODI values are calculated as per the methodology in the Final Determination.

5. Priority Services Register ('PSR') comprises three metrics - PSR % reach, % attempted contact and % actual contact - all of which need to have been met to hit the overall regulatory target, which we have achieved. We have included % reach as the lead measure in this table, and provide more detail on the other two measures on page 122.

6. ODI value includes PCC, C-MeX and D-MeX, net of triggered sharing mechanisms. Please note this may include rounding in the decimal place.

* Interim reporting.

GOOD TO DRINK

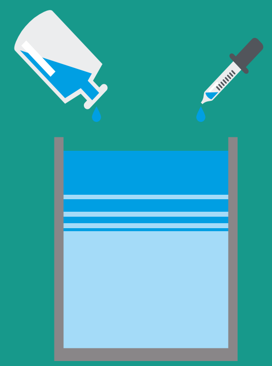
Providing a safe supply of water for our customers to enjoy whilst ensuring that water is always there when it is needed, today and for future generations, is at the very heart of our Purpose of **taking care of one of life's essentials.**

Exceeded over 5 times our target replacing

203 lead pipes

244 water quality complaints, 73 ahead of our target

0.56 one of the industry-leading Compliance Risk Index scores



COMPLIANCE RISK INDEX ('CRI')

We have had another good year for CRI performance. With upper quartile performance at 0.56, we are particularly pleased that for a fourth consecutive year we have had no bacteriological failures at our water treatment works. This has helped to keep CRI risk low and consistently achieve a result below the ODI penalty threshold.

WATER QUALITY COMPLAINTS

Water quality complaints reduced by 32% this year. We are well ahead of our target, reflecting a 50% improvement on the performance so far this AMP.

The reduction has been driven by several initiatives. We have targeted potential illegal use by installing locking caps on hydrants. We also saw a reduction in aeration by implementing a maintenance programme targeting assets in the ground and installing temporary air valves in hot spot areas.

Additionally, to help offset general network deterioration and reduce high risk discolouration areas, we continued our mains cleaning programme.

LEAD PIPES REPLACED

Until banned in 1970, lead pipes were used widely to link our water mains to properties. We meet the legal standards of a maximum 10µg/L of lead through continuous chemical treatment of water supplies, however, we have committed to replacing lead pipes in our region and delivering our part in the Welsh Government's long-term ambition of a lead-free Wales.

This year, we have replaced lead pipes to 203 properties to ensure that they are lead free. Our excellent collaborative partnership with Wrexham County Council has enabled us to deliver a number of these replacements quickly, with minimal disruption to customers.

LEAKAGE

Water is a valuable asset and reducing leakage is critical to ensure a sustainable water cycle, reducing stress on the environment through a reduction in the volume of water that needs to be abstracted and reducing the energy used to treat water and move it around our network.

We have rolled out new Water Technician and Asset Planning Lead roles across Wrexham and Powys. These roles are part of our leakage operating model supporting initiatives targeted at building our understanding of the network and unaccounted for water sources.

With a highly rural network, we know flow and pressure signals from our critical logger fleet can be an issue. We have been trialling a new type of data logger which has improved transmission of flow and pressure data in poor signal areas. We have invested in fixed acoustic technology in some of our zones which localise leaks and speeds up the detection process. We have also completed a programme of works to optimise existing pressure managed areas to reduce bursts.

We have surveyed 35% of the upstream network this year to improve estimates of trunk mains leakage. This is a 25% increase in surveying over the previous year.

At the tail end of the year we experienced a freeze-thaw; a phenomenon by which there is a rapid shift from freezing temperatures in the soil to very warm, typically 10 degrees difference. The result is an uplift in the number of burst mains and leaks, to which we responded quickly and effectively to minimise impact.

We have also continued to focus on network resilience and calming by using innovative technology to monitor pressure. This is yielding benefits across our region, helping to drive down leakage in the parts of our network that are most vulnerable to pressure issues.

More leaks have been fixed than ever before, and our operational performance is on the right trajectory to make further reductions next year.

We have provided further detail on our leakage reporting in the 'Improving Clarity and Transparency' section on page 56.

WATER ALWAYS THERE

Our customers expect to be able to turn on the tap and for water to flow. We ensure our distribution network is able to deliver this through careful maintenance and responding effectively if problems occur. We've committed to reduce leakage by 15% by 2025, solve pressure problems and minimise the time customers are off supply.

39%

reduction in properties of risk of low pressure (against the 2019/20 baseline)

56%

improvement in supply interruption average duration

Unplanned outage **0.83%** against a target of 2.34%, 64.5% below target

100%

of our priority service customers supported during an incident, in line with prior year

PER CAPITA CONSUMPTION ('PCC')

As set out in our Water Resources Management Plan 2019 ('WRMP') and sustainability strategy, we play a key role in protecting water sources and providing sustainable, long-term plans to meet future demand for water.

Overall PCC has decreased by 1.9% from last year, and we expect this trend to continue, with gradual returns to pre-pandemic non-household demand - although this could take several years.

Community Engagement

Teams across Hafren Dyfrdwy in customer-facing roles have been working to deliver water efficiency advice and to promote our water efficiency offerings such as free and subsidised products, available from our online platform Get Water Fit. Our expected additional reach allows the promotion of our messages directly to thousands more customers.

In addition, our community engagement plan has also focused on vulnerable customers. As well as working with our specialist teams that focus on financial and other vulnerabilities.

Products

We have continued to provide free water saving products upon request to our customers and continue to promote subsidised products. We promote our free water saving products, and our subsidised products via our website as well as via our partner's website, Save Water Save Money ('SWSM').

Metering and Home Water Efficiency Checks

We trialled promoting home water efficiency checks with customers who contacted us to request a meter, helping them to find ways to save both money and water.

Overall PCC has decreased by 1.2% from last year, and we expect this trend to continue, with gradual returns to pre-pandemic non-household demand - although this could take several years.

We have provided further detail on our PCC reporting in the 'Improving Clarity and Transparency' section on page 57.

PROPERTIES AT RISK OF LOW PRESSURE

Water always there means it is always available for use, and for some, low water pressure can effect how customers are able to use our product, and their overall experience of our service.

We have continued to optimise and refine our network, improving performance to provide customers with sufficient pressure to meet standards of service. This has resulted in improvement of 39% against AMP6 (2019/20 - the baseline year) which is significantly ahead of our target.

SUPPLY INTERRUPTIONS

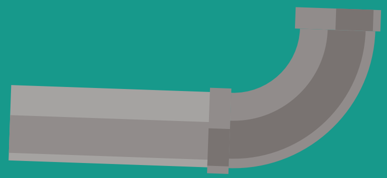
We manage the transportation of water through 2,640.9km of treated water mains every day and unfortunately on occasions these pipes fail, causing disruption to our customers. On average this year, customers experienced an impact of 16 minutes and 39 seconds. While this represents a 56% reduction improvement on 2021/22 and 76% reduction from 2020/21, this still does not represent good enough performance for our customers.

We continue to embed our learnings from the Wrexham Ring Main ('WRM') events in 2021, significantly increasing resilience and responsiveness. We suffered four large events this year, two in Powys and two in Wrexham, each adding over one minute to performance. We continue to focus on our response to these single one-off events with further investment in pressure monitoring and management, delivering future improvements through a calmer and more predictable network.

WASTE WATER TAKEN SAFELY AWAY

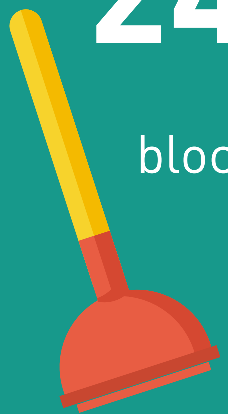
We know that escape of sewage from our waste water network is one of the worst service failures that can occur. Whether it's in a customer's property or impacting on the environment, it is clearly a priority for us to make improvements.

6



sewer collapses, a 45% improvement year on year

244



sewer blockages

3

internal sewer floodings, which is below our regulatory target

INTERNAL SEWER FLOODING

Internal sewer flooding is one of the worst service failures that can happen to our customers. We have made good progress this year, reducing the number of incidents in our region from five down to three. We understand that these incidents are devastating to homeowners and to mitigate the risk, we maintain our network and respond as effectively and quickly as we can. Every internal flooding event is subject to forensic root cause analysis to understand any opportunity to improve.

Prevention is better than cure and we continue to work hard with local customer groups, especially schools to educate and ensure only the three Ps (pee, poo and paper) are flushed down the toilet. Fats, oils and greases ('FOGs'), wet wipes and nappies are the most common causes of blockage; by removing these at source we will have a healthier network less susceptible to flooding.

SEWER BLOCKAGES

Our blockage performance is significantly ahead of our performance commitment, with 244 blockages against a target of 283. Throughout the year we have operated our enhanced reactive response to high-risk blockages which included detailed CCTV surveys of the sewers and remedial action to reduce the risk of a repeat incident.

SEWER COLLAPSES

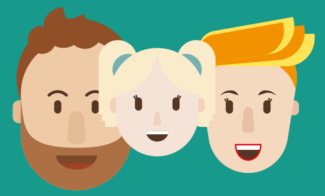
We experienced six sewer collapses in the year, which is our best performance so far this AMP. Whilst this is a 45% improvement on last year, and a 25% improvement on 2020/21, we marginally missed our target, and will continue with actions to further improve performance for our customers.

CUSTOMERS AND COMMUNITY

We're committed to providing an outstanding service every day to every customer in our region. We're in a unique position to make a real difference in our communities and the environment, improve the wellbeing of customers and society, support those in need and deliver for Wales.

1st place

Developer Services Measure of Experience



7th place

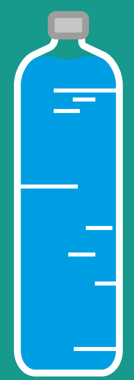
Customer Measure of Experience

4.3

non-household customer experience

100%

vulnerable customers supported during incidents



25%

increase in number of customers supported in the year

C-MeX (CUSTOMER MEASURE OF EXPERIENCE)

We want to consistently exceed our customers' expectations and deliver an outstanding experience, regardless of whether they have had to contact us or not. Ofwat's measure of customer experience, C-MeX, places the same weighting on the perceptions of all our customers as on those who contact us.

With the insourcing of customer call backs and the launch of a new local centre in Newtown, we are continuing to see improvements in our customer measures resulting in an improvement from finishing 11th across the industry last year to 7th this year. Our people are our best asset and having more dedicated local staff who are passionate about our service is driving our improved performance.

We continue to focus on our key customer messages: how we can support them; water efficiency; and education to help our customers during the cost-of-living crisis. By continuing to build a strong network of partners across the region, this will also help to improve our brand awareness and builds trust.

D-MeX (DEVELOPER MEASURE OF EXPERIENCE)

We are delighted we have retained our top spot, finishing first in the industry and pushing the frontier with a score of 92.88%.

We achieved this by consistently delivering what matters most to our customers. We offer a dedicated point of contact and a high-quality design and construction service, from start to finish.

NON-HOUSEHOLD CUSTOMER EXPERIENCE

While 85% of our non-household customers are satisfied with account handling we unfortunately failed to meet our target of 4.5 out of 5. This was mainly driven by customers saying that they were neither satisfied nor dissatisfied. We are engaging with our customers to understand the drivers for this and will continue to focus on brand and raising awareness of the team and services we offer by building a strong network with our business customers across the region.

HELP TO PAY WHEN YOU NEED IT

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

This year we have continued to expand our programme for customers we support by 25% year on year, against the backdrop of an ongoing cost of living crisis. We continue to help by offering one of the most generous bill discounts available in the water sector. We also help customers become more water efficient which will not only help with their water bill (if on a water meter) but with their wider energy bills.

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

We know that the cost of living crisis will continue to be a significant issue for many of our customers and while their water bill may not be a main worry, there are still ways in which we can help. We continue to expand our activity in communities across Wales through our community partnerships, and we continue to work closely with external partners, such as local councils, charities and Citizens Advice, who can help us engage with customers that may need our support.

	2022/23	2021/22	2020/21
	Number of customers		
Water health checks (including proactive metering)	166	156	242
Matching plus	40	36	11
Payment breaks	1,745	2,449	245
Payment plan concessions	1,860	1,886	1,767
Social tariff	1,864	1,203	1,153
WaterSure/WaterSure Plus	883	892	903
Get Water Fit	1,567	-	-
Citizens Advice Referral	5	-	-
Total customers helped	**8,130**	**6,622**	**4,321**

SUPPORTING OUR PRIORITY SERVICE CUSTOMERS DURING AN INCIDENT

We recognise that the need for support can be driven by a wide range of circumstances in the short and long term, and this includes non-financial support.

Our Priority Services Register ('PSR') allows us to understand when our customers might need our help and to tailor the support we provide – no matter the circumstance. It is therefore critical to ensure that customers on the PSR who require water are supported fully throughout an incident with alternative and convenient water supplies. We have rigorous processes in place to ensure we will support 100% of PSR customers during an incident and that is what we have done again this year.

HAFREN DYFRDWY COMMUNITY FUND

In 2021 we successfully launched our Hafren Dyfrdwy Community Fund, promoting wider initiatives and offering support to our community in different and meaningful ways. The first year of launch saw us award over £52,000 across seven projects and we are delighted to have awarded a further c.£45,000 across eight projects in our communities.

In line with the wellbeing goals of the Well-being of Future Generations (Wales) Act 2015, we remain focused on supporting new projects that aim to improve community wellbeing across three core themes - People, Place and Environment.

We are pleased to announce that we will have another £50,000 scheme taking place in 2023/24 for a third year running.

Over
£45,000
awarded to
8 projects

CREATING A COMMUNITY GARDEN SPACE

Bwlchgwyn Village Hall in Wrexham is a well-used community space in a rural village, which is open to all and used by a variety of different groups for a range of different activities.

The grant of £3,122 will be used to improve the outside space and create a community garden with raised beds, planting and rainwater collection. Local cubs, beavers and scouts will be able to get involved in planting and the new space will include some new sensory aspects to help support with wellbeing.

SUPPORTING THE WELLBEING AND SOCIAL DEVELOPMENT OF CHILDREN

Ysgol ID Hooson is a primary school situated in the centre of Rhosllanerchrugog. Wellbeing has always been one of their core values and since lockdown, they have noticed how much happier and engaged the children are when participating in outdoor activities.

The grant of £7,400 will provide the necessary funding to purchase some outdoor play equipment to offer extra outdoor activities and further develop their forest school, allowing the children to connect with nature, offering opportunities to learn about the environment and wildlife and to have given them an enhanced and enjoyable primary school experience.

READ MORE ABOUT THE HAFREN DYFRDWY COMMUNITY FUND HERE

SEATING FACILITIES FOR COMMUNITY TENNIS COURTS

Guilsfield Tennis Club is a sports facility run by volunteers for the benefit of the local community within the Powys region. Their aim is to be an inclusive club, encouraging people of all ages to get out into the fresh air and become more active. Currently there is a lack of facilities where people can meet to spectate and socialise.

A grant of £2,851 will enable the club to purchase some benches that will provide a space where anyone can watch activities and socialise across different age groups. This will also help facilitate those who may not be able to play themselves (for example elderly residents) but would still like to be involved.

SUPPORTING AND BRINGING THE COMMUNITY TOGETHER

Llay Community Church runs regular events throughout the year to support their community such as lunch clubs, clothes and toy swaps and adult education classes, as well as hosting many local community groups who meet in their building to socialise and reduce isolation.

In the community there are many homes that are lower-income or have no access to a car, and so rely on public transport to access facilities outside of the village.

The grant of £2,000 will be used to buy a large television to enable the church to host an accessible, free monthly community movie night open to everyone, providing an affordable activity to families who may be struggling and those in the community who may be dealing with loneliness or isolation.

HELPING THE COMMUNITY REDUCE WASTE

Wrexham Clothing Exchange runs an environmental learning space for the local area alongside a community café. They host monthly clothing and book exchanges and an interview clothing library as well as offering free classes on sewing, upcycling, and other clothes-repairing skills to help reduce landfill and the local carbon footprint.

A grant of £3,540 for its 'Library of Things' project is to provide a hire shop of household goods, tools, and clothing whilst also creating a space that teaches the community how to mend broken items through skill share, to help people save money, providing them with new learning opportunities whilst also benefiting the environment by reducing waste.

CREATING A STIMULATING OUTDOOR ENVIRONMENT

Ysgol Gynradd Penycae Primary School supports children aged from 3-11 years, and is committed to providing a stimulating and engaging curriculum for their children with opportunities for learning both inside and outside the classroom. Since the pandemic they've noticed children are engaging less with the outdoors and have recognised the growing importance placed in providing a safe and appealing environment outside of the classroom.

The grant of £9,689 will enable them to transform an outdoor space into a stimulating outdoor environment that all children can use throughout the year. The children have given their own ideas for the space, which will include planting and growing areas and will help support their health and wellbeing at this crucial stage of their physical, mental, and social development.

COMMUNITY WELLBEING WOODLAND WALK AND WILDFLOWER MEADOW

Bwlchgwyn School is a small rural primary school located within the Wrexham region. On top of their day-to-day activities, the school provides the wider community access to the grounds for physical activity and to improve their health and wellbeing.

The grant of £7,200 will be used to create a wildflower meadow and woodland walk within the grounds of the school for the whole community to use. This will include tree planting, wildflowers, an accessible path and seating areas and will be used for forest school activities as well as meditation and environmental and art sessions.

BRINGING THE COMMUNITY TOGETHER THROUGH NATURE

Meifod is a rural village where the Friends of Ysgol Meifod volunteer group provide facilities, experiences, and support for their community school which is a central hub within the village with strong community links.

With a grant of £9,875, this project will create an outdoor hub for the whole community to enjoy and encourage social activity, promote wellbeing, improve mental health, and provide a meeting place for people to connect with others and learn new skills such as gardening. This will bring together different generations by providing an inclusive space which will help to reduce isolation, and supporting those with additional learning needs through features such as sensory plants and quiet spaces to reflect and de-stress.

RESPECTING OUR NATURAL RESOURCES

As custodians of land and processes that revolve around our natural resources, it is critical for us to respect and preserve the environment. To 'take care of one of life's essentials' we need to safeguard all that is around us and promote biodiversity, to build a stronger natural system.

No serious pollutions in over

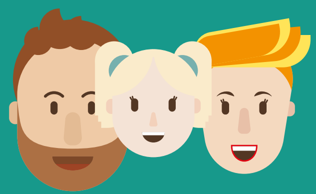
11 years

2

Category 3 pollutions

97.8%

compliance at our treatment works



1,530

customers educated to use water wisely

TREATMENT WORKS COMPLIANCE

We are pleased to be able to say we have delivered 100% treatment works compliance for our wastewater recycling assets. Unfortunately, we did have one failure in water, resulting in an overall compliance position of 97.8%.

POLLUTION INCIDENTS

We had no serious pollution reported in 2022/23 (Category 1 and 2); we have not had any serious pollutions for over 11 years. Additionally, we have maintained our Category 3 pollution performance from last year with two occurrences this year, beating our target again.

INSPIRING CUSTOMERS TO USE WATER WISELY

Following our education programme during the year, we took 1,530 customer promises to do more for the water cycle. This represents an increase of 39% year on year. These promises include challenging consumption behaviours, reducing FOGs and other unwanted materials from entering our sewers and caring for the environment. We are passionate about championing sustainability and supporting all our customers to play a part in this.

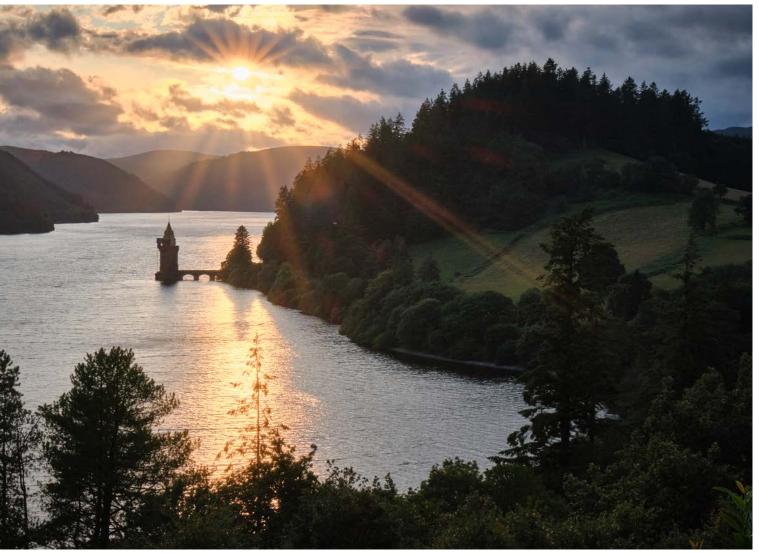
LAKE VYRNWY AND BIODIVERSITY

Wales boasts some of UK's most spectacular scenery with Lake Vyrnwy being a prime example of such location. The Lake Vyrnwy estate located in Powys comprises 10,000 hectares of open moorland, blanket bog, farmland, and forest surrounding a 7.6km long reservoir. Given the abundance of natural resources, a lot of wildlife make homes in the area, including the black grouse, grebe, and Welsh clearwing moth.

Biodiversity forms one of our main focuses along with water quality, sustainability, and public access. Today we maintain our legacy of continued emphasis in ensuring good land management practices in forestry and agriculture to improve both the environment for the local wildlife, and water quality at source.

Partnering with RSPB Cymru, we made over 223 hectares of habitat improvements during 2022/23, exceeding our target of 150. This was primarily possible due to the suite of projects on the land tenanted by the RSPB at the Lake Vyrnwy estate. Projects include the conifer removal undertaken as part of our Site of Special interest ('SSSI') landowner responsibility, as well as our long-term peatland restoration programme on the degraded peat bogs. The delivery was supplemented through working with the Montgomeryshire Wildlife Trust on a project improving the habitat for the rare pearl bordered fritillary butterfly. Additionally, we have managed to improve 3 hectares of the Hafren Dyfrdwy owned forestry estate at Lake Vyrnwy by the removal of invasive Rhododendron from the woodlands.

Throughout the year we have continued to work closely with Tilhill, a forestry management company, to remove the Larch trees infected with phytophthora ramorum (a highly destructive disease which has resulted in the death of many Larch in the area) in compliance with the



Statutory Plant Health Notice. This activity will continue this year to eliminate the spread of the pathogen from destroying the local ecosystem. In keeping with the sustainability and diversity of the habitat, we have been committed to restoring the woodland by replacing the infected Larch cut down with the more resilient Broadleaf.

We have also opened up a brand new car park, which has allowed more people safer and easier access for an improved experience at the site, further promoting the stimulation, health and wellbeing of the community. We have seen a significant rise in the awareness in the value of benefits in participating in outdoor activities since the COVID-19 pandemic and are glad to have provided more people of all age groups the opportunity to enjoy nature and explore the natural setting at Lake Vyrnwy.

IMPROVING CLARITY AND TRANSPARENCY

It is important that our customers, stakeholders and regulators can trust the information we report; they need to be confident that they can trust us to act responsibly and always in our customers' best interests.

To ensure the highest levels of transparency and clarity, below we have provided additional commentary on those areas where we believe greater clarity would be beneficial.

Code	Measure	Transparency
B1	Water supply interruptions	During the year we have refined our reporting process to include an assessment for the depth of main to more accurately estimate when customers are off supply. This analysis better targets our height analysis data to demonstrate when the network has reached an appropriate level of pressure to ensure customers are back on to supply in accordance with the AMP7 common methodology. Operationally this will allow us to stop or remove any temporary supply arrangements we have in place, such as overlanding or direct tanker injection. Not only does this lead to operational efficiency during an incident, but it has wider benefits such as reducing the risk of water discolouration from injection or clearing site/road blockages faster. The change requires a small update to our reporting methodology to include an assessment of main depth. The impact on APR23 is a 36 second reduction in our reported performance. As such, we are declaring this here as part of our commitment to clear and transparent reporting.
B2	Leakage	**Common Reporting Methodology** As per the APR expectations document and guidance from Ofwat within the 2022 in-period determination, we have been working hard to improve our leakage reporting and alignment with the common reporting methodology. We have reviewed and sought to improve our reporting against all the 16 specific components outlined within the methodology. Whilst our teams have been working hard to improve leakage performance we note there are three components, where we need to undertake further work. **Availability (Amber)** - Our District Meter Area ('DMA') availability has improved from 87% to 89% by the year end, against a target of 90%. We are pleased to report that this has since improved to 90.4%, as at the end of June 2023. **Unmeasured consumption (Amber)** - uPHC is currently derived from Severn Trent Small Area Monitor ('SAM') data. We have made good progress in enhancing our understanding of unmeasured consumption, completing a programme of installing 1,400 meters on unmeasured customers. During the year we have built a robust methodology and sensitivity tested the use of the monitors but we believe at this point we have further work to do to validate the results. **Overall Water Balance (Red)** – The water balance gap for APR23 is >3% and we are reporting red against this component. As a result, we have undertaken a full review of all components which will continue with both field support and external technical resource. Given this, our 2023 leakage reporting represents an "interim" position as we gather further data to achieve alignment with the Methodology. We will ensure clarity and transparency as we discuss this further with the regulator and will seek to provide an update accordingly. **Improvements to Leakage Reporting** During the last 12 months, in addition to our focus on operational improvements, we have reviewed all areas of the reporting methodology to ensure we continue to refine our understanding of unaccounted for water. We explain the changes below: **Refining our unmeasured consumption data** - We have improved our estimate of unmeasured consumption. We found that the small area monitoring system required an update to the demographic representation, which was driven by lockdown and the shift in customer consumptions patterns. **Trunk main leakage** - We identified a small data error, which indicated that some DMA leak repairs were being attributed to trunk mains. Correcting this has the effect of reducing the overall volume of unaccounted for water in the final water balance. **Void properties** - We have brought a number of properties into charge during the year. The full year effect of this, combined with better consumption data from metering those brought into charge, has contributed to an increase in reported consumption. We have also corrected our occupancy assumption associated with void properties aligning it to measured void properties. **Non-household night use** - We have corrected for some non-household properties that did not have a night use allowance. **Bulk supplies** - We identified some double counting in consumption from cross border meters. The duplicate meters have been removed from our consumption report with additional checks implemented.

B2 Leakage

Our leakage targets are based on a percentage reduction from the three-year average baseline set between 2017/18 and 2019/20. Having identified these improvements, aligned with good practice, we have back cast the impacts on our historic performance to ensure our baseline is set on a like-for-like basis. Our improvement targets expressed in percentage terms remains unchanged. Details are provided in the table below.

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	AMP Reduction
Baseline	17.8	14.8	13.0						
Three-year average			15.2						
AMP7 targets				1.2% 15.0	3.4% 14.7	6.4% 14.2	9.4% 13.8	12.4% 13.3	1.9
Restated baseline (spot)	17.9	15.3	14.9						
Restated three-year average			16.0						
Revised targets				1.2% 15.9	3.4% 15.5	6.4% 15.0	9.4% 14.5	12.4% 14.1	1.9

Minor Components

We have continued to review and validate the unbilled water usage across several minor components of the water balance.

To ensure we have a better estimate of the unaccounted for components within our water balance, we have refined our estimation of consumption on components such as flushing of fire mains and storage tanks, indicating that there is 0.38 Ml/d more consumption than our previous assumption.

We have updated these components in the 2022/23 reporting but have not back cast these changes to historic performance given the consumption identified relates to the current year as reliable historic data is not available. We plan to extend this work further, as accounting for more consumption drives efficiency in our targeting processes when looking for reductions in real losses.

B3 Per capita consumption ('PCC')

Common Reporting Methodology

We are compliant with the Common Reporting Methodology components with the exception of unmeasured household consumption which is amber compliance due to the use of Severn Trent SAM data as per the Leakage commentary above. As such, our 2023 PCC reporting represents an "interim" position as we gather further data to achieve alignment with the Methodology.

Improvements to Leakage Reporting

In line with the Leakage restatement above, the changes within the water balance have a knock-on impact on our PCC metric. Below we outline the change in the target profile.

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	AMP Reduction
Baseline	128.6	136.4	135.4						
Three-year average			133.5						
AMP7 targets				0.9% 132.3	1.8% 131.1	2.7% 129.9	3.5% 128.8	4.2% 127.8	5.6
Restated baseline (spot)	128.8	135.0	133.9						
Restated three-year average			132.6						
Revised targets				0.9% 131.4	1.8% 130.2	2.7% 129.0	3.5% 127.9	4.2% 127.0	5.6

C4 Treatment works compliance

The Performance Commitment agreed for this ODI was a deadband of a single failing works creating the target set in the Final Determination of 97.8%.

<table>
<tr><th>Code</th><th>Measure</th><th>Transparency</th></tr>
<tr><td>F1</td><td>Reduction in the number of void supply points</td><td>
In APR22, we identified improvements in our reported voids number that clarified the improvement due to void property identification activity, separately to improvements in data quality. Specifically, we identified a category known as 'invalid service provisions' ('ISPs') which are properties that no longer exist; for example a single property that has been turned in to flats or a house that has been demolished.
In the in-period ODI determination in November 2022, Ofwat confirmed that we should continue to report our performance including ISPs as our targets were set on this basis. We also confirmed we would base our ODI calculation on improvements in true voids only.
The table below shows that the number of ISPs has increased. We have ensured our reported number this year includes the actual ISPs we have currently identified and, ensuring we do not claim outperformance incentives for the additional ISPs.
<table>
<tr><th></th><th>2022/23</th></tr>
<tr><td>FD target</td><td>5.22%</td></tr>
<tr><td>Voids</td><td>4732.03</td></tr>
<tr><td>Invalid service provisions</td><td>467</td></tr>
<tr><td>Reported performance</td><td>4.84%</td></tr>
</table>
Total average voids during the year = 4,732.03 voids + Invalid Service Provisions 467 = 5,199.03
Total average properties during the year = 106,942.11 + Invalid Service Provisions 467 = 107,409.11
Percentage voids v properties = 4.84%
</td></tr>
<tr><td>Table 6C.21 – APR reporting</td><td>Water network+ - Mains, communication pipes and other data for the 12 months</td><td>
We have noted a reporting error on data for reporting years 2020/21 and 2021/22. Our reporting review indicated that the lead data included lead water quality failures. However, as per guidelines, it should have also included customer-reported lead replacements. This has been resolved for the current reporting year.
<table>
<tr><th>Metric</th><th>APR reported data 2021</th><th>Revised data 2021</th><th>APR reported data 2022</th><th>Revised data 2022</th></tr>
<tr><td>Lead pipes</td><td>0</td><td>75</td><td>0</td><td>76</td></tr>
</table>
</td></tr>
</table>

Code	Measure	Transparency
Table 4R19-4R27	Connected properties, customers and population - Residential properties billed at year end	The 23/03 information notice published by Ofwat confirmed that Cattle troughs should not be included in our property and volume data. Our data review for table AR19-4R27 has identified that c.1,000 cattle troughs (1% materiality on overall reported data) were included incorrectly in our property numbers. Our internal reported documents have been updated with the latest guidance. We have undertaken a review of the wider impact on other areas of reporting. This has indicated an increase to the supply interruptions reporting data of 44 seconds for Year 1 reporting and 23 seconds for Year 2 reporting.
APR Tables 8A.2, 8A.3, 8A.7, 8A.8, 8A.10, 8A.12, 8A.13, 8A.19	Sludge transport lines	We reported in accordance with the definition for Sludge Transport – "This service includes the transport of sludge from the sewage treatment plant to the sludge treatment plant". On review, we now believe that this definition should only be used for transferred sludge that is treated at an incumbent works. With reference to the definition for line 8A.2, we now consider that the volume for all sludges treated by third parties (both thickened and thin sludges) should be accounted for. The impact of changes on the data reported in the APR22 is detailed in the table below.

Metric /Dataline	Data reported (APR22)	Revised data
8A.2 Total sewage sludge produced, treated by 3rd party sludge service provider	0.7	0.9
8A.3 Total sewage sludge produced	0.7	0.9
8A.7 Total sewage sludge disposed by 3rd party sludge service provider	0	0.9
8A.8 Total measure of intersiting 'work' done by tanker	0	0.9
8A.10 Total measure of interesting 'work' done by tanker	46	50.94
8A.12 Total measure of interesting 'work' done (all forms of transportation)	46	50.94
8A.12 Total measure of interesting 'work' done (all forms of transportation)	836974	1120365
8A.19 Chemical P sludge as % of sludge produced at STWs	8.95	7.86

AMP7 COMMON PERFORMANCE MEASURES - COMPLIANCE STATUS

In line with RAG 3.14 section 4.40, we can confirm that we are compliant with all the components of the AMP7 common methodology checklists for the following named PCs:

- Water supply interruptions
- Mains repairs
- Unplanned Outage
- Internal sewer flooding
- Sewer collapses

This compliance has been assured via our three lines of assurance framework.

REGULATORY REPORTING

OUR APPROACH TO REGULATORY REPORTING

We know how important it is to our customers and stakeholders that our reporting contains reliable data and information. Our **Regulatory Reporting and Assurance Approach** describes and explains our approach to assurance, what we publish, the assurance plan we follow and the level of assurance we apply.

This ensures we are open and transparent with our customers and stakeholders about the processes we follow with our publications and have an appropriate level of confidence that our submissions have been well prepared and are consistent with our robust internal processes.

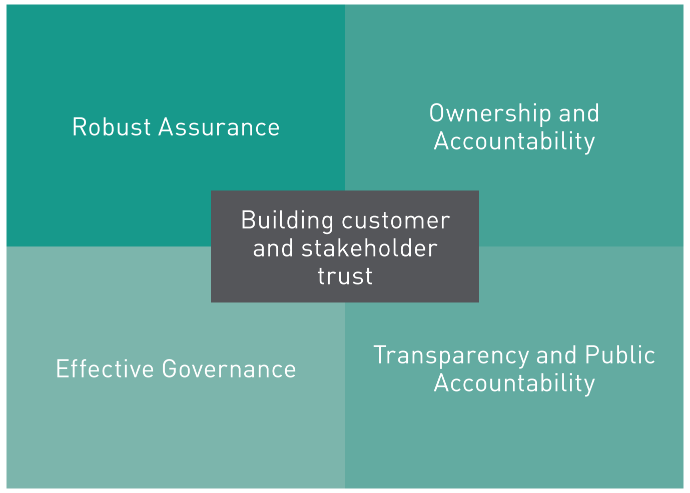
This section provides oversight of our assurance framework and compliance processes in relation to our APR. Our frameworks and internal controls support the Board to make a number of signed statements within this Report including our Board's Data and Information Completeness and Accuracy Statement and Risk and Compliance Statement from page 66.

OUR ASSURANCE FRAMEWORK

We have an established, rigorous and robust assurance and performance reporting framework. The assurance approach builds on best practice from external organisations. It ensures that managers, leaders and Directors are responsible and accountable for delivering high quality data through robust processes and methodology.

Our established framework is underpinned by four main principles that provide consistency and clarity for our people, and allows flexibility for our assurance processes to build and evolve with our Company and the environment we operate in.

1. **Robust Assurance** – we operate a three lines of assurance model, targeted at areas of greatest risk.
2. **Ownership and Accountability** – we have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.
3. **Effective Governance** – provided by our Board, Audit and Risk Committee, Executive Committee and the Severn Trent Plc Disclosure Committee.
4. **Transparency and Public Accountability** – we publicly report on our performance and hold ourselves to account where we do not meet our commitments.



1. ROBUST ASSURANCE

We operate a three lines of assurance model. Using a risk-based approach provides an effective programme of assurance which considers areas that we know are of prime importance to our customers and regulators, or may have a significant financial value, alongside the likelihood of reporting issues or regulatory change. Areas that are higher risk receive the full three lines of assurance while other areas, where the risk is lower, are targeted with first-or second-line assurance only. This approach ensures we can continually reassess our assurance activity as risk is reduced in certain areas, where mature and stable process exist, and increased where new risks are emerging, resulting in a proportionate and appropriate assurance spend. Our three lines of assurance is explained in greater detail in our assurance approach at Appendix A from page 142.

Internal Audit

Group Internal Audit is an independent assurance function available to the Board, Audit and Risk Committee and all levels of management, and is a key element of the Group's corporate governance framework. Support is provided by four main co-sourcing partners: PwC, EY, BDO and KPMG. 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.

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

A three-year strategic audit planning approach is applied, from which Internal Audit develops an annual risk-based audit plan; this facilitates efficient deployment of resource in providing assurance coverage over time across the whole business. The Audit and Risk Committee's role is to review and challenge the plan, specifically where the key risk areas identified as part of our Enterprise Risk Management ('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 Audit and Risk 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 Audit and Risk Committee on the findings of the audit, including any action that may be required. Where any failings or weaknesses are identified during the review of internal control systems, management puts in place robust actions to address these on a timely basis. Action closure is reported to and monitored by the Audit and Risk Committee, in order to demonstrate that management places a strong focus on closing audit actions and ensuring timely completion.

An internal control system can provide reasonable but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. To ensure continued efficiency, we undertake an annual review of the effectiveness of the Internal Audit function in line with the CIIA Internal Audit Code of Practice and the Financial Reporting Council 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 we consider it prudent to carry out external effectiveness reviews every three years.

The last external review of the effectiveness of the Internal Audit function was undertaken in December 2021. The review was carried out by BDO, which concluded that the Internal Audit function remained fit for purpose, was operating efficiently and effectively, and in line with good practice.

BDO's findings also highlighted clear evidence that the Internal Audit function operated with strategic alignment, a focus on risk and an emphasis on quality and continuous improvement, all underpinned by objectivity and integrity. The minor areas of improvement raised by BDO have been incorporated into an action plan which has been shared with the Severn Trent Plc Audit and Risk Committee on behalf of the Group.

Taking all these elements into account, the Severn Trent Plc Audit and Risk Committee concluded that the Internal Audit function was an effective provider of assurance over the Group's risks and controls, and appropriate resources were available as required.

Internal Audit has the highest level of independence within the Group and also provides third line assurance (in addition to our external assurance providers) for a number of our regulatory submissions, including our Annual Report and Accounts and APR. This is explained in greater detail in our APR assurance approach on page 145.

2. OWNERSHIP AND ACCOUNTABILITY

We have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.

Our regulatory, statutory and legal obligations in our appointed business are assigned to managers, senior leaders and Directors. These managers are responsible for ensuring compliance with our regulatory duties and raising potential risks or issues of non-compliance.

Performance reporting

Our Board understands that performance matters – to us, to our customers, and to our wider stakeholders. Our Board is fully engaged in monitoring and assessing our performance and providing challenge through our established governance arrangements. Performance is reported to and reviewed monthly by the Executive Committee, and through the Audit and Risk Committee and Severn Trent Plc Disclosure Committee. Our Board receives updates on general performance, including performance against key targets and performance commitments, environmental matters and health and safety. The Board also receives updates on financial performance and detailed deep dives at each meeting that relate to areas of strategic importance.

Compliance processes

As a regulated company we are subject to statutory and regulatory duties and obligations, primarily set out in the Water Industry Act 1991 and our Instrument of Appointment (the 'Licence'). The Licence also requires us to perform duties imposed under other statutory and regulatory obligations as necessary to fully discharge our duties as a water and waste water undertaker. Our approach to achieving compliance with these obligations is based on our established and robust governance and systems of internal controls. We set ourselves high standards, though it is important to understand that such systems cannot provide absolute guarantees.

Our Licence to Operate process is an internal control system and a key part of our Governance Framework designed to ensure compliance against all of our regulatory obligations and duties. We monitor over 100 obligations underpinned by over 1,200 reporting lines. Each duty and obligation within our Licence condition is mapped to a business area in our assurance map, to provide oversight of the compliance risk score.

Responsible managers and strategic leaders are invited to complete a self-assessment twice a year. Our total risk exposure is then assessed based on the combined score of the likelihood of a non-compliance and the impact of a non-compliance. This creates a simple way to compare one risk factor to another. Our highest areas of risk receive targeted focus in our assurance plan. Where we have noted exceptions (as disclosed in our APR), we have additional focus on assurance.

Our Group Compliance and Assurance Team oversees the framework and ensures that managers across the Company are aware of their statutory and regulatory duties. Training and support workshops are provided to new duty owners to ensure that processes and requirements are understood, as well as providing refresher training for existing duty owners. This ensures all duty owners are equipped with the right skills and knowledge to complete their annual self-assessments confidently and accurately. The Group Compliance and Assurance Team undertakes additional checks following completion with a random sampling technique to test and challenge duty owners to ensure a consistent approach to completion of the self-assessment is undertaken.

Each duty and obligation is assigned to a responsible manager, a senior leader and a Director. The senior leaders are responsible for the development, implementation and testing of controls to ensure compliance in areas such as policy and standards, procedures, training and management information as well as completing regular reviews of these controls.

An annual process of self-certification takes place and we receive a declaration from each responsible manager, senior leader and Director to confirm compliance, or to inform us of a non-compliance (referred to as an exception from compliance).

The Group Compliance and Assurance Team assesses and spot-checks declarations for consistency and accuracy, and works collaboratively with the Company to ascertain the level of materiality of any non-compliance.

The Licence to Operate framework helps to inform the Board of any exceptions from our statutory and regulatory obligations, ahead of the Board making the annual Risk and Compliance Statement. Material exceptions are set out on page 68.

3. EFFECTIVE GOVERNANCE

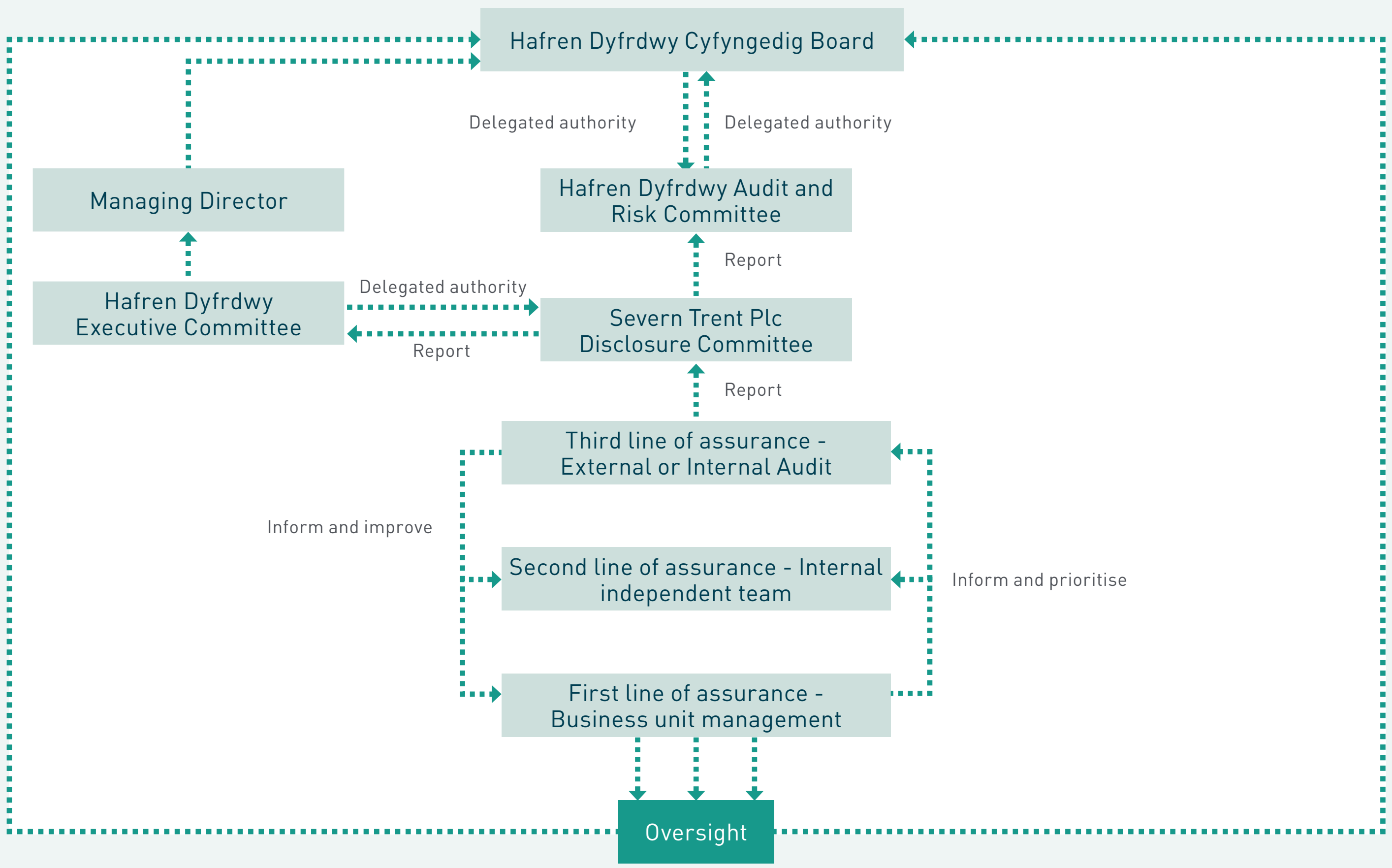
The Board is supported by the Severn Trent Plc Governance Framework, which is described in detail on page 26. In line with the 2018 Code, the Board delegates certain roles and responsibilities to its various Committees.

To support our Governance Framework, we have a well established and robust assurance and performance reporting framework. Our governance and assurance frameworks work together, as demonstrated overleaf, to enable confidence in the information and data we report in our Annual Report and Accounts and APR.

The Severn Trent Plc Disclosure Committee oversees the reporting obligations of the Group, considering the materiality, accuracy, reliability and timeliness of information disclosed, and reviews the level of assurance received. The effectiveness of the controls over reporting are monitored by the Audit and Risk Committee, which receives regular reports of the assurance conducted by the external auditors.

Overall accountability for the preparation and production of the APR, which includes reporting of performance against performance commitments and associated Outcome Delivery Incentives ('ODIs') rests with the Chief Financial Officer.

GOVERNANCE AND ASSURANCE FRAMEWORK



4. TRANSPARENCY AND PUBLIC ACCOUNTABILITY

As a public service provider, we want to be transparent about how we balance the needs of our customers and other stakeholders, our strategic plans as a business, and the provision of a fair return for our investors.

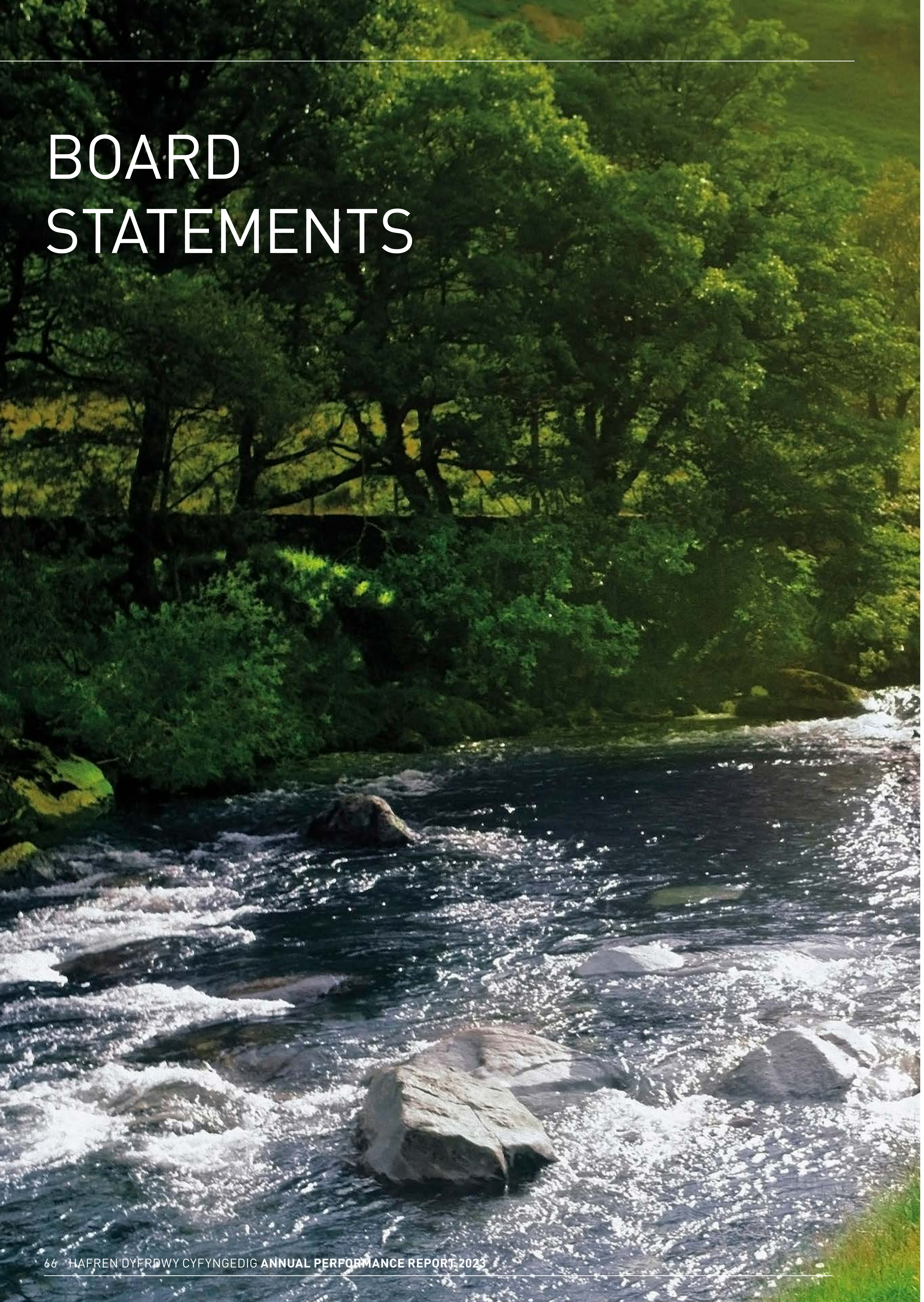
We evolve and update our reporting to make sure that it not only complies with our regulatory obligations but also responds to our customers' and stakeholders' feedback. We outline our performance each year within our APR and hold ourselves to account where we do not meet our commitments.

We publish our APR so that everyone can see how we have performed, and that relies on us making sure that we provide trustworthy and objective information.

We also make sure we provide information about areas where we have not performed as well as we would like to, providing insight into how we are planning to improve. Trust takes time to build so it is important to be open with our customers and stakeholders, and hold ourselves accountable where we do not meet commitments. We share this information so that comparable performance with our peers can be reviewed.

We publish additional information to ensure the Severn Trent Group structure and performance is transparent and clear for our customers. Our Company structure, which shows how the companies including Hafren Dyfrdwy, Severn Trent Water, and other associated companies are connected under the Severn Trent Group umbrella, can be found on the Severn Trent Plc website.

We demonstrate and explain how we are fair when balancing the short and long-term needs to manage our financial risk for Hafren Dyfrdwy, share returns with customers and consider long-term viability. We also provide information relating to executive salaries and bonuses and how they are aligned and linked to the delivery of outcomes to customers.



BOARD STATEMENTS

RISK AND COMPLIANCE STATEMENT

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

The Board confirms that:

- We have a full understanding of, and we meet all of our relevant statutory, licence and regulatory obligations in all material respects except where indicated on page 68.
- We have taken appropriate steps to understand and meet customer expectations.
- We have sufficient processes and internal systems of control to fully meet our obligations.
- We have appropriate systems and processes in place to identify, manage, mitigate and review our risks.
- We meet the Ofwat objectives on board leadership, transparency and governance and ensure that we explain clearly how we meet those objectives.
- We have reviewed our governance to ensure we conduct the regulated company as if it were a public limited company separate from any other business.
- COVID-19 impacts have been considered when making our declaration.

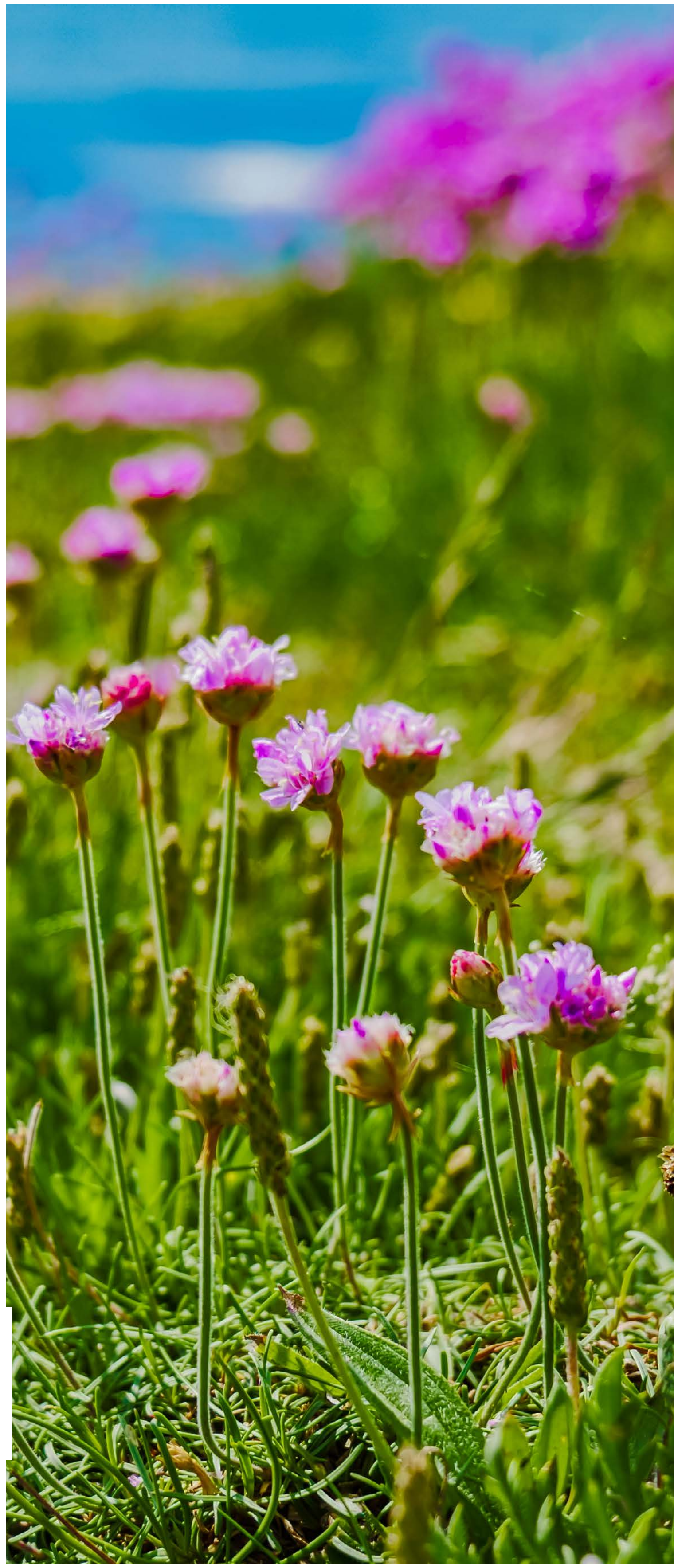
Signed for and on behalf of the Board:

James Jesic
Managing Director
Hafren Dyfrdwy Cyfyngedig

John Coghlan
Chair
Hafren Dyfrdwy Cyfyngedig

Ann Beynon
Independent Non-Executive Director
Hafren Dyfrdwy Cyfyngedig

14 July 2023



EXCEPTIONS FROM THE STATEMENT

There are five exceptions for inclusion in this year's Risk and Compliance Statement.

Four relate to areas where we will be re-stating data previously submitted – Leakage, Lead Pipes, Property Volumes and Bioresources sludge. Details are presented in the 'Improving Clarity and Transparency' section of our APR.

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

The remaining exception relates to Reservoir Remedial works, where we narrowly missed a completion due date.

Reservoir Act 1975	In March 2023, we completed five months of onsite work required to further improve the drawdown capability at Pendinas. We note we narrowly missed the completion due date by four days. The reservoir remained safe at all times given our comprehensive operational surveillance and engineering oversight.

Description of Duty/Obligation	Observations

OBSERVATIONS FROM THE STATEMENT

There is one area where we are stating an observation. Observations are not exceptions, however for completeness in accordance with our internal procedures we have chosen to include these to ensure the highest level of transparency.

Hafren Dyfrdwy Instrument of Appointment Licence Condition J	Licence Condition J – outlines obligations regarding setting, monitoring and reporting of service targets. Ofwat is consulting on changes to Licence Conditions. They have indicated that given the level of duplication with other provisions in the Licence, this condition is redundant. Thus, as the Licence Condition is under review, our current understanding is that we are not required to comply with it as currently drafted.

STATEMENT FROM NON-FINANCIAL ASSURER - JACOBS

Jacobs

Challenging today.
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7 July 2023

Attn: FAO Hafren Dyfrdwy Cyfyngedig Board

Project name: 2022-23 Assurance Services
Project no: B2349301

Subject: Independent Technical Assurance Statement

Jacobs has been appointed by Hafren Dyfrdwy (HDD) to provide independent technical assurance of the data that feeds into their regulatory submissions. For the Annual Performance Report 2023 (APR23) submission we were asked to review the 2022-23 performance commitments (Part 3) and non-financial data (within Parts 2-8 and 11) on a risk-based approach.

Through a series of meetings and information exchanges, we have reviewed and tested the methodologies and processes on which the relevant statements in the APR23 are based, and we have considered the material accuracy of the performance data presented. Our findings have been discussed with management and were presented to the ST Plc Disclosure Committee on 26 June 2023.

On the basis of our audit work, we are satisfied that the information we reviewed which supports, and is included within, the APR23 has been assembled using appropriate methodologies and processes and that the data provides a reliable representation of Company performance. There is good evidence of engagement from the teams involved in producing the performance data, and of governance and programme management.

Performance commitment (PC) reporting is in line with the guidance and exclusions have been correctly applied. For supply interruptions (B1) the Company have revised their interpretation of the guidelines this year and for leakage (B2) and per capita consumption (B3) they have revised their methodology. We consider that the revisions are reasonable but also that they represent elevated reporting risk for the affected elements of the reporting processes (for B1 the impact is a 36 second improvement in performance and for B2 the impact is a 2.7% improvement for the in-year performance figure). We have recommended that the Company clearly set out the rationale and implications of the proposed changes in the APR.

For leakage (B2) and per capita consumption (B3) we note you have restated the baseline and prior years' performance to improve compliance with the consistency methodology but that there remain three leakage components and one per capita consumption component of the consistency methodology which are non-compliant. You have a programme of ongoing work to move towards full compliance and you will set this out in the APR.

We have completed assurance for all of the Company's performance commitments.

We note that the Board intends to include issues we noted during our review as clarifications or exceptions in the APR.

Yours sincerely,

Alexandra Martin
Director of Operations

+44(0) 121 237 4000
alexandra.martin@jacobs.com

ACCURACY AND COMPLETENESS OF DATA AND INFORMATION STATEMENT

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

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

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

BOARD ASSURANCE APPROACH

Robust Assurance:

We operate an established and robust three lines of assurance model, which is explained in greater detail in our APR assurance approach section from page 142, our **Regulatory Reporting and Assurance document** and our **Annual Report and Accounts.** Using a risk-based approach we provide an effective programme of assurance which ensures we can continually reassess our assurance activity as risk changes or new risks emerge. Data and information are approved by data owners, senior managers and Directors. Following which, the Audit and Risk Committee applies scrutiny and challenge ahead of publication.

Effective Governance:

Hafren Dyfrdwy is an operating subsidiary of the FTSE100 listed company Severn Trent Plc, which means we operate at the highest standards expected of a publicly listed company. The Board is supported by the Severn Trent Plc Governance Framework, which comprises the Board, Executive Committee and their respective Committees. In line with the 2018 Code, the Board delegates certain roles and responsibilities to its various Committees.

The Committees assist the Board by fulfilling their roles and responsibilities and by: focusing on their specific activities; reporting to the Board on decisions and actions taken; and making any necessary recommendations to the Board in line with their respective Terms of Reference. The Governance Framework is also subject to periodic review to ensure that it remains appropriate. The Governance Framework is explained in greater detail on pages 61 to 62 of the Hafren Dyfrdwy Annual Report and Accounts 2022/23 and page 26 of the APR.

Specific examples where the Board has asked individual Directors and Committees to carry out activities are listed below. More information on the work of the Board Committees can be found on pages 71 to 84 of the Hafren Dyfrdwy Annual Report and Accounts 2022/23.

Hafren Dyfrdwy Cyfyngedig Audit and Risk Committee	Reviewed the proposed audit plan for the 2022/23 statutory audit, including the key audit risks and level of materiality applied by Deloitte, audit reports from Deloitte on the financial statements and the areas of particular focus for the 2021/22 audit. Reviewed and approved the Internal Audit plan and approach for 2023/24. Reviewed the integrity of the regulatory reporting process relating to the APR and other regulatory submissions. Reviewed the Hafren Dyfrdwy Annual Report and Accounts 2022/23 and provided a recommendation to the Board that, as a whole, they complied with the 2018 Code principle to be 'fair, balanced and understandable and provide the information necessary for stakeholders to assess the Company's position, performance, business model and strategy'. Reviewed the effectiveness of the Enterprise Risk Management ('ERM') processes and procedures and internal control systems, prior to making a recommendation to the Board. The Committee also reviewed the risk appetite statement prior to making a recommendation to the Board.
Severn Trent Plc Treasury Committee	Execution of the Group's financing plan and evaluation of funding opportunities, in consideration of the external operating environment, including entering new financial markets. Review of the Group's treasury policies in relation to: financing; liquidity; hedging of market risks (interest rates; inflation; and energy hedging); financial counterparty credit risk and credit ratings.
Severn Trent Plc Corporate Sustainability Committee	Oversaw the approach of environmental standards, particularly those where the Group has the most significant impacts, for example, energy management and climate change, water quality, resource productivity (including leakage and waste), and biodiversity and land use.

OUR BOARD ENGAGES AND CHALLENGES THE ASSURANCE APPROACH TAKEN

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

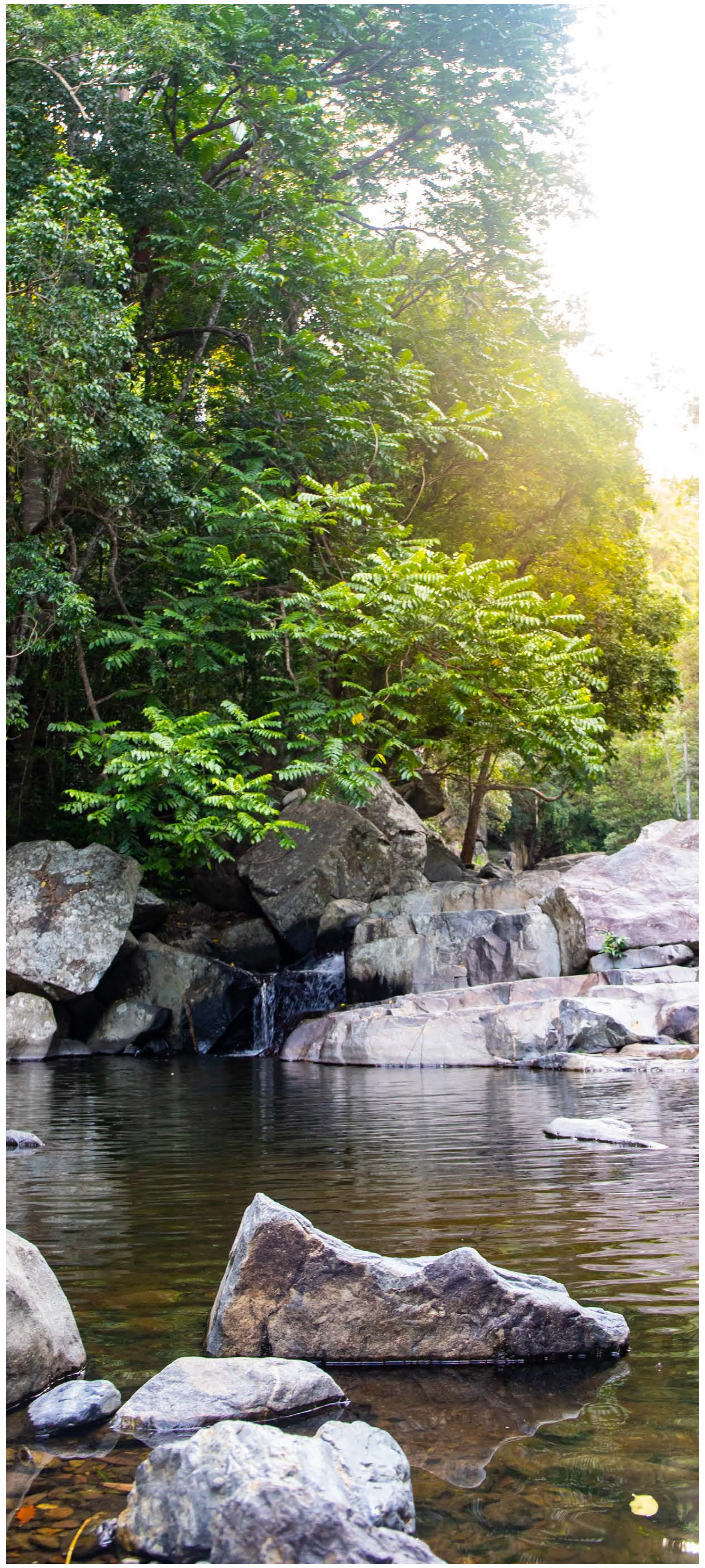
The Board received a tailored presentation of the AMP7 assurance map in June 2022 and the Board is provided with an update at least annually.

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

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

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

As an example, during 2022/23, we submitted a Board Statement to accompany the Drainage and Wastewater Management Plan ('DWMP'). This submission was owned at an individual Director level, with the Executive Committee, Audit and Risk Committee and Board all being engaged throughout the process. This enabled testing and challenge of progress, including risks, mitigations, the assurance approach and the Board statements themselves, including the proof point process.



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

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

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

CONSIDERATIONS OF THE BOARD

The Board considers that the Company has applied the governance and assurance frameworks described both in this APR, the Hafren Dyfrdwy Annual Report and Accounts 2022/23 and the Regulatory Reporting and Assurance Approach. Following reasonable and relevant enquiries, it is believed the processes and internal controls have been applied in a manner which has enabled it to satisfy itself, to the extent that it is able to do so from the information available, that the data and information provided to Ofwat in the reporting year and information published in our role as a water and waste water undertaker is accurate and complete, except where indicated on page 68.

Signed for and on behalf of the Board.

James Jesic
Managing Director
Hafren Dyfrdwy Cyfyngedig

John Coghlan
Chair
Hafren Dyfrdwy Cyfyngedig

Ann Beynon
Independent Non-Executive Director
Hafren Dyfrdwy Cyfyngedig

14 July 2023

REGULATORY STATEMENTS

The following section contains the statements required by the terms of our Licence Conditions and the statutory requirements set out in the Water Industry Act 1991, and where required is endorsed and signed by the Board. See also our Board's Risk and Compliance Statement on page 67.

1.

DISCLOSURES REQUIRED BY RAG 3

a. Link between Directors' pay and standards of performance

Our Remuneration Policy is aligned to our Purpose, strategy and vision thereby incentivising great customer services and the creation of long-term value for all our stakeholders.

We operate a unified remuneration scheme at the Severn Trent Group level across the two regulated businesses (Hafren Dyfrdwy and Severn Trent Water).

The Severn Trent Plc Annual Report and Accounts 2022/23 provides detailed disclosures of our Remuneration Policy, approved at the Severn Trent Plc Annual General Meeting on 8 July 2021, and how this has been applied in the year.

The Policy is summarised as follows:

i) Non-Executive Directors

The Chair and Non-Executive Directors do not participate in the Company's incentive arrangements (i.e. annual bonus or share schemes) and were paid no remuneration other than their respective Directors' fees. Details can be found in the Hafren Dyfrdwy Annual Report and Accounts 2022/23.

ii) Executive Directors

Hafren Dyfrdwy has Executive Directors who have responsibilities for both regulated entities owned by Severn Trent Plc. At a Group level, the Executive Directors receive remuneration through the Annual Bonus Scheme ('ABS') and Long-Term Incentive Plan ('LTIP').

Their remuneration is linked to the achievement of performance measures. A recharge is made to Hafren Dyfrdwy in respect of duties carried out by the Executive Directors on behalf of the Company, based on a proportion of time spent.

Through the ABS and LTIP, Executive Directors receive remuneration linked to the achievement of performance measures. The 2022/23 bonus was based upon four main components:

- Group PBIT;
- Customer, Asset Health and Environmental ODIs;
- Health and Safety and
- River Health.

Specifically for the Executive Directors of Hafren Dyfrdwy, 3% of their bonus targets are based on Hafren Dyfrdwy performance; and for Executive Directors of Hafren Dyfrdwy who also sit on the Executive Committee of Severn Trent Plc, half of the annual bonus is delivered as cash and the balance is deferred into shares of Severn Trent Plc for a further three years.

The LTIP outcomes are measured over a three-year period, and are based on two performance measures:

- 80% of the award is based on Return on Regulatory Equity ('RoRE') with a stretch target based on upper quartile performance; and
- 20% of the award is based on our progress towards net zero carbon emissions by 2030.

In determining the outcome of the incentive schemes, standards of performance are assessed by the Severn Trent Plc Remuneration Committee to ascertain whether targets have been achieved. In addition, the Committee assesses performance in the round, incorporating a variety of stakeholder perspectives.

b. Disclosure of information to auditor

The Companies Act 2006 requires Directors to make a statement in the Company's Annual Report and Accounts regarding the provision of information to the Auditor. RAG 3 requires an equivalent statement to also be made in the APR. This statement is set out below.

So far as each of the Directors are 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 in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

c. Governance policy

As a subsidiary of a FTSE100 listed Company, Hafren Dyfrdwy has chosen to apply the principles of the 2018 UK Corporate Governance Code (the '2018 Code') to its governance arrangements where appropriate and reasonably practicable. These are the same principles that apply to listed companies. Details of how the Company has applied the Code during the year are set out in the Hafren Dyfrdwy Annual Report and Accounts 2022/23.

d. Our AMP7 dividend policy

The Company's policy is based on our understanding that in order to deliver successful outcomes, all parties must share in success. This means customers benefiting from lower bills and better services.

We've long considered the factors identified by Ofwat in its PR19 methodology when setting our dividend. For example, we share outperformance through lower bills and additional investment, reward employees and share the benefits with investors. We've been able to do this while maintaining our gearing and delivering strong financial resilience.

We have adopted four core principles that guide how we make decisions about dividends:

1. Dividends will be fair and balanced – customers should be able to see and understand how our dividend policy supports them – through both the sharing of outperformance and greater transparency. The community will benefit through greater focus on improving outcomes for vulnerable customers, the environment and social amenities. Investors should earn a reasonable return on their equity contribution so that we can continue to make improvements to our services, consistent with the 4% base return identified by Ofwat.
2. Dividends will be transparent – our APR will explain how our dividend is consistent with our commitments.
3. Dividends should promote continued outperformance – it is in all parties' interests that we continue to outperform so we reduce bills and improve service levels. Our dividend policy will benefit customers, employees will feel rewarded and importantly investors will continue to challenge us to deliver the best long-term result for customers in Wales.
4. Dividends will support appropriate gearing – for example, if we geared to a high level (70%) – although we have no plans to do so - we would share financing benefits from this structure with customers.

Our Board will consider paying dividends following our full year results. In considering the dividend the Board has regard to:

- Our dividend principles (see above);
- Performance across our obligations and customer ODIs; and
- Results of our financial viability assessment, which takes into account scenarios such as increasing investment to manage large incidents.

No dividend was paid in the current year or prior two years, and the Directors do not recommend a dividend in respect of the year ended 31 March 2023.

The Company's strategy for AMP7 is to grow its RCV while maintaining a sustainable funding structure with gearing close to the Ofwat notional Company. To this end, the Directors have no current intention of paying a dividend during AMP7.

e. Long-term viability statement

The Directors' full assessment of financial viability can be found in the Hafren Dyfrdwy Annual Report and Accounts 2022/23 on pages 21-27.

The Directors have assessed the viability of the Company over a seven-year period to March 2030, taking into account the Company's current position and Principal Risks. Based on that assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2030.

f. Statement of Directors' responsibilities

The Directors are responsible for the preparation of the APR and for its fair presentation in accordance with the basis of preparation and accounting policies.

Further to the requirements of Company law, the Directors are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by the Water Services Regulation Authority. This additionally requires the Directors to:

i) Confirm that, in their opinion, the Company has sufficient financial and management resources for the next 12 months;

ii) Confirm that, in their opinion, the Company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the Company;

iii) Report to the Water Services Regulation Authority changes in the Company's activities which may be material in relation to the Company's ability to finance its regulated activities;

iv) Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length; and

v) Keep proper accounting records which comply with Condition F and the Regulatory Accounting Guidelines.

g. Tax strategy for the appointed business

We are committed to managing our tax affairs in a responsible manner. This means paying the right amount of tax at the right time in compliance with UK tax rules and acting in accordance with the values set out in our corporate responsibility framework.

References to 'tax' include taxes that we incur (corporation tax, business rates, employer's NIC, VAT and various environmental taxes) as well as taxes that we administer and collect on HMRC's behalf (PAYE and employee's NIC).

i) Our approach to tax

Our approach to tax is overseen by the Severn Trent Plc Board and is governed by the following key principles:

- We will manage our tax affairs responsibly, recognising the interests of all of our stakeholders;
- We will not undertake aggressive tax planning or any planning that is not aligned with the economic and commercial activities of our business;
- We will make use of widely claimed incentives offered by Government to encourage investment; and
- We will maintain an open, transparent and collaborative relationship with HMRC consistent with maintaining our good working relationship.

The effective management of our tax affairs is in the best interests of customers as it helps to keep our bills as low as possible. This is particularly true for our regulated business where the taxes we pay are included in the calculation of customers' bills.

ii) Tax governance

Responsibility for tax governance sits with the Chief Financial Officer, with oversight from the Board and Audit and Risk Committee and day-to-day support from a team of qualified in-house tax professionals within the Group.

In accordance with Group risk management procedures, tax risks are recorded and monitored throughout the year. If a material uncertainty is identified, external advice may be sought to ensure that our interpretation of the relevant UK tax rules is appropriate. We may also seek to resolve an uncertain tax position directly with HMRC before a tax return is filed, in accordance with HMRC's framework for co-operative compliance.

Any significant tax risk is reported to, and overseen by the Severn Trent Plc Audit and Risk Committee, which also receives tax status updates as part of the interim and year-end financial reporting programmes.

iii) Relationship with HMRC

In maintaining a good working relationship with HMRC, we seek to ensure that HMRC is kept up to date with business developments, including any commercial transactions with potentially significant tax implications.

Where queries or misunderstandings arise, these are managed on the basis of full disclosure and we will seek to work with HMRC to bring any items to resolution.

iv) Tax transparency

We are supportive of measures aimed at enhancing tax transparency and are committed to providing regular information on our tax affairs in a clear and straightforward way that enhances our stakeholders' understanding and provides confidence that we are paying our fair share of tax.

v) Non-UK operations

All of the Group's companies and its subsidiaries' revenues and profits are generated in the UK and are subject to UK tax.

vi) Scope

This Tax Strategy covers the year ended 31 March 2023 and applies to Severn Trent Plc and its UK subsidiary undertakings. It is published in compliance with the requirement at Paragraph 16(2) of Schedule 19 of Finance Act 2016 for large businesses to publish their tax strategy.

2.

RING FENCING CERTIFICATE
(CONDITIONS K AND P)

Licence conditions K (disposals of land) and P (ring fencing) require the Company, at all times, to ensure that if a special administrator were appointed to manage the regulated activities, that administrator would have sufficient control over the regulated business and assets to be able to do so. In addition to the statement set out above under licence condition F and the Regulatory Accounting Guidelines, the Company is required to confirm that it is in compliance with these conditions and make suitable sufficiency statements to that effect. This statement is set out here.

The Ring Fencing Certificate, in respect of financial resources and facilities, is subject to third party assurance, in the form of agreed upon procedures, which has been provided by Deloitte.

In accordance with the requirements of the Water Services Regulation Authority, our Board confirmed on 10 July 2023 that, as at 31 March 2023:

i) In the opinion of the Directors, the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activity (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment);

ii) In the opinion of the Directors, the Appointee will for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions; and

iii) In the opinion of the Directors, the Appointee will for at least the next 12 months, have available to it rights and resources other than financial resources, which are sufficient to enable it to carry out those functions.

In reaching this conclusion, the Board has considered:

- Financial resources and facilities;
- Management resources;
- Systems of planning and internal control;
- Rights and resources other than financial resources; and
- Contracting.

The Company is dependent on its contracts with Severn Trent Water to carry out its Regulated Activities. These contracts include the necessary provisions and requirements in respect of the standard of service to be supplied to the Company to ensure that the Company is able to carry out the Regulated Activities.

The Company also has a Corporate Services Agreement with Severn Trent Water. Under this agreement Severn Trent Water agrees to provide corporate services including HR, Finance, IT and Legal services to the Company.

The Board has considered the Company's prospects and the potential impacts of the Principal Risks and uncertainties that would impact the above factors. Details of matters considered and the conclusions reached are set out in the Viability Statement in the Hafren Dyfrdwy Annual Report and Accounts 2022/23.

Management provides the Board with evidence that each of the factors set out above have been addressed in assessing whether the Company has sufficient resources to enable it to carry out its Regulated Activities for the next 12 months. The Board, through its Audit and Risk Committee, scrutinises and challenges the evidence provided to ensure itself that the process is robust. The Board is satisfied that in the current year a robust process has been followed. Further information relating to our internal controls is detailed in our Board governance and compliance section and our assurance summary.

James Jesic
Managing Director
Hafren Dyfrdwy Cyfyngedig

John Coghlan
Chair
Hafren Dyfrdwy Cyfyngedig

Ann Beynon
Independent Non-Executive Director
Hafren Dyfrdwy Cyfyngedig

For and on behalf of the Board
14 July 2023

In providing these confirmations, the Directors have considered various factors as part of their assessment prior to signing this certificate, including but not limited to:

Financial resource and facilities	• The Appointee's performance expectations against Final Determinations 2020 - 2025, underpinned by historical track record.
	• The Appointee's available cash resources and borrowing facilities.
	• The Appointee's long-term viability statement of seven years included within the Hafren Dyfrdwy Annual Report and Accounts 2022/23.
	• Investment requirements to deliver stretching performance commitments in AMP7.
	• The Appointee's compliance with financial covenants.
	• The Appointee's financial position and net cash flow position as at 31 March 2023 as represented by the statutory and regulatory accounts.
Management resources	• The collective experience of the Directors and the diverse skills and experience they possess enables the Board to reach decisions in a focused and balanced way, supported by independent thought and constructive debate, crucial to ensuring the continued long-term success of the Company.
	• Any new appointments to the Board 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 for the Board). The Board considers succession to ensure that the Board has the right mix of skills and experience, as well as the capability to provide effective challenge and promote diversity.
	• Executive and Non-Executive Directors 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. Our Company Secretary also provides regular updates to the Board and its Committees on regulatory and corporate governance matters.
	• The independence of our Non-Executive Directors is formally reviewed annually by the Nominations Committee, and as part of the Board Effectiveness evaluation. The Nominations Committee and Board consider 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.
	• The Appointee operates 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 CEO, CFO and the Company Secretary, along with other members of the Executive Committee. New Non-Executive Directors also meet members of the operational teams and visit our key sites and capital projects to ensure they gain a detailed understanding of the water and waste water businesses and have a chance to experience our unique culture in person. 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.
	• The tone at the top and culture within the Appointee is reinforced through the Appointee's Code of Conduct – Doing the Right Thing.
	• The employee engagement survey, QUEST, assists the Directors' understanding of what is going well and where improvements can be made across the Company.
	• Management and the Board ensure that appropriate and effective succession planning arrangements are in place, supported by the Board Diversity Policy.
	• The Appointee's recruitment, reward and recognition strategy to attract high calibre candidates and retain employees with appropriate experience and knowledge.

Systems of planning and internal control	• The Appointee's risk-based approach to assurance, including internal and external audits as well as Jacobs' assurance review of non-financial operational performance processes and data.
	• The Appointee's Audit and Risk Committee, which provides oversight over the integrity of the Appointee's financial data, risk management and assessment of the effectiveness of the system of internal controls.
	• The Appointee's Enterprise Risk Management process.
	• The Appointee's performance in regards to its Performance Commitments identified in the additional regulatory information section from page 121.
	• The Appointee's business continuity plans.
	• The Appointee's policies to prevent, detect and resolve unethical behaviour through implementation of its Whistleblowing Policy, 'Speak up', Group Financial Crime and Anti-Bribery and Anti-Corruption Policy, Security Policy and Environment Policy.
Rights and resources other than financial resources	• The Appointee's Purpose, Values and culture is embedded through annual e-learning and supported through policies.
	• The Appointee's ambition to be a socially purposeful company, giving back to communities, and providing opportunities for people to learn, retrain and develop is enhanced through the Severn Trent Academy at Hawksley Park.
	• Asset Maintenance policies and systems to monitor asset health.
	• Overall Equipment Effectiveness approach – delivering tangible benefits through: reducing planned work volumes and associated time to complete the tasks; reducing cost; and improving asset performance.
	• The Appointee's policies to mitigate the risk of modern slavery and human trafficking.
Contracting	• Except as noted above, there are no contracts that the Company is dependent on in order to carry out its Regulated Activity.
Material issues or circumstances	• We closely monitor emerging risks that may, with time, become significant risks or cease to be relevant as the internal and external environment in which we operate evolves.
	• One of the risks relates to supply chain disruption caused by the ongoing conflict in Ukraine resulting in critical supply chain shortages and resource security pressures. We are continually monitoring this risk and our dependency on supply chains, including foreign suppliers, which could be impacted by ongoing global matters.
	• Energy infrastructure stability: We are reliant on the stability of the energy grid and are susceptible to power disruptions, brownouts, partial outages, blackouts, and complete shutdown of electricity due to problems with the local, or national, energy grid. We are focused on delivering our longer-term energy strategy.

OUR APPROACH TO OPEN DATA

Our Open Data vision is to make data available and accessible publicly to provide visibility and confidence in the value being delivered to consumers, wider stakeholders and society. We believe an open data philosophy will foster a spirit of transparency, innovation and efficiency to drive the sector forward.

The key activities for us to deliver this are:

1. Enhance the Information Lifecycle Management ('ILM') framework to establish the roles and responsibilities required for the governance, assurance, and provision of all data.
2. Establish an Open Data framework for data sharing based on assured Open Standards.
3. Define and prioritise the Open Data use cases and identify data to share publicly using our Driver Tree methodology.
4. Implement Overall Information Effectiveness ('OIE') principles to identify data quality concerns and necessary improvement activities.
5. Enhance our Azure platform, tools and processes for the hosting and sharing of Open Data.
6. Actively support and align our approach with the Stream industry-wide initiative.

As one of the 11 Stream member companies, we also intend to work together as part of this initiative to progress the publication of supporting datasets associated with the APR tables. This will ensure we focus on facilitating data users to more easily join up data from individual companies to maximise the potential benefits of publication. Stream's Use Case and Market Needs advisory group will consider the APR performance tables (and their supporting datasets) as part of their assessment to create a prioritised pipeline of datasets to publish.

All excel data tables for AMP7 to date, Years 1 to 3, are available on our website for viewing and downloading in our Regulatory Library.

REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2023

INDEPENDENT AUDITOR'S REPORT TO THE WATER SERVICES REGULATION AUTHORITY (THE WSRA) AND THE DIRECTORS OF HAFREN DYFRDWY CYFYNGEDIG

OPINION

We have audited the sections of Hafren Dyfrdwy Cyfyngedig's (the "Company") Annual Performance Report for the year ended 31 March 2023 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), lines 1F.1 to 1F.3, 1F.5 to 1F.8, 1F.12 to 1F.14, 1F.21 to 1F.22 and 1F.24 to 1F.26 of the statement of financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis (wholesale) (table 2B), the cost analysis (retail) (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions (table 2E), the residential retail (table 2F), the non-household water revenues by tariff type (table 2G), the non-household wastewater revenues by tariff type (table 2H), the revenue analysis (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation (wholesale) (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited lines 1F.4, 1F.9 to 1F.11, 1F.15 to 1F.20 and 1F.23 of the statement of financial flows (table 1F), the Outcome performance table (tables 3A to 3I) or the additional regulatory information in tables 4A to 4W, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10E and 11A.

In our opinion, Hafren Dyfrdwy Cyfyngedig's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.09, RAG 3.14, RAG 4.11 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.14, appendix 2), set out on pages 103 to 105.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounting Statements below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF (Revised) 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our 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.

EMPHASIS OF MATTER – SPECIAL PURPOSE BASIS OF PREPARATION

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.14, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 90 to 120 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

CONCLUSIONS RELATING TO GOING CONCERN

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

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

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

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

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

OTHER INFORMATION

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

RESPONSIBILITIES OF THE DIRECTORS FOR THE ANNUAL PERFORMANCE REPORT

As explained more fully in the Statement of Directors' Responsibilities set out on pages 76 and 77, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.14, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, 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.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE REGULATORY ACCOUNTING STATEMENTS WITHIN THE ANNUAL PERFORMANCE REPORT

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the Regulatory Accounting Statements.

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.

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of its policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about its own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the Company operates in, and identified the key laws and regulations that:

- Had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included Regulatory Accounting Guidelines as issued by the WRSA, UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the Regulatory Accounting Statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the Company's operating licence, regulatory solvency requirements and environmental regulations.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- reading minutes of meetings of those charged with governance, the Audit and Risk Committee, reviewing internal audit reports and reviewing correspondence with HMRC and WSRA.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF THIS REPORT

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2023 on which we reported on 13 July 2023, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
London, United Kingdom
14 July 2023

1A - INCOME STATEMENT

Year ended 31 March 2023

	Line description	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
		£m	£m	£m	**£m**	**£m**
A	**Costs**					
1A.1	Revenue	38.655	-0.975	-2.624	-3.599	35.056
1A.2	Operating costs	-45.743	0.883	1.624	2.507	-43.236
1A.3	Other operating income	0.000	0.000	0.000	0.000	0.000
1A.4	Operating profit	-7.088	-0.092	-1.000	-1.092	-8.180
1A.5	Other income	0.000	0.220	-0.018	0.202	0.202
1A.6	Interest income	1.802	-1.800	0.000	-1.800	0.002
1A.7	Interest expense	-1.378	-0.959	0.000	-0.959	-2.338
1A.8	Other interest expense	0.000	0.500	0.000	0.500	0.500
1A.9	Profit before tax and fair value movements	-6.665	-2.131	-1.018	-3.149	-9.814
1A.10	Fair value gains/(losses) on financial instruments	0.000	0.000	0.000	0.000	0.000
1A.11	Profit before tax	-6.665	-2.131	-1.018	-3.149	-9.814
1A.12	UK Corporation tax	2.553	0.000	0.193	0.193	2.746
1A.13	Deferred tax	-2.235	0.533	0.000	0.533	-1.702
1A.14	Profit for the year	-6.346	-1.598	-0.825	-2.423	-8.770
1A.15	Dividends	0.000	0.000	0.000	0.000	0.000
B	Tax analysis					
1A.16	Current year	-2.669	0.000	-0.193	-0.193	-2.862
1A.17	Adjustment in respect of prior years	0.116	0.000	0.000	0.000	0.116
1A.18	UK Corporation tax	-2.553	0.000	-0.193	-0.193	-2.746
C	Analysis of non-appointed revenue					
1A.19	Imported sludge	–	–	0.000	–	–
1A.20	Tankered waste	–	–	0.000	–	–
1A.21	Other non-appointed revenue	–	–	2.624	–	–
1A.22	Revenue	–	–	2.624	–	–

The differences between statutory and RAG definitions are outlined in the following table:

	Adjustments: Capitalised interest	Adjustments: Depreciation on capitalised interest	Reclassifications: External electricity sales	Reclassifications: External electricity sales	Reclassifications: Repair of damages recharges - Waste	Reclassifications: IR Income	Reclassifications: Non operating income and deferred credits	Reclassifications: Non operating income and deferred credits	Reclassifications: Pension interest	**Total differences**
	£m		£m			£m	£m	£m	£m	**£m**
Revenue	–	–	(0.820)	0.013	0.028	(0.032)	–	(0.163)	–	**(0.975)**
Operating costs	–	0.128	0.820	(0.013)	(0.028)	0.032	(0.057)	–	–	**0.883**
Other operating income	–	–	–	–	–	–	–	–	–	**–**
Operating profit	–	0.128	–	–	–	0.000	(0.057)	(0.163)	–	**(0.092)**
Other income	–	–	–	–	–	–	0.057	0.163	–	**0.220**
Interest income	–	–	–	–	–	–	–	–	(1.800)	**(1.800)**
Interest expense	(2.259)	–	–	–	–	–	–	–	1.300	**(0.959)**
Other interest expense	–	–	–	–	–	–	–	–	0.500	**0.500**
Profit before tax and fair value movements	(2.259)	0.128	–	–	–	0.000	–	–	–	**(2.131)**
Fair value losses on financial instruments	–	–	–	–	–	–	–	–	–	**–**
Profit before tax	(2.259)	0.128	–	–	–	0.000	–	–	–	**(2.131)**
UK corporation tax	–	–	–	–	–	–	–	–	–	**–**
Deferred tax	0.533	–	–	–	–	–	–	–	–	**0.533**
Profit for the year	**(1.726)**	**0.128**	–	–	–	0.000	–	–	–	**(1.598)**

1B - STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2023

	Line description	Statutory	Adjustments			Total appointed activities
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
		£m	£m	£m	**£m**	**£m**
1B.1	Profit for the year	-6.346	-1.598	-0.825	-2.423	-8.770
1B.2	Actuarial gains/(losses) on post employment plans	-9.075	0.000	0.000	0.000	-9.075
1B.3	Other comprehensive income	0.000	0.000	0.000	0.000	0.000
1B.4	Total Comprehensive income for the year	-15.421	-1.598	-0.825	-2.423	-17.845

There are no differences between statutory and RAG definitions other than those set out in Table 1A.

1C - STATEMENT OF FINANCIAL POSITION

Year ended 31 March 2023

	Line description	Statutory	Adjustments			Total appointed activities
				Non-appointed	Total adjustments	
		£m	£m	£m	**£m**	**£m**
A	Non-current assets					
1C.1	Fixed assets	226.603	-9.174	0.000	-9.174	217.429
1C.2	Intangible assets	5.110	0.000	0.000	0.000	5.110
1C.3	Investments - loans to group companies	0.000	0.000	0.000	0.000	0.000
1C.4	Investments - other	0.000	0.000	0.000	0.000	0.000
1C.5	Financial instruments	0.000	0.000	0.000	0.000	0.000
1C.6	Retirement benefit assets	5.700	0.000	0.000	0.000	5.700
1C.7	**Total non-current assets**	237.413	-9.174	0.000	-9.174	228.239
B	Current assets					
1C.8	Inventories	0.965	0.000	0.000	0.000	0.965
1C.9	Trade & other receivables	35.786	0.000	-2.932	-2.932	32.854
1C.10	Financial instruments	0.000	0.000	0.000	0.000	0.000
1C.11	Cash & cash equivalents	0.000	0.000	0.000	0.000	0.000
1C.12	**Total current assets**	**36.751**	**0.000**	**-2.932**	**-2.932**	**33.819**
C	Current liabilities					
1C.13	Trade & other payables	-23.181	0.541	-0.341	0.200	-22.981
1C.14	Capex creditor	0.000	-0.378	0.000	-0.378	-0.378
1C.15	Borrowings	-0.346	0.000	0.000	0.000	-0.346
1C.16	Financial instruments	0.000	0.000	0.000	0.000	0.000
1C.17	Current tax liabilities	4.324	0.000	0.000	0.000	4.324
1C.18	Provisions	-1.464	0.000	0.000	0.000	-1.464
1C.19	**Total current liabilities**	**-20.667**	**0.163**	**-0.341**	**-0.178**	**-20.846**
1C.20	**Net Current assets (liabilities)**	**16.083**	**0.163**	**-3.273**	**-3.110**	**12.973**
D	Non-current liabilities					
1C.21	Trade & other payables	-14.739	14.739	0.000	14.739	0.000
1C.22	Borrowings	-63.848	0.000	0.000	0.000	-63.848
1C.23	Financial instruments	0.000	0.000	0.000	0.000	0.000
1C.24	Retirement benefit obligations	0.000	0.000	0.000	0.000	0.000
1C.25	Provisions	-1.824	0.000	0.000	0.000	-1.824
1C.26	Deferred income – grants & contributions	0.000	-14.902	0.000	-14.902	-14.902
1C.27	Deferred income - adopted assets	0.000	0.000	0.000	0.000	0.000
1C.28	Preference share capital	0.000	0.000	0.000	0.000	**0.000**
1C.29	Deferred tax	-23.490	2.294	0.000	2.294	**-21.197**
1C.30	**Total non-current liabilities**	**-103.901**	**2.131**	**0.000**	**2.131**	**-101.770**
1C.31	**Net assets**	**149.596**	**-6.881**	**-3.273**	**-10.154**	**139.442**
E	Equity					
1C.32	Called up share capital	168.051	0.000	0.000	0.000	168.051
1C.33	Retained earnings & other reserves	-18.455	-6.881	-3.273	-10.154	-28.609
1C.34	**Total Equity**	**149.596**	**-6.881**	**-3.273**	**-10.154**	**139.442**

The differences between statutory and RAG definitions are outlined in the following table:

	Adjustments	Reclassifications		
	Capitalisation of interest	Capital creditor reclassification	Deferred income reclassification	**Total differences**
	£m	£m	£m	**£m**
Non-current assets				
Fixed assets	(9.174)	–	–	**(9.174)**
Intangible assets	–	–	–	**–**
Investments - loans to group companies	–	–	–	**–**
Investments - other	–	–	–	**–**
Financial instruments	–	–	–	**–**
Retirement benefit assets	–	–	–	**–**
Total non-current assets	**(9.174)**	**–**	**–**	**(9.174)**
Current assets				
Inventories	–	–	–	**–**
Trade and other receivables	–	–	–	**–**
Financial instruments	–	–	–	**–**
Cash and cash equivalents	–	–	–	**–**
Total current assets	**–**	**–**	**–**	**–**
Current liabilities				
Trade and other payables	–	0.378	0.163	**0.541**
Capex creditor	–	(0.378)	–	**(0.378)**
Borrowings	–	–	–	**–**
Financial instruments	–	–	–	**–**
Current tax liabilities	–	–	–	**–**
Provisions	–	–	–	**–**
Total current liabilities	**–**	**–**	**0.163**	**0.163**
Net current assets / (liabilities)	**–**	**–**	**0.163**	**0.163**
Non-current liabilities				
Trade and other payables	–	–	14.739	**14.739**
Borrowings	–	–	–	**–**
Financial instruments	–	–	–	**–**
Retirement benefit obligations	–	–	–	**–**
Provisions	–	–	–	**–**
Deferred income - grants and contributions	–	–	(14.902)	**(14.902)**
Deferred income - adopted assets	–	–	–	**–**
Preference share capital	–	–	–	**–**
Deferred tax	2.294	–	–	**2.294**
Total non-current liabilities	**2.294**	**–**	**(0.163)**	**2.131**
Net assets	**(6.881)**	**–**	**(0.000)**	**(6.881)**
Equity				
Called up share capital	–	–	–	**–**
Retained earnings and other reserves	(6.881)	–	–	**(6.881)**
Total equity	**(6.881)**	**–**	**–**	**(6.881)**

1D - STATEMENT OF CASHFLOWS

Year ended 31 March 2023

			Adjustments			
	Line description	Statutory	Differences between statutory and RAG definitions	Non-appointed	**Total adjustments**	**Total appointed activities**
		£m	£m	£m	**£m**	**£m**
A	Operating activities					
1D.1	Operating profit	-7.088	-0.092	-1.000	-1.092	-8.180
1D.2	Other income	0.000	0.220	0.000	0.220	0.220
1D.3	Depreciation	8.249	-0.128	0.000	-0.128	8.121
1D.4	Amortisation – Grants & contributions	-0.163	0.000	0.000	0.000	-0.163
1D.5	Changes in working capital	-23.565	0.000	-0.825	-0.825	-24.390
1D.6	Pension contributions	0.000	0.000	0.000	0.000	0.000
1D.7	Movement in provisions	1.468	0.000	0.000	0.000	1.468
1D.8	Profit on sale of fixed assets	0.000	0.000	0.000	0.000	0.000
1D.9	**Cash generated from operations**	**-21.099**	**0.000**	**-1.825**	**-1.825**	**-22.923**
1D.10	Net interest paid	-1.555	0.000	0.000	0.000	-1.555
1D.11	Tax paid	-3.558	0.000	0.000	0.000	-3.558
1D.12	**Net cash generated from operating activities**	**-26.212**	**0.000**	**-1.825**	**-1.825**	**-28.036**
B	Investing activities					
1D.13	Capital expenditure	-16.627	0.000	0.000	0.000	-16.627
1D.14	Grants & Contributions	0.722	0.000	0.000	0.000	0.722
1D.15	Disposal of fixed assets	0.000	0.000	0.000	0.000	0.000
1D.16	Other	0.000	0.000	0.000	0.000	0.000
1D.17	**Net cash used in investing activities**	**-15.905**	**0.000**	**0.000**	**0.000**	**-15.905**
1D.18	**Net cash generated before financing activities**	**-42.117**	**0.000**	**-1.825**	**-1.825**	**-43.942**
C	Cashflows from financing activities					
1D.19	Equity dividends paid	0.000	0.000	0.000	0.000	0.000
1D.20	Net loans received	26.425	0.000	0.000	0.000	26.425
1D.21	Cash inflow from equity financing	15.000	0.000	0.000	0.000	15.000
1D.22	**Net cash generated from financing activities**	**41.425**	**0.000**	**0.000**	**0.000**	**41.425**
1D.23	**Increase (decrease) in net cash**	**-0.692**	**0.000**	**-1.825**	**-1.825**	**-2.517**

The differences between statutory and RAG definitions are outlined in the following table:

	Adjustments	Reclassifications		**Total differences**
	Depreciation on capitalised interest	Non-operating income reclass	Deferred credits reclass	
	£m	£m	£m	**£m**
Statement of cashflows				
Operating profit	0.128	(0.057)	(0.163)	**(0.092)**
Other income	–	0.057	0.163	**0.220**
Depreciation	(0.128)	–	–	**(0.128)**
Amortisation - grants and contributions	–	–	–	**–**
Changes in working capital	–	–	–	**–**
Pension contributions	–	–	–	**–**
Movement in provisions	–	–	–	**–**
Profit on sale of fixed assets	–	–	–	**–**
Cash generated from operations	–	–	–	**–**
Net interest paid	–	–	–	**–**
Tax paid	–	–	–	**–**
Net cash generated from operating activities	–	–	–	**–**
Investing activities				
Capital expenditure	–	–	–	**–**
Grants and contributions	–	–	–	**–**
Disposal of fixed assets	–	–	–	**–**
Other	–	–	–	**–**
Net cash used in investing activities	–	–	–	–
Net cash generated before financing activities	–	–	–	**–**
Cashflows from financing activities				
Equity dividends paid	–	–	–	**–**
Net loans received	–	–	–	**–**
Cash inflow from equity financing	–	–	–	**–**
Net cash generated from financing activities	–	–	–	**–**
Increase/(decrease) in net cash	–	–	–	**–**

1E - NET DEBT ANALYSIS

Year ended 31 March 2023

Line description		Fixed rate	Floating rate	Index linked		**Total**
				RPI	CPI/CPIH	
		£m	£m	£m	£m	**£m**
A	Interest rate risk profile					
1E.1	Borrowings (excluding preference shares)	0.192	30.196	33.806	0.000	**64.194**
1E.2	Preference share capital	0.000	-	-	-	**0.000**
1E.3	Total borrowings	0.192	30.196	33.806	0.000	**64.194**
1E.4	Cash	-	-	-	-	**0.000**
1E.5	Short term deposits	-	-	-	-	**0.000**
1E.6	Net Debt	-	-	-	-	**64.194**
B	Gearing					
1E.7	Gearing					**60.238%**
1E.8	Adjusted gearing					**0.000%**
C	Interest					
1E.9	Full year equivalent nominal interest cost	0.007	1.789	4.871	0.000	**6.666**
1E.10	Full year equivalent cash interest payment	0.007	1.789	1.004	0.000	**2.800**
D	Indicative interest rates					
1E.11	Indicative weighted average nominal interest rate	3.388%	5.925%	14.408%	0.000%	**10.385%**
1E.12	Indicative weighted average cash interest rate	3.388%	5.925%	2.970%	0.000%	**4.361%**
E	Time to maturity					
1E.13	Weighted average years to maturity	16.545	2.900	9.500	0.000	**6.424**

The net debt analysis is reconciled to the net debt position below:

	Total
	£m
Current borrowings	**(0.346)**
Non-current borrowings	**(63.848)**
Dee Valley Water borrowings	**(64.194)**
Cash and cash equivalents	**–**
Net debt	**(64.194)**

1F - FINANCIAL FLOWS (PRICE BASE - 2017/18 CPIH AVERAGE)

Year ended 31 March 2023

	Line description	12 Months ended 31 March 2023 Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £m	Actual returns and notional regulatory equity £m	Actual returns and actual regulatory equity £m
A	Regulatory equity						
1F.1	Regulatory equity	34.079	34.079	42.690	-	-	-
B	Return on regulatory equity						
1F.2	Return on regulatory equity	4.25%	5.33%	4.25%	1.449	1.816	1.816
C	Financing						
1F.3	Impact of movement from notional gearing	-	-1.07%	-0.42%	-	-0.366	-0.180
1F.4	Gearing benefits sharing	-	0.00%	0.00%	-	0.000	0.000
1F.5	Variance in corporation tax	-	6.91%	5.52%	-	2.356	2.356
1F.6	Group relief	-	0.00%	0.00%	-	0.000	0.000
1F.7	Cost of debt	-	8.95%	5.94%	-	3.050	2.536
1F.8	Hedging instruments	-	0.00%	0.00%	-	0.000	0.000
1F.9	**Return on regulatory equity including Financing adjustments**	**4.25%**	**20.12%**	**15.29%**	**1.449**	**6.855**	**6.528**
D	Operational performance						
1F.10	Totex out / (under) performance	-	-11.29%	-9.02%	-	-3.849	-3.849
1F.11	ODI out / (under) performance	-	-1.73%	-1.38%	-	-0.590	-0.590
1F.12	C-Mex out / (under) performance	-	-0.13%	-0.11%	-	-0.046	-0.046
1F.13	D-Mex out / (under) performance	-	0.09%	0.07%	-	0.032	0.032
1F.14	Retail out / (under) performance	-	1.40%	1.12%	-	0.477	0.477
1F.15	Other exceptional items	-	0.00%	0.00%	-	0.000	0.000
1F.16	Operational performance total	-	-11.67%	-9.31%	-	-3.976	-3.976
1F.17	**RoRE (return on regulatory equity)**	**4.25%**	**8.45%**	**5.98%**	**1.449**	**2.879**	**2.552**
1F.18	RCV growth	10.43%	10.43%	10.43%	3.554	3.554	4.453
1F.19	Voluntary sharing arrangements	-	0.00%	0.00%	-	0.000	0.000
1F.20	**Total shareholder return**	**14.68%**	**18.88%**	**16.41%**	**5.004**	**6.434**	**7.005**
E	Dividends						
1F.21	Gross Dividend	0.00%	0.00%	0.00%	0.000	0.000	0.000
1F.22	Interest Receivable on intercompany loans	-	0.00%	0.00%	-	0.000	0.000
1F.23	**Retained Value**	**14.68%**	**18.88%**	**16.41%**	**5.004**	**6.434**	**7.005**
F	Cash impact of 2015-20 performance adjustments						
1F.24	Totex out / (under) performance	-	-0.52%	-0.42%	-	-0.178	-0.178
1F.25	ODI out / (under) performance	-	-0.01%	-0.01%	-	-0.004	-0.004
1F.26	**Total out / under performance**	**-**	**-0.54%**	**-0.43%**	**-**	**-0.183**	**-0.183**

	Line description	Average 2020-25 Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £m	Actual returns and notional regulatory equity £m	Actual returns and actual regulatory equity £m
1F.1	Regulatory equity	31.638	31.638	38.253	-	-	-
1F.2	Return on regulatory equity	4.18%	5.06%	4.18%	1.323	1.600	1.600
1F.3	Impact of movement from notional gearing	-	-0.87%	-0.36%	-	-0.277	-0.139
1F.4	Gearing benefits sharing	-	0.00%	0.00%	-	0.000	0.000
1F.5	Variance in corporation tax	-	5.15%	4.26%	-	1.629	1.629
1F.6	Group relief	-	0.00%	0.00%	-	0.000	0.000
1F.7	Cost of debt	-	4.03%	2.63%	-	1.275	1.008
1F.8	Hedging instruments	-	0.00%	0.00%	-	0.000	0.000
1F.9	**Return on regulatory equity including Financing adjustments**	**4.18%**	**13.36%**	**10.71%**	**1.323**	**4.228**	**4.098**
1F.10	Totex out / (under) performance	-	-7.13%	-5.90%	-	-2.256	-2.256
1F.11	ODI out / (under) performance	-	-1.77%	-1.46%	-	-0.559	-0.559
1F.12	C-Mex out / (under) performance	-	-0.09%	-0.07%	-	-0.027	-0.027
1F.13	D-Mex out / (under) performance	-	0.07%	0.06%	-	0.022	0.022
1F.14	Retail out / (under) performance	-	1.42%	1.17%	-	0.449	0.449
1F.15	Other exceptional items	-	0.00%	0.00%	-	0.000	0.000
1F.16	Operational performance total	**-**	**-7.49%**	**-6.20%**	**-**	**-2.370**	**-2.370**
1F.17	**RoRE (return on regulatory equity)**	**4.18%**	**5.87%**	**4.52%**	**1.323**	**1.857**	**1.728**
1F.18	RCV growth	6.22%	6.22%	6.22%	1.967	1.967	2.378
1F.19	Voluntary sharing arrangements	-	0.00%	0.00%	-	0.000	-
1F.20	**Total shareholder return**	**10.40%**	**12.09%**	**10.73%**	**3.290**	**3.824**	**4.106**
1F.21	Gross Dividend	0.00%	0.00%	0.00%	0.000	0.000	0.000
1F.22	Interest Receivable on intercompany loans	-	0.00%	0.00%	-	0.000	0.000
1F.23	**Retained Value**	**10.40%**	**12.09%**	**10.73%**	**3.290**	**3.824**	**4.106**
1F.24	Totex out / (under) performance	-	-0.55%	-0.45%	-	-0.173	-0.173
1F.25	ODI out / (under) performance	-	-0.01%	-0.01%	-	-0.004	-0.004
1F.26	**Total out / under performance**	**-**	**-0.56%**	**-0.46%**	**-**	**-0.177**	**-0.177**

1F - FINANCIAL FLOWS

Year ended 31 March 2023

The financial flows measure provides our customers and stakeholders with greater transparency on how we earn returns and share performance with investors. The measure sets out how the returns earned compare between the actual company structure and the notional structure assumed in the Final Determination (FD).

The table below outlines the key components of RoRE:

	2022/23 %	AMP to date %
Base return	4.3%	4.2%
Totex	(11.3%)	(7.0%)
Retail	1.4%	1.4%
ODI (including C-MeX and D-MeX)	(1.8%)	(1.8%)
Cost of debt	8.9%	3.8%
Variance on tax	6.9%	5.1%
Regulatory return for the year	**8.5%**	**5.7%**

We discuss the key components of RoRE and financial flows below. All values are stated in 2017/18 prices.

BASE REGULATED EQUITY RETURN

The FD base equity return of 4.3% represents the base notional return before post financeability adjustments. For the current year, we have outperformed the FD base return by 4.2%.

FINANCING PERFORMANCE

The financing component of financial flows covers performance on financing and corporation tax.

Financing

Higher financing costs on higher net debt have resulted in our nominal cost of debt increasing by 0.7% in the year. Higher inflation than the FD assumption of 2% has however, reduced our real cost of debt to a negative rate of 3.8%, which is 6.0% lower than the FD.

While reported gearing in the year has increased from 39.7% in 2021-22 to 60.2%, 12.4% of the increase in the year relates to post year end transactions explained in our 2021-22 table 1E commentary. Our expectation remains that gearing will remain below 65% throughout AMP7 despite our high levels of investment and RCV growth.

Variance on tax

Our actual current tax credit is lower (£2.4 million) than the tax charge allowed in the FD (£0.03 million). This is mainly due to lower profits before tax than assumed in the FD and expenditure not deductible for tax being higher than the forecast in the FD. There was no benefit during the year relating to group relief. Tax losses have been surrendered at full value to the group.

OPERATIONAL PERFORMANCE

Operational performance covers performance on wholesale totex, retail costs and ODIs.

Wholesale totex

Wholesale totex performance is covered in detail on table 4C. For the current reporting year, our totex performance before adjusting for timing and cost sharing is £7.8m above the FD totex allowance. This has largely been driven by the impact of unprecedented wholesale energy costs on our power costs. Bulk supply costs continue to remain £1m higher than were assumed in the FD. We have also continued to make additional investments above the FD on the resilience of our base assets to reduce the impact of supply interruptions and drive down leakage.

Retail cost performance

Our retail performance is explained further in table 2C. For the third year, we have outperformed the FD retail allowance, with total underspend of £0.5 million in the year. Performance has largely been achieved through efficiencies made in customer services and debt management costs relative to the FD allowance. Bad debt costs remain slightly higher than the FD but we expect performance to improve over the AMP as a result of the initiatives we introduced at the start of the AMP to improve cash collection.

ODI performance

We have maintained our ODI performance in line with prior year at 71%. We have achieved a net penalty of £590k (excluding D-MeX and C-MeX) in the reporting year, which is slightly higher than the penalties incurred in the prior two years of £523k (2020-21) and £563k (2021-22).

On our water measures, we have delivered strongly on the measures of importance to our customers, including upper quartile Compliance Risk Index ('CRI') scores of 0.56, exceeding our lead pipe replacement target four times over for the third year in a row and we are ahead of the Year 3 target for leakage. On supply interruptions, customers experienced an interruption to their supply for 16 minutes and 39 seconds over the year. This represents a 55% improvement on the event time in 2021/22 and 75% from 2020/21.

On the wastewater measures, we have maintained our strong pollution performance from last year with just two occurrences, outperforming our target again. We continue to be significantly ahead of our performance commitment for sewer blockages as our 'pee, poo and paper' education campaign continues to improve behaviour.

TOTAL SHAREHOLDER RETURN

For the reporting year, our overall performance has generated £7.0 million in additional shareholder returns, which is equivalent to 16.4% on RoRE. Consistent with the FD, the high RCV growth this AMP will be funded by equity, with no dividends paid to our shareholders.

CURRENT TAX RECONCILIATION

Year ended 31 March 2023

The current tax credit after prior year adjustments for the year ended 31 March 2023 is higher than the standard rate of corporation tax in the UK.

The differences to the standard rate of corporation tax and the reconciliation to the current tax charge allowed in price limits are outlined in the below table:

	Actual £m	FD £m	Variance £m
Profit / (Loss) on ordinary activities before tax	-9.075	-1.435	-7.640
Tax at the standard rate of corporation tax in the UK 19%	-1.724	-0.273	-1.452
Tax effect of expenditure not (taxable) / deductible in determining taxable profits	0.281	0.007	0.274
Capital allowances in excess of depreciation	-0.797	-0.455	-0.342
Other temporary differences	-0.480	-0.024	-0.456
Impact of change in tax rate	0.000	0.078	-0.078
Current tax charge / (credit) before prior year adjustments	-2.720	-0.666	-2.054
Prior year adjustment	0.116	0.000	0.116
Current tax charge / (credit) after prior year adjustments	-2.604	-0.666	-1.938
Current tax charge after prior year adjustments	**-1.171**	**-0.797**	**-0.374**

The current tax credit for the appointed business is higher than the total tax charge allowed in price limits due to the net impact of the following:

- The Final Determination ('FD') loss before tax was higher than the loss before tax within the appointed business;
- Expenditure that is not deductible for tax purposes has increased from the level assumed within the FD tax charge; and
- The FD was calculated based on an expected reduction to the main tax rate from 19% to 17%. The actual tax rate has remained at 19% resulting in an increase in the tax credit when compared to the FD.

The current tax credit for the appointed business is higher than the total tax charge allowed in price limits due to the net impact of the following:

- Any changes in tax rates or allowances;
- The level of capital expenditure in the appointed business; and
- Any other changes in tax legislation or practice not reflected in the FD.

In March 2021 the UK Government announced its intention to increase the rate of corporation tax to 25% with effect from 1 April 2023. The new law was substantively enacted on 10 June 2021, The deferred tax liability at 31 March 2023 was calculated at the increased rate of 25%.

We are committed to paying the right amount of tax at the right time. As well as corporation tax on profits, which is included in the tax charge in our accounts, we incur a range of taxes, charges and levies imposed by Government agencies, including business rates, employer's national insurance and environmental taxes.

NOTES TO THE REGULATORY ACCOUNTS

1. The regulatory accounts as reported on pages 90 to 120 should be read in conjunction with the financial review set out on pages 104 to 129 of the Hafren Dyfrdwy Cyfyngedig Annual Report and Accounts 2022/23 to aid understanding of the performance of the business.

A) DIFFERENCES IN RECOGNITION AND MEASUREMENT BETWEEN STATUTORY AND REGULATORY FINANCIAL ACCOUNTS

i) Borrowing costs

Borrowing costs where directly related to the construction of an asset are capitalised in the statutory accounts. These amounts are not capitalised in the regulatory financial reporting statements in accordance with the RAGs

B) DIFFERENCES IN PRESENTATION BETWEEN STATUTORY AND REGULATORY FINANCIAL ACCOUNTS

i) Revenue and cost classification

Certain items which are netted off against operating costs within the statutory accounts are grossed up and shown as revenue for regulatory reporting. This includes developer contributions for administration costs incurred in relation to new connections and recharges for costs of repair from damages. Other items such as income from renewable energy incentives are shown as revenue in the statutory accounts and negative operating costs for regulatory reporting. In the 2022/23 statutory accounts infrastructure renewals income has been shown as revenue. In the regulatory accounts we show this as operating costs.

ii) Cash flow presentation

Grants and contributions received are presented as operating cash flows in the statutory accounts but as investing cash flows in the regulatory accounts.

C) DIFFERENCE IN PRESENTATION OF SPECIFIC ITEMS REQUIRED TO BE SEPARATELY DISCLOSED IN THE REGULATORY FINANCIAL STATEMENTS

i) Profit or loss on disposal of fixed assets and non-operating income are included in operating costs in the statutory accounts but are shown as other operating income and other income respectively in the regulatory financial statements. In addition, interest income and costs relating to defined benefit pension schemes are included in finance income or cost respectively in the statutory accounts but are shown as other interest expense in the regulatory accounts.

ii) The capex creditor and deferred income from grants and contributions and adopted assets included within trade and other payables in the statutory accounts are shown as separate items in the regulatory accounts.

iii) Intra-group loans have been reclassified from trade and other receivables to investments.

D) PRICE CONTROL SEGMENTS

The regulatory accounts have been prepared in accordance with RAG 2.09 'Guideline for classification of costs across the price controls'.

The section 2 data tables have been prepared in accordance with our Accounting Separation Methodology Statement which can be found at hdcymru.co.uk. Our methodology statement explains the basis for allocation of operating and capital expenditure and has been updated for changes to the requirements in the year. Wherever possible, direct costs and assets have been directly attributed to price controls. Where this is not possible, appropriate cost allocations have been applied as described in the methodology. Material changes to the allocation approach compared to the previous year are documented in the methodology statement.

2. ACCOUNTING POLICIES

A) BASIS OF PREPARATION

The regulatory financial statements are separate from the statutory financial statements of the Company. They have been prepared on a going concern basis as set out in the Strategic Report of the Hafren Dyfrdwy Cyfyngedig Annual Report and Accounts 2022/23 on page 28.

The regulatory financial statements have been prepared in accordance with Condition F of the Instruments of Appointment of the Water and Sewerage Undertakers and the Regulatory Accounting Guidelines as issued by the WSRA.

B) REVENUE RECOGNITION

Turnover represents income receivable from regulated water and wastewater activities, excluding value added tax.

Turnover includes an estimate of the amount of mains water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information. There have been no changes in methodology in the year.

The Water Industry Act 2014, Chapter 1 A 'Licensing of Water Suppliers' describes the duties imposed on a water and sewerage undertaker and the licence conditions involved. Regulated activities are consequently those activities that are necessary in order for the appointee to fulfil the functions and duties of a water and sewerage undertaker.

Turnover is not recognised in respect of unoccupied properties. Properties are classified as unoccupied when:

- The company is informed that a customer has left a property and it is not expected to be reoccupied immediately;
- New properties are connected but are not occupied;
- Properties are disconnected following a customer's request; or
- The identity of the customer is unknown.

The following activities are undertaken to ensure properties classified as unoccupied are in fact not occupied:

- Where the company is informed that the customer has left a property and the property is expected to be occupied by someone else, a welcome letter is sent to the property encouraging the occupier to contact the company.
- If there is no response to the welcome letter within two months a void letter is sent to the property explaining that we have classified the property as empty and may schedule the property for disconnection.
- Meter readings are taken for metered unoccupied properties; where consumption is recorded, a letter is sent to the property.
- Inspections are organised throughout the year by geographical area.

Non-appointed income primarily relates to Forestry timber sales and waste waterbilling activities on behalf of United Utilities and waste water customers.

C) BAD DEBTS

Provisions are charged to operating costs to reflect the company's assessment of the risk of non-recoverability of debtors based on the lifetime expected credit losses for future receivables.

Write offs in relation to court or debt recovery costs are not included in the bad debt provision.

Debt can only be written off if it is a legitimate charge against the debtor (if it is considered that part or all of the debt is incorrect or unsubstantiated, then such elements are dealt with through the issue of a credit note) and if one of the following criteria is met:

- The customer does not have any assets or has insufficient assets on which to levy execution;
- The customer is bankrupt, and no dividend has been, or is likely to be, received;
- The customer has died without leaving an estate or has left an insufficient estate on which to levy execution and the company has been unable to prove its case in court; or
- All available economic options for collection of the debt have been pursued or that debt recovery procedures have proved to be ineffective or uneconomic to continue.

Uneconomic circumstances are those where, following the application of debt recovery procedures:

- the customer could not be traced without incurring an unreasonable degree of expenditure; or
- the company has an insufficiently sound case to justify further expenditure on debt recovery procedures; or
- the likelihood of recovering the debt is so small in particular circumstances that further expenses on debt recovery cannot be justified.

The above write off rules apply primarily to customers to whom the company has ceased to provide a service. Only in exceptional circumstances is debt relating to continuing customers considered for write off.

D) OTHER ACCOUNTING POLICIES

All other accounting policies applied to the regulatory financial reporting accounts are set out in note 1 of the Hafren Dyfrdwy Cyfyngedig Annual Report and Accounts 2022/23, including the capitalisation policy which is outlined within the property, plant, and equipment accounting policy note. Full details of the capitalisation policy are outlined in the Accounting Separation Methodology Statement.

E) CURRENT COST ACCOUNTING

Although there is no longer a requirement to produce full current cost financial statements, the requirement to disclose summary current cost financial results has been retained in the Wholesale current cost financial performance table.

The capital maintenance charge has been calculated using current cost depreciation values in the current cost fixed asset register which is indexed annually and adjusted for additions. Infrastructure renewals expenditure for below ground assets is included in operating costs.

2A - SEGMENTAL INCOME STATEMENT

Year ended 31 March 2023

	Line description	Residential Retail £m	Business Retail £m	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Bioresources £m	**Total £m**
2A.1	Revenue - price control	2.861	0.532	2.624	18.702	2.611	0.714	**28.044**
2A.2	Revenue - non price control	0.000	0.000	5.899	1.067	0.043	0.004	**7.012**
2A.3	Operating expenditure - excluding PU recharge impact	-1.810	-0.253	-4.846	-23.835	-4.241	-0.228	**-35.213**
2A.4	PU opex recharge	-0.100	-0.032	-0.081	0.338	-0.123	-0.003	**0.000**
2A.5	**Operating expenditure - including PU recharge impact**	**-1.910**	**-0.285**	**-4.927**	**-23.497**	**-4.364**	**-0.231**	**-35.213**
2A.6	Depreciation - tangible fixed assets	-0.007	0.000	-0.401	-5.147	-1.584	-0.002	**-7.140**
2A.7	Amortisation - intangible fixed assets	-0.449	-0.106	0.000	-0.418	0.000	0.000	**-0.973**
2A.8	Other operating income	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
2A.9	**Operating profit**	**0.496**	**0.141**	**3.195**	**-9.293**	**-3.293**	**0.485**	**-8.269**
A	Surface water drainage rebates							
2A.10	Surface water drainage rebates	-	-	-	-	-	-	**0.005**

2B - TOTEX ANALYSIS (WHOLESALE)

Year ended 31 March 2023

	Line description	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Bioresources £m	**Total £m**
A	Base operating expenditure					
2B.1	Power	0.124	4.557	0.884	0.000	5.566
2B.2	Income treated as negative expenditure	-0.820	0.000	0.000	0.000	-0.820
2B.3	Service charges/discharge consents	0.756	0.013	0.099	0.000	0.868
2B.4	Bulk supply/Bulk discharge	0.454	2.679	0.000	0.000	3.133
2B.5	Renewals expensed in year (infrastructure)	0.000	4.454	0.584	0.000	5.038
2B.6	Renewals expensed in year (non-infrastructure)	0.000	0.000	0.000	0.000	0.000
2B.7	Other operating expenditure (including location specific costs and obligations)	2.623	9.116	2.461	0.225	14.427
2B.8	Local authority and Cumulo rates	0.000	1.255	0.265	0.000	1.520
2B.9	**Total base operating expenditure**	**3.139**	**22.075**	**4.293**	**0.225**	**29.732**
B	Other operating expenditure					
2B.10	Enhancement operating expenditure	0.123	0.255	0.000	0.000	0.378
2B.11	Developer services operating expenditure	0.000	0.028	0.001	0.000	0.029
2B.12	**Total operating expenditure excluding third party services**	**3.262**	**22.358**	**4.294**	**0.225**	**30.139**
2B.13	Third party services	1.665	1.140	0.070	0.006	2.881
2B.14	**Total operating expenditure**	**4.927**	**23.498**	**4.364**	**0.231**	**33.019**
C	Grants and contributions					
2B.15	Grants and contributions - operating expenditure	0.000	-0.026	-0.006	0.000	-0.032
D	Capital expenditure					
2B.16	Base capital expenditure	0.429	4.239	2.135	0.041	6.845
2B.17	Enhancement capital expenditure	1.777	3.282	0.822	0.000	5.881
2B.18	Developer services capital expenditure	0.000	0.776	0.179	0.000	0.956
2B.19	**Total gross capital expenditure excluding third party services**	**2.206**	**8.298**	**3.137**	**0.041**	**13.682**
2B.20	Third party services	0.000	0.000	0.000	0.000	0.000
2B.21	**Total gross capital expenditure**	**2.206**	**8.298**	**3.137**	**0.041**	**13.682**
E	Grants and contributions					
2B.22	Grants and contributions - capital expenditure	0.000	-0.457	-0.109	0.000	-0.566
2B.23	**Net Totex**	**7.133**	**31.313**	**7.386**	**0.272**	**46.103**
F	Cash expenditure					
2B.24	Pension deficit recovery payments	0.000	0.000	0.000	0.000	0.000
2B.25	Other cash items	0.000	0.000	0.000	0.000	**0.000**
2B.26	**Totex including cash items**	**7.133**	**31.313**	**7.386**	**0.272**	**46.103**

2C - COST ANALYSIS (RETAIL)

Year ended 31 March 2023

Line description		Residential £m	Business £m	**Total £m**
A	Operating expenditure			
2C.1	Customer services	0.582	0.187	**0.769**
2C.2	Debt management	0.115	0.022	**0.137**
2C.3	Doubtful debts	0.655	-0.018	**0.637**
2C.4	Meter reading	0.235	0.017	**0.252**
2C.5	Services to developers	0.003	0.004	**0.007**
2C.6	Other operating expenditure	0.216	0.040	**0.256**
2C.7	Local authority and Cumulo rates	0.004	0.001	**0.005**
2C.8	**Total operating expenditure excluding third party services**	**1.810**	**0.253**	**2.063**
B	Depreciation			
2C.9	Depreciation (tangible fixed on assets) existing at 31 March 2015	0.000	0.000	**0.000**
2C.10	Depreciation (tangible fixed on assets) acquired after 1 April 2015	0.007	0.000	**0.007**
2C.11	Amortisation (intangible fixed on assets) existing at 31 March 2015	0.000	0.000	**0.000**
2C.12	Amortisation (intangible fixed on assets) acquired after 1 April 2015	0.449	0.106	**0.555**
C	Recharges			
2C.13	Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	0.000	0.000	**0.000**
2C.14	Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	0.000	0.000	**0.000**
2C.15	Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	0.100	0.032	**0.132**
2C.16	Income from wholesale assets acquired after 1 April 2015 principally used by retail	0.000	0.000	**0.000**
2C.17	**Net recharges costs**	**0.100**	**0.032**	**0.132**
2C.18	**Total retail costs excluding third party and pension deficit repair costs**	**2.365**	**0.391**	**2.756**
2C.19	Third party services operating expenditure	0.000	0.000	**0.000**
2C.20	Pension deficit repair costs	0.000	0.000	**0.000**
2C.21	**Total retail costs including third party and pension deficit repair costs**	**2.365**	**0.391**	**2.756**
D	Debt written off			
2C.22	Debt written off	0.443	0.046	**0.489**
E	Capital expenditure			
2C.23	Capital expenditure	0.119	0.000	**0.119**

F	Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale	
2C.24	Demand-side water efficiency - gross expenditure	0.020
2C.25	Demand-side water efficiency - expenditure funded by wholesale	0.020
2C.26	**Demand-side water efficiency - net retail expenditure**	**0.000**
2C.27	Customer-side leak repairs - gross expenditure	0.161
2C.28	Customer-side leak repairs - expenditure funded by wholesale	0.161
2C.29	**Customer-side leak repairs - net retail expenditure**	**0.000**
G	Comparison of actual and allowed expenditure	
2C.30	Cumulative actual retail expenditure to reporting year end	8.720
2C.31	Cumulative allowed expenditure to reporting year end	9.028
2C.32	**Total allowed expenditure 2020-25**	**14.692**

Differences between total operating costs and retail costs allowed in the price limits.

HOUSEHOLD

Overall household retail costs of £2.4 million are £0.3 million (12%) lower than the Final Determination ('FD').

CUSTOMER SERVICES

Customer services, debt management and other costs are £0.52 million favourable to the FD. This is reflective of efficiencies unlocked by slight restructuring of the Customer team over the past three years.

DEBT MANAGEMENT

Doubtful Debt costs were £0.16 million adverse to the FD. In the past year we have seen an increase in doubtful debt, due to worsening cash collection for Retail Household.

2D - HISTORIC COST ANALYSIS OF FIXED ASSETS

Year ended 31 March 2023

Line description		Residential Retail £m	Business Retail £m	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Bioresources £m	**Total £m**
A	Cost							
2D.1	At 1 April 2022	0.920	0.035	19.990	202.499	46.855	0.109	**270.407**
2D.2	Disposals	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
2D.3	Additions	0.119	0.000	2.206	8.237	3.137	0.041	**13.741**
2D.4	Adjustments	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
2D.5	Assets adopted at nil cost	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
2D.6	**At 31 March 2023**	**1.039**	**0.035**	**22.196**	**210.735**	**49.992**	**0.150**	**284.148**
B	Depreciation							
2D.7	At 1 April 2022	-0.679	-0.009	-2.342	-50.460	-6.086	-0.004	**-59.579**
2D.8	Disposals	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
2D.9	Adjustments	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
2D.10	Charge for the year	-0.007	0.000	-0.401	-5.147	-1.584	-0.002	**-7.140**
2D.11	**At 31 March 2023**	**-0.685**	**-0.009**	**-2.743**	**-55.607**	**-7.670**	**-0.005**	**-66.719**
2D.12	**Net book amount at 31 March 2023**	**0.353**	**0.026**	**19.453**	**155.129**	**42.323**	**0.145**	**217.429**
2D.13	**Net book amount at 1 April 2022**	**0.241**	**0.026**	**17.648**	**152.039**	**40.769**	**0.105**	**210.828**
C	Depreciation charge for year							
2D.14	Principal services	-0.007	0.000	-0.401	-5.147	-1.584	-0.002	**-7.140**
2D.15	Third party services	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
2D.16	**Total**	**-0.007**	**0.000**	**-0.401**	**-5.147**	**-1.584**	**-0.002**	**-7.140**

The net book value includes £20.2 million in respect of assets in the course of construction.

2E - ANALYSIS OF GRANTS AND CONTRIBUTIONS
(WATER RESOURCES, WATER NETWORK+ AND WASTEWATER NETWORK+)

Year ended 31 March 2023

	Line description	Fully recognised in income statement £m	Capitalised and amortised (in income statement) £m	Fully netted off capex £m	**Total £m**
A	Grants and contributions - water resources				
2E.1	Diversions - s185	0.000	0.000	0.000	**0.000**
2E.2	Other contributions (price control)	0.000	0.000	0.000	**0.000**
2E.3	**Price control grants and contributions**	**0.000**	**0.000**	**0.000**	0.000
2E.4	Diversions - NRSWA	0.000	0.000	0.000	**0.000**
2E.5	Diversions - other non-price control	0.000	0.000	0.000	**0.000**
2E.6	Other contributions (non-price control)	0.000	0.000	0.000	**0.000**
2E.7	**Total**	**0.000**	**0.000**	**0.000**	0.000
2E.8	Value of adopted assets	0.000	0.000		**0.000**
B	Grants and contributions - water network+				
2E.9	Connection charges	0.000	0.333	0.000	**0.333**
2E.10	Infrastructure charge receipts - new connections	0.000	0.248	0.000	**0.248**
2E.11	Requisitioned mains	0.000	0.044	0.000	**0.044**
2E.12	Diversions - s185	0.010	0.000	0.000	**0.010**
2E.13	Other contributions (price control)	0.000	0.000	0.000	**0.000**
2E.14	Price control grants and contributions before deduction of income offset	0.010	0.625	0.000	**0.635**
2E.15	Income offset	0.000	0.168	0.000	**0.168**
2E.16	Price control grants and contributions after deduction of income offset	0.010	0.457	0.000	**0.467**
2E.17	Diversions - NRSWA	0.015	0.000	0.000	**0.015**
2E.18	Diversions - other non-price control	0.000	0.000	0.000	**0.000**
2E.19	Other contributions (non-price control)	0.000	0.000	0.000	**0.000**
2E.20	**Total grants and contributions**	**0.025**	**0.457**	**0.000**	0.481
2E.21	Value of adopted assets	0.000	0.000		**0.000**

2E - ANALYSIS OF GRANTS AND CONTRIBUTIONS
(WATER RESOURCES, WATER NETWORK+ AND WASTEWATER NETWORK+ CONT.)

Year ended 31 March 2023

	Line description	Fully recognised in income statement £m	Capitalised and amortised (in income statement) £m	Fully netted off capex £m	**Total £m**
C	Grants and contributions - wastewater network+				
2E.22	Receipts for on-site work	0.000	0.115	0.000	**0.115**
2E.23	Infrastructure charge receipts - new connections	0.000	0.088	0.000	**0.088**
2E.24	Diversions - s185	0.006	0.000	0.000	**0.006**
2E.25	Other contributions (price control)	0.000	0.011	0.000	**0.011**
2E.26	Price control grants and contributions before deduction of income offset	0.006	0.214	0.000	**0.220**
2E.27	Income offset	0.000	0.105	0.000	**0.105**
2E.28	Price control grants and contributions after deduction of income offset	0.006	0.109	0.000	**0.115**
2E.29	Diversions - NRSWA	0.000	0.000	0.000	**0.000**
2E.30	Diversions - other non-price control	0.000	0.000	0.000	**0.000**
2E.31	Other contributions (non-price control)	0.000	0.000	0.000	**0.000**
2E.32	**Total grants and contributions**	**0.006**	**0.109**	**0.000**	0.115
2E.33	Value of adopted assets	0.000	0.000		**0.000**

	Line description	Water resources £m	Water network+ £m	Wastewater network+ £m	**Total £m**
D	Movements in capitalised grants and contributions				
2E.34	Brought forward	1.753	11.885	0.331	**13.969**
2E.35	**Capitalised in year**	**0.000**	**0.457**	**0.109**	0.566
2E.36	Amortisation (in income statement)	-0.002	-0.159	-0.001	**-0.161**
2E.37	**Carried forward**	**1.751**	**12.183**	**0.439**	14.374

2F - RESIDENTIAL RETAIL

Year ended 31 March 2023

	Line description	Revenue	Number of customers	Average residential revenues
	Units	£m	000s	£
	DPs	3	3	3
A	Residential revenue			
2F.1	Wholesale charges	16.537	-	-
2F.2	Retail revenue	2.861	-	-
2F.3	**Total residential revenue**	**19.398**	**-**	**-**
B	Retail revenue			
2F.4	Revenue recovered ('RR')	2.861	-	-
2F.5	Revenue sacrifice	0.000	-	-
2F.6	**Actual revenue (net)**	**2.861**	**-**	**-**
C	Customer information			
2F.7	Actual customers ('AC')	-	96.675	-
2F.8	Reforecast customers	-	96.103	-
D	Adjustment			
2F.9	Allowed revenue ('R')	2.914	-	-
2F.10	**Net adjustment**	**0.054**	**-**	**-**
E	Other residential information			
2F.11	Average residential retail revenue per customer			**29.592**

2G - NON-HOUSEHOLD WATER REVENUES BY TARIFF TYPE

Year ended 31 March 2023

	Line description	Wholesale charges revenue	Retail revenue	**Total revenue**	Number of connections	Average non-household retail revenue per connection	Allowed average non-household retail cost	Outcome delivery incentive (ODI) payment	Allowed average non-household retail cost after ODI payment	Allowed margin	Allowed average non-household retail revenue per connection
	Units	£m	£m	**£m**	000s	£	£	£	£	%	£
	DPs	3	3	**3**	3	3	3	3	3	3	3
A	Default tariffs - customer group 1										
2G.1	Tariff type 1	4.046	0.403	**4.449**	6.783	**59.432**	50.670	0.000	**50.670**	1.15%	51.253
2G.2	Tariff type 2	1.397	0.043	**1.440**	0.081	**587.604**	178.890	0.000	**178.890**	0.61%	179.981
2G.3	**Total default tariffs customer group 1**	**5.443**	**0.446**	**5.890**	**6.864**	**65.034**	**229.560**	**0.000**	**229.560**	**1.760%**	**231.234**
B	Default tariffs - customer group 2										
2G.4	Tariff type 1	0.114	0.002	**0.116**	0.020	**93.097**	**0.000**	0.000	**0.000**	0.000	**0.000**
2G.5	**Total default tariffs**	**5.557**	**0.448**	**6.005**	**6.884**	**65.116**	**229.560**	**0.000**	**229.560**	**1.760%**	**231.234**
C	Non-Default tariffs										
2G.6	Total non-default tariffs	1.785	0.032	**1.817**	0.013	**2445.928**					
2G.7	**Total**	**7.343**	**0.480**	**7.823**	**6.897**	**69.603**					

	Line description	Number of customers	Average non-household retail revenue per customer	Average non-household retail revenue per customer £
	Units	000s	£	
	DPs	3	3	
D	Revenue per customer			
2G.8	**Total**		**6.897**	**69.603**

2H - NON-HOUSEHOLD WASTEWATER REVENUES BY TARIFF TYPE

Year ended 31 March 2023

Line description		Wholesale charges revenue	Retail revenue	**Total revenue**	Number of connections	Average non-household retail revenue per connection	Allowed average non-household retail cost	Outcome delivery incentive (ODI) payment	Allowed average non-household retail cost after ODI payment	Allowed margin	Allowed average non-household retail revenue per connection
Units		£m	£m	**£m**	000s	£	£	£	£	%	£
DPs		3	3	**3**	3	3	3	3	3	3	3
A	Default tariffs - customer group 1										
2H.1	Tariff type 1	0.612	0.051	**0.663**	1.226	**41.254**	44.490	0.000	**44.490**	1.13%	**44.993**
2H.2	Tariff type 2	0.111	0.001	**0.112**	0.017	**96.321**	192.690	0.000	**192.690**	0.68%	**194.000**
2H.3	Tariff type 3	0.000	0.000	**0.000**	0.000	**0.000**	61.690	0.000	**61.690**	0.78%	**62.171**
2H.4	**Total default tariffs**	**0.723**	**0.052**	**0.775**	**1.243**	**137.575**	**298.870**	**0.000**	**298.870**	**2.590%**	**301.164**
C	Non-Default tariffs										
2H.5	**Total non-default tariffs**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**					
2H.6	**Total**	**0.723**	**0.052**	**0.775**	**1.243**	**41.900**					

		Number of customers (000s)	Average non-household retail revenue per customer £
D	Revenue per customer		
2H.7	**Total**	**1.243**	**41.900**

2I - REVENUE ANALYSIS

Year ended 31 March 2023

Line description		Household	Non-household	**Total**	Water resources	Water network+	**Total**
		£m	£m	**£m**	£m	£m	**£m**
A	Wholesale charge - water						
2I.1	Unmeasured	6.923	0.136	**7.059**	0.964	6.094	**7.059**
2I.2	Measured	7.026	7.206	**14.232**	1.660	12.572	**14.232**
2I.3	Third party revenue	0.000	0.035	**0.035**	0.000	0.035	**0.035**
2I.4	**Total wholesale water revenue**	**13.948**	**7.377**	**21.326**	**2.624**	**18.702**	**21.326**

Line description		Household	Non-household	**Total**	Wastewater network+	Bioresources	**Total**
		£m	£m	**£m**	£m	£m	**£m**
B	Wholesale charge - wastewater						
2I.5	Unmeasured - foul charges	0.331	0.014	**0.345**	-0.021	0.366	**0.345**
2I.6	Unmeasured - surface water charges	1.048	0.012	**1.060**	1.060	0.000	**1.060**
2I.7	Unmeasured - highway drainage charges	0.125	0.001	**0.126**	0.126	0.000	**0.126**
2I.8	Measured - foul charges	0.531	0.620	**1.151**	0.803	0.348	**1.151**
2I.9	Measured - surface water charges	0.474	0.049	**0.523**	0.523	0.000	**0.523**
2I.10	Measured - highway drainage charges	0.080	0.028	**0.108**	0.108	0.000	**0.108**
2I.11	Third party revenue	0.000	0.013	**0.013**	0.013	0.000	**0.013**
2I.12	**Total wholesale wastewater revenue**	**2.589**	**0.737**	**3.325**	**2.611**	**0.714**	**3.325**
C	Wholesale charge - additional control						
2I.13	Unmeasured	0.000	0.000	**0.000**			
2I.14	Measured	0.000	0.000	**0.000**			
2I.15	**Total wholesale additional control revenue**	**0.000**	**0.000**	**0.000**			
2I.16	**Wholesale Total**	**16.537**	**8.114**	**24.651**			
D	Retail revenue						
2I.17	Unmeasured	1.052	0.010	**1.062**			
2I.18	Measured	1.809	0.522	**2.331**			
2I.19	Retail third party revenue	0.000	0.000	**0.000**			
2I.20	**Total retail revenue**	**2.861**	**0.532**	**3.393**			
E	Third party revenue - non price control						
2I.21	Bulk supplies - water	-	-	**1.189**			
2I.22	Bulk supplies - wastewater	-	-	**0.045**			
2I.23	Other third party revenue - non price control	-	-	**5.734**			
E	Principal services - non price control						
2I.24	Other appointed revenue - non price control	-	-	**0.045**			
2I.25	**Total appointed revenue**	**-**	**-**	**35.056**			

2J - INFRASTRUCTURE NETWORK REINFORCEMENT COSTS

Year ended 31 March 2023

	Line description	Network reinforcement capex £m	On site/site specific capex (memo only) £m
A	Wholesale water network+ (treated water distribution)		
2J.1	Distribution and trunk mains	0.089	0.000
2J.2	Pumping and storage facilities	0.000	0.000
2J.3	Other	0.000	0.000
2J.4	**Total**	**0.089**	**0.000**
B	Wholesale wastewater network+ (sewage collection)		
2J.5	Foul and combined systems	0.000	0.000
2J.6	Surface water only systems	0.000	0.000
2J.7	Pumping and storage facilities	0.070	0.000
2J.8	Other	0.000	0.000
2J.9	**Total**	**0.070**	**0.000**

2K - INFRASTRUCTURE CHARGES RECONCILIATION

Year ended 31 March 2023

	Line description	Water £m	Wastewater £m	**Total £m**
A	Impact of infrastructure charge discounts			
2K.1	Infrastructure charges	0.248	0.088	**0.336**
2K.2	Discounts applied to infrastructure charges	0.000	0.000	**0.000**
2K.3	**Gross infrastructure charges**	**0.248**	**0.088**	**0.336**
B	Comparison of revenue and costs			
2K.4	Variance brought forward	0.342	0.180	**0.522**
2K.5	**Revenue**	**0.248**	**0.088**	**0.336**
2K.6	Costs	-0.089	-0.070	**-0.159**
2K.7	**Variance carried forward**	**0.501**	**0.198**	**0.699**

For 2022/23, infrastructure charges are based on the Licence Condition C industry-capped limit and not related to costs, therefore costs and revenue cannot be reconciled.

2L - ANALYSIS OF LAND SALES

Year ended 31 March 2023

This table is not required as there were no land sales in this financial year.

2M - REVENUE RECONCILIATION - WHOLESALE

Year ended 31 March 2023

	Line description	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Bioresources £m	**Total £m**
A	Revenue recognised					
2M.1	Wholesale revenue governed by price control	2.624	18.702	2.611	0.714	**24.651**
2M.2	Grants and contributions (price control)	0.000	0.467	0.115	0.000	**0.582**
2M.3	**Total revenue governed by wholesale price control**	**2.624**	**19.169**	**2.726**	**0.714**	**25.233**
B	Calculation of the revenue cap					
2M.4	Allowed wholesale revenue before adjustments (or modified by CMA)	2.489	18.559	2.933	0.618	**24.599**
2M.5	Allowed grants & contributions before adjustments (or modified by CMA)	0.000	0.578	0.135	0.000	**0.713**
2M.6	Revenue adjustment	0.572	0.839	0.317	0.035	**1.762**
2M.7	Other adjustments	-0.381	-0.388	-0.192	0.000	**-0.962**
2M.8	**Revenue cap**	**2.679**	**19.588**	**3.193**	**0.653**	**26.113**
C	Calculation of the revenue imbalance					
2M.9	**Revenue cap**	**2.679**	**19.588**	**3.193**	**0.653**	**26.113**
2M.10	**Revenue recovered**	**2.624**	**19.169**	**2.726**	**0.714**	**25.233**
2M.11	Revenue imbalance	0.055	0.419	0.467	-0.060	**0.880**

2M - REVENUE ANALYSIS AND WHOLESALE CONTROL RECONCILIATION

Year ended 31 March 2023

Calculation of the revenue imbalance	Water resources	Water network+	Wastewater network+	Bioresources	**Total**
	£m	£m	£m	£m	**£m**
Revenue cap	2.679	19.588	3.193	0.653	26.113
Revenue Recovered	2.624	19.134	2.713	0.714	25.185
Revenue imbalance	**0.055**	**0.455**	**0.480**	**(0.061)**	**0.928**
Grants & cont. cap	-	0.578	0.135	-	0.713
Grants & cont. recovered	-	0.467	0.115	-	0.582
G&C revenue imbalance	**-**	**0.111**	**0.020**	**-**	**0.131**

DIFFERENCE BETWEEN ALLOWED AND ACTUAL REVENUE UNDER THE WHOLESALE CONTROL

The total allowed revenue for 2022/23 was £26.113m while the actual revenue as reported comes to £25.233m which is £0.879m (3.48%) less.

However, included in the wholesale revenue is £0.048m of third-party revenue which was not included in the FD allowances. Therefore, stripping out this third-party revenue from the recovered revenue gives the picture below:

DEVELOPER SERVICES

For both water and waste, the FD allowances have been set higher than the actual volume of new connections work. This has led to under-recovery of revenue by £0.111m and £0.020m in water and waste respectively.

WATER RESOURCES & WATER NETWORK+ CORE REVENUE

Water Resources revenue of £2.624m is £0.055m (2.04%) less than the revenue cap.

Water Network+ revenue of £18.667m is £0.344m (1.81%) lower than the revenue cap. This is £0.455m when corrected for third party revenue.

This is partly driven by an over accrual at the prior year end. This unwind impacts current year revenue recognition. The Covid impact on HH was also lower than anticipated, resulting in lower revenue.

BIORESOURCES & WASTE NETWORK+

The tariff model included one large Trade Effluent customer in Hafren Dyfrdwy in error which resulted in lower charges across the remaining waste customers than we should have set. However, as this was noted after charges were published, we couldn't correct this year.

This has driven £0.384m of the £0.419m variance as noted below.

Calculation of the revenue imbalance (excluding developer services)	Wastewater network+	Bioresources	Total
	£m	£m	£m
Revenue cap	3.193	0.653	3.846
Revenue Recovered	2.713	0.714	3.427
Revenue imbalance	0.480	(0.061)	0.419
Tariff error	(0.228)	(0.156)	(0.384)
Remaining variance	**0.252**	**(0.217)**	**0.035**

The remaining variance:

Waste Network+ saw a variance of £0.252m (7.89%) lower than the revenue cap.

Bioresources saw a variance of £0.217m (33.31%) above than the revenue cap. This is primarily because the revenue cap was reduced for lower than expected sludge volumes – actual volumes were 24% lower than assumed when charges were set. Note that when adjusting the bioresources revenue control we have used the actual volume in tonnes (826) rather than the rounded figure on table 8A. For a company of Hafren Dyfrdwy's size, rounding to the nearest 100 tonnes could lead to a variance of over 6%.

This remaining difference is again due to the prior year over accrual and also the overestimated ongoing impact of covid in the forecast as for water.

2N - RESIDENTIAL RETAIL - SOCIAL TARIFFS

Year ended 31 March 2023

	Line description	Revenue	Number of customers	Average amount per customer
	Units	£m	000s	£
	DPs	3	3	3
A	Number of residential customers on social tariffs			
2N.1	Residential water only social tariffs customers	-	1.758	-
2N.2	Residential wastewater only social tariffs customers	-	0.290	-
2N.3	Residential dual service social tariffs customers	-	0.622	-
B	Number of residential customers not on social tariffs			
2N.4	Residential water only no social tariffs customers	-	75.660	-
2N.5	Residential wastewater only no social tariffs customers	-	1.192	-
2N.6	Residential dual service no social tariffs customers	-	17.153	-
C	Social tariff discount			
2N.7	Average discount per water only social tariffs customer	-	-	**137.167**
2N.8	Average discount per wastewater only social tariffs customer	-	-	**111.925**
2N.9	Average discount per dual service social tariffs customer	-	-	**249.092**
D	Social tariff cross-subsidy - residential customers			
2N.10	Total customer funded cross-subsidies for water only social tariffs customers	0.134	-	-
2N.11	Total customer funded cross-subsidies for wastewater only social tariffs customers	0.011	-	-
2N.12	Total customer funded cross-subsidies for dual service social tariffs customers	0.072	-	-
2N.13	Average customer funded cross-subsidy per water only social tariffs customer	-	-	**1.737**
2N.14	Average customer funded cross-subsidy per wastewater only social tariffs customer	-	-	**7.721**
2N.15	Average customer funded cross-subsidy per dual service social tariffs customer	-	-	**4.057**
E	Social tariff cross-subsidy - company			
2N.16	Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	0.107	-	-
2N.17	Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers	0.021	-	-
2N.18	Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers	0.083	-	-
2N.19	Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer	-	-	**60.677**
2N.20	Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer	-	-	**72.470**
2N.21	Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer	-	-	**133.147**
F	Social tariff support - willingness to pay			
2N.22	Level of support for social tariff customers reflected in business plan	-	-	3.923
2N.23	Maximum contribution to social tariffs supported by customer engagement	-	-	7.846

Lines 2N.4 – 2N.6 have been prepared as the number of customers not on social tariffs. We support our low-income households with the Here2Help social tariff. If customers qualify, we offer up to a 90% discount of the average household bill. Further information is available on our website.

20 - HISTORIC COST ANALYSIS OF INTANGIBLE FIXED ASSETS

Year ended 31 March 2023

	Line description	Residential Retail £m	Business Retail £m	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Bioresources £m	**Total £m**
A	Cost							
20.1	At 1 April 2022	4.851	1.063	0.000	3.826	0.000	0.000	**9.740**
20.2	Disposals	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
20.3	Additions	0.000	0.000	0.000	0.061	0.000	0.000	**0.061**
20.4	Adjustments	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
20.5	Assets adopted at nil cost	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
20.6	**At 31 March 2023**	**4.851**	**1.063**	**0.000**	**3.887**	**0.000**	**0.000**	9.802
B	Amortisation							
20.7	At 1 April 2022	-1.896	-0.398	0.000	-1.424	0.000	0.000	**-3.718**
20.8	Disposals	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
20.9	Adjustments	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
20.10	Charge for year	-0.449	-0.106	0.000	-0.418	0.000	0.000	**-0.973**
20.11	**At 31 March 2023**	**-2.345**	**-0.504**	**0.000**	**-1.842**	**0.000**	**0.000**	-4.691
20 .12	**Net book amount at 31 March 2023**	**2.505**	**0.559**	**0.000**	**2.046**	**0.000**	**0.000**	5.110
20.13	**Net book amount at 1 April 2022**	**2.955**	**0.665**	**0.000**	**2.402**	**0.000**	**0.000**	6.022
C	Amortisation for year							
20.14	Principal services	-0.449	-0.106	0.000	-0.418	0.000	0.000	**-0.973**
20.15	Third party services	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
20.16	**Total**	**-0.449**	**-0.106**	**0.000**	**-0.418**	**0.000**	**0.000**	-0.973

The net book value includes £0.1 million in respect of assets in the course of construction.

ADDITIONAL REGULATORY INFORMATION

3A - OUTCOME PERFORMANCE - WATER PERFORMANCE COMMITMENTS (FINANCIAL)

Year ended 31 March 2023

No additional commentary relating to this data table.

3B - OUTCOME PERFORMANCE - WASTEWATER PERFORMANCE COMMITMENTS (FINANCIAL)

Year ended 31 March 2023

Hafren Dyfrdwy can confirm that our reported performance for this PC complies with EPA version 3.

3C - CUSTOMER MEASURE OF EXPERIENCE ('C-MeX')

Year ended 31 March 2023

No additional commentary relating to this data table.

3D - DEVELOPER SERVICES MEASURE OF EXPERIENCE ('D-MeX')

Year ended 31 March 2023

No additional commentary relating to this data table.

3E - OUTCOME PERFORMANCE - NON-FINANCIAL PERFORMANCE COMMITMENTS

Year ended 31 March 2023

No additional commentary relating to this data table.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

3F - UNDERLYING CALCULATIONS FOR COMMON PERFORMANCE COMMITMENTS (WATER AND RETAIL)

Year ended 31 March 2023

No additional commentary relating to this data table.

3G - UNDERLYING CALCULATIONS FOR COMMON PERFORMANCE COMMITMENTS (WASTEWATER)

Year ended 31 March 2023

B1 - Water supply interruptions

Previously we have reported ALL properties that were interrupted regardless of duration. Therefore the figures for properties interrupted for equal to or greater than three hours are as follows:

Year 1 (2020/21): 14,691

Year 2 (2021/22): 11,076

3H - SUMMARY INFORMATION ON OUTCOME DELIVERY INCENTIVE PAYMENTS

Year Ended 31 March 2023

No additional commentary relating to this data table.

3I - SUPPLEMENTARY OUTCOMES INFORMATION

Year ended 31 March 2023

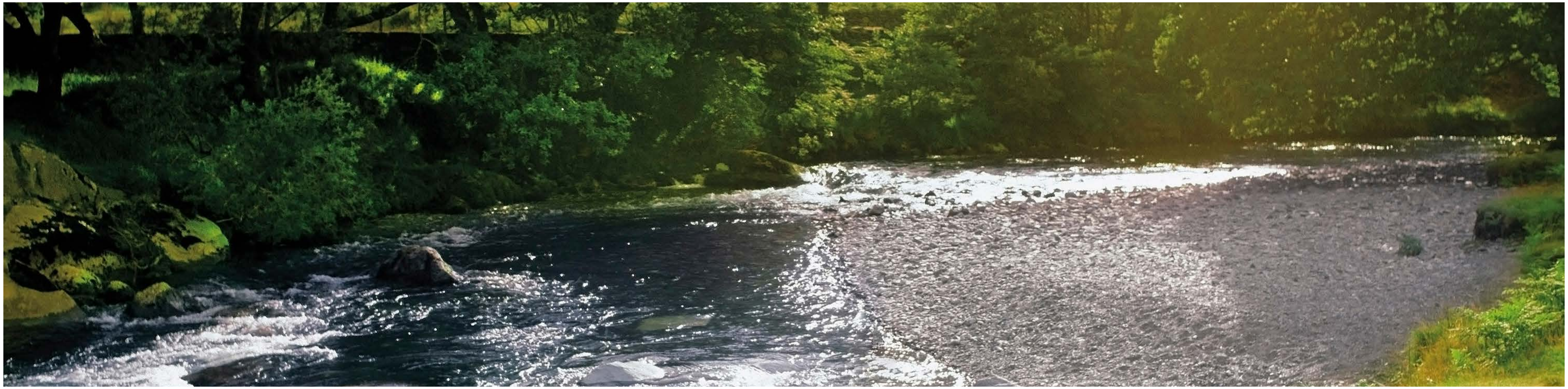
No additional commentary relating to this data table.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

ADDITIONAL REPORTING REQUIREMENTS

Code	Measure	Commentary
B8	Improving reservoir resilience	As part of our year end reporting and assurance for this Performance Commitment we have made available a Section 10(6) Certificate (issued to us by an independent Defra appointed Panel Engineer) which confirms we have closed out all relevant Section 10(3)(c) measures in the Interest of Safety at Cae Llwyd, along with NRW's receipt for this. We also have provided a draft certificate and email from our Panel Engineer for similar completion at Pendinas. Completion of all MITIOS at Cae Llwyd and Pendinas means that we are able to claim the 9.1% for each site, taking our total for the AMP to 36.4%.
A3	Number of lead pipes replaced	Number of lead pipes replaced is a financial incentive penalty/reward performance commitment. In order to tackle lead in customers' homes we want to maximise our impact, replacing both the communication pipe (the pipe we own) and the supply pipe (the pipe that the customer owns). In instances where a customer has been offered but refused a free Hafren Dyfrdwy lead service pipe replacement, the customer will sign a Reg30 customer permission proforma (as evidence), indicating their wish to decline the offer. A copy of the signed Reg30 customer proforma is then saved against the customer's record and referred to on the Hafren Dyfrdwy Lead Performance Commitment central job tracker for future reference and auditing purposes and this process was included as part of our year end assurance.
H4	Supporting our priority service customers during an incident	CCWater has provided the following view of the Performance Commitment: "We see this PC as being business as usual. Companies are already expected to deliver the additional support that customers are signed up for. Would prefer to see at least 95% of consumers who are on the Priority Services Register to be satisfied with the support offered to them. Companies should seek views from people on their PSR following an incident and could also ask as part of their Ofwat required data checks."
B4	Risk of severe restrictions in a drought	We carried out an update of the 25-year (2020/21 to 2044/45) average risk. This average risk update applied only to the year in question. The reported risk, as assured externally by Jacobs, remains unchanged from the previous year, and in line with our performance commitment target for Year 3 of AMP7. This risk has remained unchanged. A balance sheet of supply-demand changes does not accompany this text commentary as there is no change in terms of performance from the previous year or the performance commitment target.
B6	Unplanned outage	This measure has been through our independent third line assurance and we are compliant against all AMP7 methodology components. Jacobs' Assurance summary is included on page 69.

Code	Measure	Commentary
H1	H1 - Priority services for customers in vulnerable circumstances	PSR reach: The % split across the PSR membership categories A to E is forecast to continue as Year 3 end and no changes to the weighting in Year 4. The forecast will be reassessed at the end of year 4 to enable sampling of new campaigns and continued PSR activity. PSR data-checking: We monitor for operational purposes PSR membership month on month. Over the year we have had 1,864 customers added and 457 removed. Third parties are not utilised to support attempted contact activity at present, as such all activity is direct from Hafren Dyfrdwy and reported in our attempted contacts measure.
G1	C-MeX	We offer a range of contact channels for our customers which exceed the minimum of five channels as set out by Ofwat. Customers can contact us by the following methods: letter, email, telephone, WhatsApp, Livechat, Apple chat, short message service ('SMS') and social media (Facebook direct message, Twitter direct message, Instagram direct message).
G2	D-MeX	As part of our assurance programme we have utilised our standard three lines of assurance processes to ensure that our performance is an accurate reflection against the selected Water UK metrics in D-MeX. We confirm we have not found any material issues as a result of this process.
G4	Welsh Language	We converse with the Welsh Language Commissioner around the upcoming standards and company scheme. This includes sharing our methodology, external assurance feedback (Audit) and overview of our submission. The Welsh Language Commissioner has confirmed receipt via email, and did not raise any concerns.
NEP01	Delivery of National Environment Programme	NRW wrote to Hafren Dyfrdwy on 7 June 2023 confirming sign off of the Year 3 NEP: "There was one claim at the end of Yaer 3 – for driver W_INNS_INV: INNS surveillance and risks analysis on HD assets (pathway assessment). Please find enclosed an amended version of the NEP, this version has been updated to include the one scheme signed off in March 2023. No other changes to the programme have been made."



4A - WATER BULK SUPPLY

Year ended 31 March 2023

This table is a nil return, as Hafren Dyfrdwy do not have any trades that qualify under the RAG 4.10 definition.

4B - ANALYSIS OF DEBT

Year ended 31 March 2023

No additional commentary relating to this data table.

4C - IMPACT OF PRICE CONTROL PERFORMANCE TO DATE ON RCV

Year ended 31 March 2023

Commentary for this data table is set out on the next page.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

TABLE 4C COMMENTARY

TOTEX BASELINE (LINES 1 – 11)

Gross variance and timing differences

Actual wholesale totex is £10.3 million (line 4C.6) above the FD allowance for Year 3 of the AMP, before timing differences.

We have included two timing differences: our reservoir programme and the Water Industry National Environment Programme ('WINEP') eels obligation.

Our reservoirs programme assumed a flat phased budget of c.£8 million over the AMP. We undertook the investigations in 2020/21 that confirmed the maintenance required under Section 10 of the Reservoir Act was forecast to cost £4.5 million. We provided for this work in our 2020/21 accounts as we had the obligation to undertake the required works. In the current year, we have utilised this provision, unwinding the previous timing difference.

Our second timing adjustment is related to the WINEP eels programme which has a single obligation at Sesswick. Our PR19 plan assumed early delivery with the programme completing at the end of Year 2. In 2020/21 the program of works was reprofiled to deliver in Years 4 and 5 of the AMP to appropriately respond to the environmental challenges our surveys and planning processes identified. We continue to identify further challenges but are confident of delivering on the WINEP obligation by 31 December 2025.

Net variance excluding timing differences

In water resources totex is £2.8 million (4C.8) higher than the assumed FD. We have allowed around £1.3 million opex (including a £1.1 million provision) for corrective action for the repair or decommissioning of one of our mothballed dams, increasing the totex costs above our FD allowance. We have also seen an increase in power due to higher market prices, and hired and contracted and materials due to inflation.

Water Network+ totex is £7.3 million (4C.8) higher than the assumed FD. Over £0.9 million of this variance is due to increased bulk supply costs as identified in 2020/21. This difference will be prevalent in each year of the AMP. Our power costs have increased significantly in the year as global factors have driven the wholesale cost of electricity. With a high demand for electricity to pump treated water this has represented a significant increase in the year. We have also seen increase in hired and contracted, materials and chemicals due to inflation.

We have been operational from our new Powys depot since July 2022. These activities have incurred more employee related and hired and contracted services costs as we transitioned to our new operating model. We have also seen additional set up costs for the Powys depot (including the cost to upskill our new team).

Wastewater Network+ has incurred £1.8 million more than assumed in the FD. This has been impacted by the high energy prices outlined above, in excess of £0.4 million above the FD. £0.8 million of this variance is due to capital expenditure to maintain our sewage treatment facilities. We have also seen increase in hired and contracted and materials due to inflation.

4D - TOTEX ANALYSIS
(WATER RESOURCES AND WATER NETWORK+)

Year ended 31 March 2023

No additional commentary relating to this data table.

4E - TOTEX ANALYSIS
(WASTEWATER NETWORK+ AND BIORESOURCES)

Year ended 31 March 2023

No additional commentary relating to this data table.

4F - MAJOR PROJECT EXPENDITURE BY PURPOSE
(WHOLESALE WATER)

Year ended 31 March 2023

This table is not required as Hafren Dyfrdwy does not have any qualifying projects.

4G - MAJOR PROJECT EXPENDITURE BY PURPOSE
(WHOLESALE WASTEWATER)

Year ended 31 March 2023

This table is not required as Hafren Dyfrdwy does not have any qualifying projects.

4H - FINANCIAL METRICS

Year ended 31 March 2023

At 31 March 2023, the Company's regulatory gearing was 60.24%.

Its credit rating was BBB+ (Standard & Poor's) with a stable outlook.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

4I - FINANCIAL DERIVATIVES

Year ended 31 March 2023

This table is not required as Hafren Dyfrdwy does not have any financial derivatives.

4J - BASE EXPENDITURE ANALYSIS
(WATER RESOURCES AND WATER NETWORK+)

Year ended 31 March 2023

No additional commentary relating to this data table.

4K - BASE EXPENDITURE ANALYSIS
(WASTEWATER NETWORK+ AND BIORESOURCES)

Year ended 31 March 2023

No additional commentary relating to this data table.

4L - ENHANCEMENT EXPENDITURE
(WATER RESOURCES AND WATER NETWORK+)

Year ended 31 March 2023

No additional commentary relating to this data table.

4M - ENHANCEMENT EXPENDITURE
(WASTEWATER NETWORK+ AND BIORESOURCES)

Year ended 31 March 2023

No additional commentary relating to this data table.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

4N - DEVELOPER SERVICES EXPENDITURE (WATER NETWORK+)

Year ended 31 March 2023

No additional commentary relating to this data table.

4O - DEVELOPER SERVICES EXPENDITURE (WASTEWATER NETWORK+ AND BIORESOURCES)

Year ended 31 March 2023

No additional commentary relating to this data table.

4P - EXPENDITURE ON NON-PRICE CONTROL DIVERSIONS

Year ended 31 March 2023

No additional commentary relating to this data table.

4Q - DEVELOPER SERVICES - NEW CONNECTIONS, PROPERTIES AND MAINS

Year ended 31 March 2023

No additional commentary relating to this data table.

4R - CONNECTED PROPERTIES, CUSTOMERS AND POPULATION

Year ended 31 March 2023

Average Customer volumes

Total Residential customers (excluding voids) have increased by c.1.0% since the prior year to 103,699. Of this increase, 0.8% was due to growth and 0.2% from bringing voids into charge.

The movement in voids was weighted towards the end of the year, and therefore this average change in voids is lower than the total movement in the year.

Total Commercial customers remained steady, although we have had a slight increase in voids during the year.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

4R - CONNECTED PROPERTIES, CUSTOMERS AND POPULATION CONTINUED

Year ended 31 March 2023

WATER CUSTOMERS AT YEAR END

Cattle Troughs

Previously, we had not removed the cattle troughs from the total customers in the table. The total cattle trough customers are 717 in charge and 385 in void. These have been removed from the current year reporting. More detail can be seen in the 'Improving Clarity and Transparency' section.

Smart Meters

We do not yet have a smart metering programme, so only have a minimal volume of test installations.

Below Minimum Bill and 'Other' Unbilled

We have zero below minimum bill customers for water.

The total volume of 'other unbilled' has risen from 425 to 543. This is due to the programme to bring voids into charge. As this ramped up towards year end (after we received new Government data on occupancy in February 2023) some of the accounts identified and flagged as active in the last two weeks of the year were not billed as at 31 March 2023, increasing the volume of unbilled other at year end. We expect this to drop again in the 2023/24 year. Other reasons for these accounts are:

- Customer query
- System generated query
- Account in probate
- New connection not yet billed

To calculate population and household growth, CACI Ltd provided us with an estimate of the household water occupancy rates at an individual property level from the Ocean Database, based on the 2011 census, and matched to data provided from the Company's billing system.

The billing system data provided enabled the occupancy rates to be split out for measured and unmeasured customers. This was aggregated to provide Water Resource Zone level and company occupancy data.

Applying the occupancy rate to the reported property numbers for measured and unmeasured customers provided a baseline household population.

An adjustment was made to include hidden and transient population (derived from consultant analysis), who are connected to the water supply and using water but are not included in the Census population and are therefore not included in the population derived from the CACI occupancies.

4R.29

To calculate non-resident population a study was undertaken to determine the non-resident population, which includes people staying at second addresses for holiday purposes and short stay visitors such as domestic night and foreign night visitors. The domestic day visitors and daily commuters are explicitly excluded.

Evidence has been drawn from a mix of Census data, survey and administrative sources, in addition to published research. Data has been gathered for a range of geographical areas including national, regional, local authority areas, postal areas and Census output areas. The population estimates were presented as 'Low', 'Medium' and 'High' totals, reflecting the uncertainty associated with the process. The Medium range was chosen for each operating area, i.e. Severn Trent and Hafren Dyfrdwy, and the population data was proportionally allocated at catchment level in line with the population count for each site to represent the non-resident population.

5A - WATER RESOURCES ASSET AND VOLUMES DATA

Year ended 31 March 2023

No additional commentary relating to this data table.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

5B - WATER RESOURCES OPERATING COST ANALYSIS

Year ended 31 March 2023

No additional commentary relating to this data table.

6A - RAW WATER TRANSPORT, RAW WATER STORAGE AND WATER TREATMENT DATA

Year ended 31 March 2023

There are no Works in Hafren Dyfrdwy that meet the criteria of "not used this year, but not yet decommissioned".

6B - TREATED WATER DISTRIBUTION - ASSETS AND OPERATIONS

Year ended 31 March 2023

6B Ofwat
The total annual leakage reported in 6B is an interim position as we seek to improve compliance with the Common Reporting Methodology. We have used it for performance reporting the three year average and annual WRMP.

Smart Metering Programme
Hafren Dyfrdwy utilises Automated Meter Reading ('AMR') meters, which use technology to enable consumption data to be read remotely without having to directly access the meter or property for a manual reading.

Business Plan Commitments
The Value reported in 6D.23 is the difference between Total Leakage reported at APR22 and APR23. Total leakage in this line includes leakage benefit from all metering. Note, that Hafren Dyfrdwy does not have any smart meters installed.

The WRMP/PR24 leakage forecasts align to reported leakage performance up to and including APR22. The WRMP/PR24 leakage forecasts assume a trajectory from last available outturn at data lockdown. This is currently APR22 performance to the required 13% target by 2024/25, and the forecasts from this point onwards will reflect the final WRMP plan leakage reductions. Currently APR23 leakage data is not included in draft WRMP. This will be updated in due course.

Hafren Dyfrdwy currently has no programmes to install other than customer request installations.

6C - MAINS, COMMUNICATION PIPES AND OTHER DATA

(WATER NETWORK+)

Year ended 31 March 2023

No additional commentary relating to this data table.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

6D - DEMAND MANAGEMENT - METERING AND LEAKAGE ACTIVITIES

Year ended 31 March 2023

No additional commentary relating to this data table.

6F - WRMP ANNUAL REPORTING ON DELIVERY - NON-LEAKAGE ACTIVITIES

Year ended 31 March 2023

This table is a nil return, as Hafren Dyfrdwy does not have any WRMP schemes.

7A - FUNCTIONAL EXPENDITURE

(WASTEWATER NETWORK+)

Year ended 31 March 2023

No additional commentary relating to this data table.

7B - LARGE SEWAGE TREATMENT WORKS -

(WASTEWATER NETWORK+)

Year ended 31 March 2023

This table is a nil return because Hafren Dyfrdwy has no large sewage treatment works.

7C - SEWER AND VOLUME DATA

(WASTEWATER NETWORK+)

Year ended 31 March 2023

All rising main repair lengths reported in line 7C.15 are of known length due to the need for excavation and assessment following failure. No assumptions are made on pipe length other than at the period of initial assessment, this then gets updated and reported with actual length following the repair via a job closure form. We assess rising mains as 'structurally refurbished' by reinstating the pipework back to its original operating and design purpose.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

7D - SEWAGE TREATMENT WORKS DATA (WASTEWATER NETWORK+)

Year ended 31 March 2023

7D.17-7D.20

7D.17 - No new permits in reporting year.

7D.18 - No new permits in reporting year.

7D.19 - No new permits in reporting year.

7D.20 - No new permits in reporting year.

7E - ENERGY CONSUMPTION AND OTHER DATA - (WASTEWATER NETWORK+)

Year ended 31 March 2023

No additional commentary relating to this data table.

7F - WINEP PHOSPHORUS REMOVAL SCHEME COSTS AND COST DRIVERS - WASTEWATER NETWORK+

Year ended 31 March 2023

No additional commentary relating to this data table.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

8A - BIORESOURCES SLUDGE DATA

Year ended 31 March 2023

8A.1 & 8A.2

All treatment of Hafren Dyfrdwy sludge is contracted out by Dŵr Cymru Welsh Water.

8A.10 - 8A.18

Tankered domestic waste is imported at Newtown only which is recorded by logger. The logger records date, time, driver, volume and Suspended Solids as well as location. This allows for the team to determine the Tankered domestic loads specifically for Newtown.

8A.4

The estimate for this line is based on transaction records of every entry from our JRP loggers which is listed as non-appointed liquid waste. This data includes the volume and suspended solids content which is then used to calculate the tonnes of dry solids (tds) of non-appointed loads.

8B - BIORESOURCES OPERATING EXPENDITURE ANALYSIS

Year ended 31 March 2023

No additional commentary relating to this data table.

8C - BIORESOURCES ENERGY AND LIQUORS ANALYSIS

Year ended 31 March 2023

This table is a nil return for Hafren Dyfrdwy.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

8D - BIORESOURCES SLUDGE TREATMENT AND DISPOSAL DATA

Year ended 31 March 2023

This table is a nil return for Hafren Dyfrdwy.

9A - INNOVATION COMPETITION

Year ended 31 March 2023

No additional commentary relating to this data table.

11A - OPERATIONAL GREENHOUSE GAS EMISSIONS

Year ended 31 March 2023

11A.3

Process and fugitive emissions: New emissions methodology applied this year.

11A.30

Disposal of Waste: Sludge treatment and transportation undertaken by third parties.

11A.33 to 36

Scope 3 emissions GHG type CO2/CH4/N20/Other types: Scope 3 emissions split not reported as unable to split a number of Scope 3 emissions by greenhouse gas type due to lack of breakdown in emissions factors. To avoid sub-totals not matching totals, we have chosen to exclude reporting on a subset of the data.

11A.39

Exported Renewables: Sold REGOs this year.

11A.48

Green Tariff Electricity: Not reported, benefits shown in Scope 2 market based reporting.

11A.49

Capital Projects (Cradle to gate): Not reported but will work to provide this granular level of detail in future years.

11A.50

Capital Projects (Cradle to build): Majority calculated from spend factors. This includes all capital expenditure.

11A.51

Purchased Goods and Services: Calculated from a combination of spend (68%) and CAW (32%) data (i.e. Chemicals). We have removed chemicals to avoid double counting. This category covers operational spend with third parties excluding that related to outsourced tankering and energy related activities.

Data tables can be accessed through our Regulatory Library on the Hafren Dyfrdwy website.

GREENHOUSE GAS ('GHG') EMISSIONS REPORTING FOR 2022/23

This section provides reporting for operational and embedded emissions for Hafren Dyfrdwy. We have a strong track record of operational carbon reporting, disclosure and reduction.

EXPLANATORY STATEMENT ON REPORTING

This is our first year reporting our process emissions for Hafren Dyfrdwy from sewage and sludge based on an industry-leading measurement methodology which uses our own data collection and reflects the latest science. This has resulted in a substantial increase in our reported total process emissions with our estimated emissions being reported as 1,030 tCO2e versus an industry estimated value based on the Carbon Accounting Workbook ('CAW') v17 value of 215tCO2e. It is clear from our evidence that the longstanding UKWIR CAW methodology, which uses population equivalent and sludge volumes, underestimates our total emissions and that is why we have chosen to move away from this method. We have continued to improve our understanding of process emissions by gathering more evidence from our industry-leading monitoring programme where as of April 2023 the process emissions monitoring programme has grown to monitor a total of nine Severn Trent Water sites responsible for 40% of our estimated nitrous oxide emissions. This confirms that emissions factors are more in line with the IPCC factors.

For Scope 2, whilst we have used more electricity, we have benefitted from reduced grid emissions for location based factors. The new line in table 11A for reporting green tariff electricity is zero as we purchase renewably backed electricity which is reflected in our market emissions Scope 2 line. Also, for the first time this year we have included electric vehicle data from our onsite charge points; while currently small, this source will grow as we roll out our 100% low carbon fleet by 2030.

The carbon benefit to our reporting of our exported renewable electricity has fallen as we have sold our REGO certificates to fund further investment in our decarbonisation programme. In previous years we have netted off our renewable electricity that we export benefit, however, this year we have chosen to use the proceeds from the renewable electricity which we export to the grid and plan to invest in our research and development programme to reduce Scope 1 emissions, rather than using them to net off some emissions.

Finally, this year we are including additional emissions data on chemicals (included granular activated carbon emissions) as specified in the RAG, and energy production and extraction calculated using data from the CAW and using Business, Energy and Industrial Strategy ('BEIS') factors. We have removed the chemical values reported in 11A.29 from our purchased goods and services to avoid double counting, as per the guidance. We have also estimated emissions for the treatment, transport and disposal of biosolids which are undertaken by a third party.

EXPLANATORY STATEMENT ON REPORTING

Our targets and ambitions are set at a Group level. When reporting at appointed business level we include emissions within the waste/water totals, splitting the admin emissions equally between them. We have committed to Science Based Targets ('SBTs') and are now reporting in our Annual Report and Accounts against our SBT baseline.

This year, in the Severn Trent Plc Annual Report and Accounts 2022/23 and 2023 Sustainability Report, we continue to report progress against our 2030 Triple Carbon Pledge target including our net operational GHG emissions and a wider range of Scope 3 emissions from our supply chain. We are working with our suppliers and driving change in our supply chain through progress on our Scope 3 engagement SBT (currently 44% of our supply chain have committed to setting SBTs and a full explanation is included in the Hafren Dyfrdwy Annual Report and Accounts 2022/23). Our fifth Task Force on Climate-Related Financial Disclosures ('TCFD') disclosure is also included in the Severn Trent Plc Annual Report and Accounts 2022/23.

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

The Group has held the Carbon Trust Standard continuously since 2009, which recognises our consistent emissions reductions and effective carbon management processes and achieved the Advancing Tier for the Carbon Trust Zero Standard – this certification recognises the progress of an organisation on its journey to net zero.

This included assurance to IS0 14064-3 International standard for GHG emissions for our Scope 1 and 2 and a small portion of our Scope 3 data. We are in the process of verifying our 2022/23 footprint with the Carbon Trust to maintain our accreditation. The Group continues to report to the Carbon Disclosure Project ('CDP') each year which means our climate change information is publicly accessible. CDP requests information about climate change from companies on behalf of investors and scores each company on the quality and completeness of their responses. In 2022, the Group received a CDP rating of A- and was recognised as a Supplier Engagement Leader.

EXPLANATORY STATEMENT ON REPORTING OF EMBEDDED EMISSIONS AT HAFREN DYFRDWY

Reporting embedded emissions is mandatory for the first time this year and table 11A has a line for capital projects (11A.50) and purchase goods and services (11A.51). The reported figures for these lines are largely calculated using emission factors on spend categories. The factors are developed by expert consultants, Small World Consulting, based on 'input output analysis'.

For the purposes of reporting, we have defined all capital spend as capital projects (11A.50). While the option has been given to provide cradle to build or cradle to gate, we have only reported cradle to build this year due as our capital projects are primarily reported from spend analysis and the factor represents cradle to build. By using spend analysis we are able to account for only emissions within year for projects which span multiple years. Where possible we have substituted values from our in-house carbon calculator tool for projects which were constructed entirely in the financial year 2022/23. We intend to build on this by using the carbon calculator for projects which span multiple years. For purchase goods and services we have used spend emission factors on all our supply chain Opex spend (excluding energy and transport related items captured elsewhere) and removed the emissions calculated for chemicals (line 11A.29) to avoid double counting.

We have carried out our baseline quantification of these emissions using capital expenditure data and we use a capital carbon calculator to measure embedded emissions. Enhancements to this have improved the accuracy of the data and we have mandated its use with our teams and partners.

However, the majority of the schemes that have gone through the carbon calculator have yet to begin construction. We have calculated an emissions of circa. 4kt CO2 e for 2022/23 but this is based on spend data using sector emissions factors from an environmentally extended input–output analysis model and at the supplier level, so has not split out the values between construction and maintenance activities. It is our intention to further develop our carbon calculator so that it covers a wider range of activities such as maintenance and embed it in our decision making processes to drive emission reductions as well as allow for more granular reporting in 2023/24.

We consider our reporting of embedded carbon as category RED. While we calculate a crude level of emissions from extended input-output analysis and have our data third line assured from our external auditors, Jacobs, and the Carbon Trust, we do not meet a recognised standard for reporting embedded emissions. Our carbon tools are designed to the PAS2080 standard and therefore as we move to reporting from the tool we will improve our RAG status.

Strengths

- Clear and ambitious Group targets on GHG emissions (2030 Triple Carbon Pledge and SBTs).
- Strong leadership commitment and support from stakeholders, shareholders and customers.
- Strong track record of GHG accounting, reporting and reduction.
- Collaborative approach with the UK water industry and beyond, ensuring consistency and sharing of best practice.
- Best practice energy management approach following the principles of ISO50001 with dedicated expertise and efficiency investment.
- The Group leads the sector in renewable generation across our appointed and non-appointed businesses, including in food waste generation and major investments in advanced digestion.
- The Group leads lead the sector in our approach to measuring and understanding process emissions - our most significant Scope 1 emissions source.
- The Group implemented an internal carbon tax at the beginning of 2022/23, at a rate of £18/tonne CO2e, across all directorates which has raised funds of £5.2 million that are being invested in our net zero programme.
- We have an approximate baseline quantification for capital goods and services using expenditure based on Environmentally Extended Input–Output methodology.
- We have made progress implementing the use of a carbon calculator which allows us to quantify and compare carbon emissions of different solutions. This is now standard across our capital projects and we will lead to increased insight over future years.
- Use of increasing data set in actual measurement of process emissions.

Weaknesses

- Process emissions are calculated from a relatively small data set and extrapolated up with some broad assumptions. Our confidence grade is therefore low at C5. This compares to the CAW confidence grade for process emissions of B2 which does not reflect its accuracy.
- We have made some progress in implementing the use of the carbon calculator for capital projects, however due to the complexities of data gathering only projects which were constructed within the financial year were used in end of year reporting. The values make up a tiny amount (less than 1%) of our Scope 3 and our capital projects number is primarily made up of spend assessment.
- This year we are not reporting cradle to gate as our capital projects are primarily reported from spend analysis and the factor represents cradle to build. As the carbon calculator is more widely used the data will be available. Our split for water and waste is a ratio derived from capital spend for 21-22 (table 4D.11 and 4E.11).
- We recognise that embedded emissions (purchase goods and services and capital projects) is largely based on broad emission factors provided from our consultant Small World Consulting. We would like to move to more specific factors and ultimately activity data. This relies on our supply chain to mature in their carbon reporting.
- We have not consistently used carbon as a decision making factor in capital selection to date. We generally focus on lowest whole life cost which, while often aligned with lowest carbon cost, is not always.

Opportunities

- Our own data-gathering of process emissions shows that significant improvement in data is needed to properly reflect the emissions from our assets and operation and enable improvements to be made. Deeper insights from undertaking our own monitoring of process emissions confirms that our process emissions are substantially higher than previous existing industry estimates within the CAW.
- Deeper and more accurate understanding allows us to target our investment more effectively to reduce emissions. We have therefore focused heavily in research and development in this area and recognise this as an opportunity.
- The increased focus and ambition on GHG emissions presents opportunities as outlined in our TCFD disclosure in the Severn Trent Plc Annual Report and Accounts 2022/23 on pages 39 to 57.
- Government policy to achieve net zero across the economy presents opportunities for us to move quicker.
- As markets change, we will be able to take advantage of new technologies and products to reduce our emissions cost-effectively. This has been seen most successfully in electricity, the only sector of the economy to see successful decarbonisation over the past decade and we are seeing similar changes in transport options as manufacturers improve their products.
- Emerging markets for different carbon offsets potentially open up more ways to capture or reduce carbon and move investment into lower-carbon technologies.
- Considering PAS2080 standards could identify areas of improvement in our processes.
- Our growing data set will allow much more understanding on the choices available and will allow improved quantification and baselining.
- Including carbon as a decision-making factor may encourage more innovative thinking and options to be considered.
- As part of our SBTs we now have a number of suppliers signed up to introduce their own SBTs which should help drive down emissions in our supply chain. The majority of our suppliers are yet to set a SBT and those that already have will start to implement programmes towards achieving their targets.

Threats

- Increasing demands from a changing climate, population growth, increasingly water quality standards and resilience of water supply require a significant levels of investment which makes our challenge ever more difficult.
- Changing water standards may mean more carbon intensive processes are used.
- We cannot achieve net zero and SBTs alone. We need suppliers, stakeholders, Government and regulators working towards the same aims especially where lower carbon options are more costly or higher risk. This is especially true for our Scope 3 emissions.
- The additional administrative burden and any cost impact of this in our supply chain is yet to be understood.
- The relatively high uncertainty in quantification for embedded emissions means there is margin for error. Our constrained cost frameworks and low margin for risk on environmental and service requirements might not allow lowest carbon choices to be selected.

SUPPLEMENTARY DISCLOSURES

Year ended 31 March 2023

A) BORROWINGS AND INTERCOMPANY LENDING

Amounts paid to associated companies in the year and related payable balances at the year end are outlined below:

		Amounts paid £m	Interest rate %	Payable balance £m
Severn Trent Plc	Hafren Dyfrdwy Cyfyngedig	-	BR + 1.5%	30.069
Severn Trent Water Limited	Hafren Dyfrdwy Cyfyngedig	-	3.635%	–
Severn Trent Draycote Limited	Hafren Dyfrdwy Cyfyngedig	-	3.635%	33.806

Amounts received from associated companies in the year and related receivable balances at the year end are outlined below:

		Amounts received £m	Interest rate %	Receivable balance £m
Severn Trent Plc	Hafren Dyfrdwy Cyfyngedig	26.729	BR + 1.5%	–
Severn Trent Water Limited	Hafren Dyfrdwy Cyfyngedig	–	3.635%	–
Severn Trent Draycote Limited	Hafren Dyfrdwy Cyfyngedig	–	3.635%	–

B) TRANSFER OF ASSETS/LIABILITIES, OMISSIONS, WAIVERS, GUARANTEES

There were no transfers of assets or liabilities to associated companies, no guarantees were issued in favour of associated companies.

There were no rights omitted to be exercised resulting in a reduction in the value of net assets of the Company and no waivers of any consideration, remuneration, or any other payment receivable by the Company.

Services received by the Appointee from associated companies are outlined below.

C) SUPPLY OF SERVICES

Services supplied by the Appointee to associated companies are outlined below.

Service	Company	Turnover of associate in the period £m	Terms of supply	Value £m
Bulk water supplies	Severn Trent Water Limited	1,961.978	Tariff	0.815
Bulk waste water supplies	Severn Trent Water Limited	1,961.978	Tariff	0.039
Management Recharge	Severn Trent Water Limited	1,961.978	Market tested	0.474
Water operational services	Severn Trent Water Limited	1,961.978	Cost	1.024
Records management	Severn Trent Data Portal Limited	–	Tariff	0.006
				2.359

Service	Company	Turnover of associate in the period £m	Terms of supply	Value £m
Management Recharge	Severn Trent Water Limited	1,961.978	Market tested	(0.474)
Pass through of management charges	Severn Trent Plc	–	Cost	0.011
Data Portal Income	Severn Trent Data Portal Limited	–	Cost	(0.002)
Reed bed refurbishment	Severn Trent Services Operations UK Limited	25.938	Cost	–
Pass through of management charges	Severn Trent Water Limited	1,961.978	Cost	1.404
Retail support services	Severn Trent Water Limited	1,961.978	Cost	0.277
Wholesale support services	Severn Trent Water Limited	1,961.978	Cost	1.891
Bulk water supplies	Severn Trent Water Limited	1,961.978	Tariff	3.405
Bulk waste water supplies	Severn Trent Water Limited	1,961.978	Tariff	0.037
Water operational services	Severn Trent Water Limited	1,961.978	Cost	1.061
Waste water operational services	Severn Trent Water Limited	1,961.978	Cost	1.148
Treatment of imported sludge	Severn Trent Water Limited	1,961.978	Cost	–
Tankering fleet services	Severn Trent Water Limited	1,961.978	Cost	0.105
Technology services	Severn Trent Water Limited	1,961.978	Cost	0.847
				9.709

D) SERVICE PROVIDED TO THE NON APPOINTED BUSINESS

Service	Basis of recharge	Value of recharge £m
Other water companies billing activities	Direct and indirect costs	1.616
Rental income	Direct and indirect costs	0.008
Forestry activites	Direct and indirect costs	1.000
		2.624

E) GROUP RELIEF CHARGES FOR TAX LOSSES

Charges are made between UK entities for the receipt of tax losses within the Severn Trent Group at the prevailing corporation tax rate in the period (2021/22 - 19%).

Company	Turnover of associate in the period £m	Terms of supply	Value £m
Severn Trent Leasing Limited	22.286	Cost	1.224.7

APPENDIX A: APR ASSURANCE APPROACH AND OUTPUTS

APPENDIX A: ASSURANCE APPROACH AND OUTPUTS

In this appendix you will find:

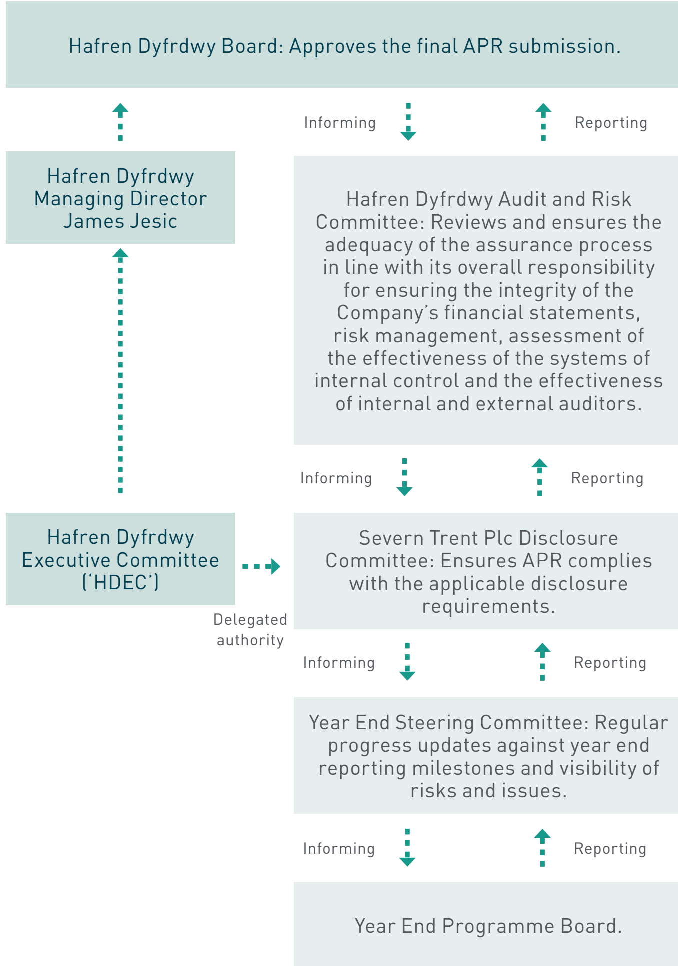
A.1 THE APR ASSURANCE APPROACH

The 2022/23 APR assurance plan uses our established risk-based three lines of assurance approach to ensure it has been given the appropriate level of governance and assurance. You can read more about our Company governance and assurance framework in [our Regulatory Reporting and Assurance document.]

A.2 APR SPECIFIC GOVERNANCE APPROACH

Our compliance framework incorporates Ofwat's most recent APR and regulatory reporting requirements, the 2022/23 revised Regulatory Accounting Guidelines ('RAGs'), and wider company duties (including Welsh Government directives, such as the Well-being of Future Generations (Wales) Act 2015) which have helped us to shape some of our bespoke Performance Commitments.

The below diagram demonstrates the specific assurance governance applied for the approval and publication of the APR.



A.3 HOW WE APPROACH APR ASSURANCE

Each line of the APR is risk assessed centrally using an established framework to ascertain the level of assurance required: first, second, or third line assurance. Once the level of assurance is identified, the Group Compliance and Assurance Team co-ordinates and schedules the full assurance programme throughout the year, and at year end, with data and methodology producers and assurance providers.

As part of the performance reporting, we are required to publish regulatory accounts that, among other things, set out financial information:

- On the allocation of cost by price control and subsections of the value chain;
- On non-appointed activity; and
- On transactions between associated companies.

In reporting on the above, we are required to comply with Ofwat's RAGs - in particular 'RAG 2 - Guideline for the classification of costs across the price controls' and 'RAG 5 - Guideline for transfer pricing'. Over and above the RAGs, our Licence places an obligation on us to ensure that every transaction between the appointee and any associated company is at arm's length, so that neither gives to nor receives from the other any cross subsidy (Condition F).

This also applies to the appointed and non-appointed activity within the appointee. We have a number of controls in place to ensure that we apply the requirements as set out by Ofwat. Cost allocation activities within our Finance Team are part of our established third line assurance processes (the approach and outcome are explained on page 151).

A.3.1 First line assurance

A key part of our assurance framework is the first and second line assurance activities that are undertaken throughout the year.

Each line of our APR submission has been reviewed during first line assurance. This activity is undertaken by the teams responsible for reporting the data so that colleagues with the right expertise are conducting in-depth quality checks at the time the data is produced. They are also responsible for maintaining effective internal controls and implementing corrective actions to address process deficiencies if identified.

Each reporting line in the APR is assigned to a responsible manager who reviews and approves the data, process documentation and commentaries, forming an integral part of the assurance approach. An approval process is followed with final sign off for both the data and commentary at Director level.

A.3.2 Second line assurance

For our higher risk measures, the second line assurers facilitate and monitor the implementation of effective practices, ensuring that the first line assurance is designed, implemented and operates correctly, confirming that documented processes have been followed, and complete checks and controls to ensure the integrity and reliability of the data and information we publish.

Where it is identified that third line assurance is required, the Group Assurance Team liaises with the reporting teams to monitor improvement activities and resolve prior outstanding actions to ensure there are not any material issues.

A.3.3 Third line assurance

Our most critical areas are subject to third line assurance. Group Internal Audit provides comprehensive assurance based on the highest level of independence within the Company. In addition, we use external financial and technical auditors who are independent of the Company and provide objective assurance of our data and information. The following details the activities for each of our third line providers:

Internal Audit

Internal Audit performed several checks as part of its assurance to ensure that:

- Processes followed were appropriate to produce the data required for our APR submission.
- Historical data used in the tables could be traced back to source or previously published information.
- Data was produced in line with the methodology documents and RAG 4 requirements (Guideline for the table definitions for the APR).
- Data from the working files was aligned to the APR data tables to be submitted.

Deloitte financial audit opinion

Deloitte provided financial audit procedures over sections 1 and 2 of the APR data tables. These sections provide a baseline level of historical cost financial information and are aligned to our price controls and associated regulatory performance commitments and incentives set out in Ofwat's 2019 Final Determination.

As in previous years, Deloitte has informed Ofwat that a number of lines in Table 1F will not be subject to an audit opinion. They have carried out agreed upon procedures on the following lines: 1F.9, 1F.16, 1F.17, 1F.20 and 1F.23. Deloitte have not performed any procedures on lines 1F.4, 1F.10, 1F.11, 1F.15, 1F.18 and 1F.19 as these are not within their scope.

Jacobs technical assurance

The technical assurance applied by Jacobs complements our risk-based assurance framework which is, in part, informed by previous assurance findings, as well as emerging risk, and stakeholder feedback. Jacobs provided a staged approach to technical assurance on the elements of the APR that are listed in the tables overleaf. Stages one and two focused on documentation and process and were undertaken on new measures or where there had been changes to processes. During stage one, Jacobs reviewed the process description templates ('PDTs') which are followed to report against Performance Commitments. Stage two included formal reviews. The reviews ensure that:

- Processes are in place to produce data that is consistent with the RAGs, PC definition or non-financial data definition;
- Improvements and changes in processes from previous assurance rounds are clearly stated;
- Accountability and responsibility for each stage of the process is clear with dependencies, assumptions, risks and mitigations identified; and
- There are appropriate checks and controls identified.

Stage three focused on the data produced. Data audits were completed virtually through Microsoft Teams and data provision via SharePoint. The audits involved:

- Confirming that the data produced is consistent with the PDT and aligns with reporting guidance;
- Confirming that internal checks and controls have been completed;
- Carrying out proportionate sampling checks;
- Confirming that exclusions have been applied correctly; and
- Ensuring that any rewards/penalties and data points are calculated in line with our Final Determination requirements. This focuses on the mechanistic calculation to give the gross reward/penalty position.

The assurance approach is summarised over the next few pages.

Regulatory Accounts

		Methodology & Process	Data
1A	Income statement	Deloitte	Deloitte
1B	Statement of comprehensive income	Deloitte	Deloitte
1C	Statement of financial position	Deloitte	Deloitte
1D	Statement of cash flows	Deloitte	Deloitte
1E	Net debt analysis	Deloitte	Deloitte
1F[1]	Financial flows	Deloitte / Jacobs	Deloitte / Jacobs
2A	Segmental income	Deloitte / Jacobs[2]	Deloitte
2B	Totex analysis (wholesale)	Deloitte / Jacobs[2]	Deloitte
2C	Operating cost analysis - retail	Deloitte / Jacobs[2]	Deloitte
2D	Historic cost analysis of tangible fixed assets	Deloitte	Deloitte
2E	Analysis of grants and contributions (water resources, water network+ and wastewater network+)	Deloitte	Deloitte
2F	Residential retail	Deloitte / Jacobs	Deloitte / Jacobs
2G	Non-household water - revenues by tariff type	Deloitte / Jacobs	Deloitte / Jacobs
2H	Non-household wastewater - revenues by tariff type	Deloitte / Jacobs	Deloitte / Jacobs
2I	Revenue analysis	Deloitte	Deloitte
2J	Infrastructure network reinforcement costs	Deloitte	Deloitte
2K	Infrastructure charges reconciliation	Deloitte	Deloitte
2L	Analysis of land sales	Deloitte	Deloitte
2M	Revenue reconciliation	Deloitte	Deloitte
2N	Residential retail - social tariffs	Deloitte	Deloitte
2O	Historic cost analysis of intangible fixed assets	Deloitte	Deloitte

[1] See note on Deloitte financial audit opinion for 1F on page 145.

[2] Assurance of input opex allocations to price control / business unit.

Performance Summary

		Methodology & Process	Data
3A	Outcome performance - water common performance commitments	2nd line / Jacobs	Jacobs
3B	Outcome performance - wastewater common performance commitments	2nd line	Jacobs
3C	Customer measure of experience ('C-MeX') table	2nd line	Jacobs
3D	Developer services measure of experience ('D-MeX') table	2nd line	2nd line / Jacobs
3E	Outcome performance - Non-financial performance commitments	2nd line / Jacobs	Jacobs
3F	Underlying calculations for common performance commitments - water and retail	2nd line / Jacobs	Jacobs
3G	Underlying calculations for common performance commitments - wastewater	2nd line	Jacobs
3H	Summary information on outcome delivery incentive payments	2nd line	Jacobs
3I	Supplementary outcomes information	2nd line	Jacobs

Additional regulatory information - service level

		Methodology & Process	Data
4A	Water bulk supply information	2nd Line	2nd Line
4B	Analysis of debt	Internal Audit	Internal Audit
4C	Impact of price control performance to date on RCV	Jacobs	Jacobs
4D	Totex analysis - water resources and water network+	Internal Audit	Internal Audit
4E	Totex analysis - wastewater network+ and bioresources	Internal Audit	Internal Audit
4F	Major project expenditure for wholesale water by purpose	Internal Audit	Internal Audit
4G	Major project expenditure for wholesale wastewater by purpose	Internal Audit	Internal Audit
4H	Financial metrics	Internal Audit	Internal Audit
4I	Financial derivatives	Internal Audit	Internal Audit
4J	Base expenditure analysis - water resources and water network+	Internal Audit	Internal Audit
4K	Base expenditure analysis - wastewater network+ and bioresources	Internal Audit	Internal Audit
4L	Enhancement expenditure - water resources and water network+	Internal Audit	Internal Audit
4M	Enhancement expenditure - wastewater network+ and bioresources	Internal Audit	Internal Audit
4N	Developer services expenditure - water resources and water network+	Internal Audit	Internal Audit
4O	Developer services expenditure - wastewater network+ and bioresources	Internal Audit	Internal Audit
4P	Expenditure on non-price control diversions	Internal Audit	Internal Audit
4Q	Developer services – New connections, properties and mains	2nd line	Jacobs
4R	Connected properties, customers and population	2nd Line / Jacobs	Jacobs
4V	Mark-to-market of financial derivatives analysed based on payment dates	Internal Audit	Internal Audit
4W	Defined benefit pension scheme – Additional information	Internal Audit	Internal Audit

Additional regulatory information - water resources

		Methodology & Process	Data
5A	Water resources asset and volumes data	2nd line	2nd Line / Jacobs
5B	Water resources operating cost analysis	Internal Audit	Internal Audit

Additional regulatory information - water network+

		Methodology & Process	Data
6A	Raw water transport, raw water storage and water treatment data	2nd Line	Jacobs / 2nd Line
6B	Treated water distribution - assets and operations	2nd Line	Jacobs / 2nd Line
6C	Water network+ - Mains, communication pipes and other data	2nd Line	Jacobs / 2nd Line
6D	Demand management - Metering and leakage activities	2nd Line / Jacobs	Jacobs / Internal Audit
6F	WRMP annual reporting on delivery	2nd Line	2nd Line

Additional regulatory information - wastewater network+

		Methodology & Process	Data
7A	Wastewater network+ - Functional expenditure	Internal Audit	Internal Audit
7B	Wastewater network+ - Large sewage treatment works	2nd Line / Internal Audit	2nd Line / Internal Audit
7C	Wastewater network+ - Sewer and volume data	2nd Line / Jacobs	2nd Line / Jacobs
7D	Wastewater network+ - Sewage treatment works data	2nd Line	2nd Line / Jacobs
7E	Wastewater network+ - WINEP phosphorous removal scheme costs	Jacobs	Jacobs

Additional regulatory information - bioresources

		Methodology & Process	Data
8A	Bioresources sludge data	2nd Line	2nd Line / Jacobs
8B	Bioresources operating expenditure analysis	Internal Audit	Internal Audit
8C	Bioresources energy and liquors analysis	2nd line	2nd Line / Internal Audit
8D	Bioresources sludge treatment and disposal data	2nd Line	2nd line

Additional regulatory information - innovation competition

		Methodology & Process	Data
9A	Innovation competition	Internal Audit	Internal Audit

Carbon

		Methodology & Process	Data
11A	Greenhouse gas emissions reporting	2nd Line	Jacobs

A.4 OUTCOME OF ASSURANCE

Our outcomes of assurance provide oversight of the assurance and audit activities completed by our third line assurance providers, both financial and non- financial. We have included a letter of assurance from our technical assurers, Jacobs, on page 69 of the APR. Deloitte provides an audit opinion on the Regulatory Accounting Statements on pages 86 to 89.

Internal Audit outcome

Internal Audit confirmed that:

"The data used to complete Section 4-9 of the APR has been subject to first and second line assurance reviews and Internal Audit provided further independent data checks. Internal Audit walked through the process used by each of the relevant teams to complete the tables. All additional supporting evidence and answers to any queries raised were provided. No material issues were identified."

Deloitte audit opinion

Deloitte's audit opinion confirms that:

"Hafren Dyfrdwy Cyfyngedig's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WRSA (RAG 1.09, RAG 2.09, RAG 3.14, RAG 4.11 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.14, appendix 2), set out on pages 103 to 105."

Jacobs' assurance outcome

Cost Allocation

Requirements	Assurance undertaken
We are required to publish regulatory accounts that, among other things, set out financial information: • On the allocation of costs by price control and subsections of the value chain; • On non-appointed activity; and • On transactions between associated companies. In reporting on the above, we are required to comply with Ofwat's RAGs - in particular 'RAG 2 - Guideline for the classification of costs across the price controls' and 'RAG 5 - Guideline for transfer pricing'. Our Licence also places an obligation on us to ensure that every transaction between the appointee and any associated company is at arm's length, so that neither gives to nor receives from the other any cross subsidy (Condition F). This also applies to the appointed and non-appointed activity within the appointee. Ofwat expects transactions between Hafren Dyfrdwy and Severn Trent Water to be at arm's length.	We asked Jacobs to review a sample of our cost allocation processes. We selected the sample based on the associated risk. The Jacobs scope covered: • The allocation of costs by price control and subsections of the value chain; • Non-appointed activity; and • Transactions between associate companies. Consistent with previous work in this area, Jacobs reviewed the documentation and processes with a focus on the consistency of the allocation approach with the RAGs. To that end, Jacobs sought to understand: • The areas/activities that were being provided; • The costs associated with that activity which, for the PDTs we reviewed, were operating costs; • How those costs are recharged, allocated and why; and • How our approach is compliant with the RAGs.

Assurance Outcome

"Overall, based on our scope, we consider:

- *The Company has a full understanding of, and meets all of its relevant statutory, License and regulatory obligations in all material respects;*
- *The Company has sufficient processes and internal systems of control to fully meet its requirements; and*
- *The Company undertakes transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business at arm's length."*

Full-Year Performance Commitments ('PCs')	
Requirements	Assurance undertaken
PCs set out in our Final Determination and the processes that were used to produce the figures. This approach is in line with our risk-based approach assurance framework to ensure that Jacobs reviewed our higher and medium risk areas, and those which are customer-focused.	Jacobs' scope of assurance work included reviewing the following: • The processes used and that they are robust, enabling risks to be identified, managed and reviewed; • Alignment to final determination definitions (including additional reporting requirements / reporting guidance / RAG guidance); • Methodology for applying exclusions is in line with reporting guidance; • Data is competently sourced, processed and reported and fit for purpose; • Proportionate sample checks are undertaken; and • Coverage and outputs of checks and controls.

Assurance Outcome

Jacobs concluded in relation to the items they reviewed:

"We conclude that in relation to the items we reviewed:

- *Your processes and internal systems of control are sufficient to meet your regulatory obligations;*
- *Your processes for reporting performance commitments are in line with the guidance and exclusions have been correctly applied. We note that for supply interruptions (B1), leakage (B2) and per capita consumption (B3) you have made changes to the methodology based on your interpretation of the guidance. We consider that the guidelines could be open to alternative interpretation; and*
- *You have appropriate systems and processes in place to identify, manage and review your risks.*

We note that the Board intends to include issues we noted during our review as clarifications or exceptions in the APR."

Full-Year Non-Financial	
Requirements	Assurance undertaken
We continue to develop and improve our reporting processes. Throughout the year we have been monitoring progress against our higher risk measures and, at year-end, Jacobs carried out assurance against the majority of the Section 4-11 non-financial measures.	Jacobs' scope of assurance work included checking the following: • The processes used and that they are robust, enabling risks to be identified, managed and reviewed; • Alignment to reporting guidance / RAG guidance; • Methodology for applying exclusions is in line with reporting guidance; • Data is competently sourced, processed and reported and fit for purpose; • Proportionate sample checks are undertaken; and • Coverage and outputs of checks and controls.

Assurance Outcome

"We conclude that in relation to the items we reviewed:

- *Your processes and internal systems of control are sufficient to meet your regulatory obligations;*
- *Your processes for reporting performance commitments are in line with the guidance and exclusions have been correctly applied. We note that for supply interruptions (B1), leakage (B2) and per capita consumption (B3) you have made changes to the methodology based on your interpretation of the guidance. We consider that the guidelines could be open to alternative interpretation; and*
- *You have appropriate systems and processes in place to identify, manage and review your risks.*

We note that the Board intends to include issues we noted during our review as clarifications or exceptions in the APR."

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RHAGOROL O'R TAP
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