

Registered N^o: 3975719

Glas Cymru Anghyfyngedig

Annual report and financial statements
for the year ended 31 March 2024

Registered office

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Foreword

These financial statements for Glas Cymru Anghyfyngedig (the Company) cover the year to 31 March 2024.

Glas Cymru Anghyfyngedig (Glas Cymru) is the parent company of the group of companies funded under a whole Business Securitisation Common Terms Agreement (the Group).

The Company's immediate parent and holding company is Glas Cymru Holdings Cyfyngedig (GCHC); a company limited by guarantee and registered in England & Wales.

The Company's group structure consists of:

- Glas Cymru (Securities) Cyfyngedig, the holding company of Dŵr Cymru (Holdings) Ltd and its subsidiaries;
- Dŵr Cymru (Holdings) Ltd, an intermediate holding company of Dŵr Cymru Cyfyngedig and Dŵr Cymru (Financing) UK plc;
- Dŵr Cymru (Financing) UK plc, a public limited company incorporated in the UK and is the 'issuer' company for the group's bonds, which are listed on the Luxembourg Bourse. The company on-lends the proceeds of any bonds issued to Dŵr Cymru Cyfyngedig; and
- Dŵr Cymru Cyfyngedig, the Group's principal trading company (referred to as both Dŵr Cymru and Welsh Water). Its principal activity is the supply of water and treatment and disposal of wastewater under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

Directors and advisers

Directors

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Peter Mike Davis
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Strategic report

The Directors present the Strategic report of Glas Cymru Anghyfyngedig for the year ended 31 March 2024.

Principal activities

The principal activities of the Group are the supply of water and the treatment and disposal of wastewater under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

The principal activity of Glas Cymru Anghyfyngedig is a holding company, with references to the Board referring to the joint Board of Glas Cymru Holdings Cyfyngedig (GCHC) and Dŵr Cymru Cyfyngedig (DCC).

Business review

Performance in FY24

Our financial performance in the year reflected the tailwinds of recent challenging economic conditions, with high inflation at the beginning of the financial year driving higher interest charges and operational expense pressures and declines in real wages placing pressure on the ability of our customers to afford their day-to-day living costs. We do not shy away from recognising that our operational performance has fallen short of both our, and our customers' and stakeholders', expectations in recent years. In response, we have raised the level of support we provide to vulnerable customers, increased investment in support of key operational measures such as leakage and asset resilience and implemented clearly defined and targeted plans to improve operational efficiency. Overall, our profit before interest and tax this year improved by £53 million to £46 million. Our operating cash flow of £377 million was utilised to invest in our capital assets (£380 million), an increase of £75 million from last year.

Last year we witnessed significant inflationary pressures and a gradual but sustained increase in interest rates from historic lows, a response from the Bank of England to ease inflationary forces. Whilst we have witnessed some reduction in inflation rates, our debt accretion charges on index-linked bonds remain impacted throughout the year, placing pressure on our net financing cost. Consequently, our net debt on a CTA basis has also increased by £325 million. The impact of a rise in BoE base rates has been mitigated by 94% of our debt being either fixed or hedged in real or nominal terms, reducing our exposure. However, the fact that the Regulatory Capital Value (RCV) is itself linked to the rate of inflation provides an element of longer-term protection that is not reflected in the income statement, offsetting the impact of inflation on the value of index linked debt to maintain gearing at levels around 60%, with gearing at 60% this year. This is one of the lowest in the sector and underpins our strong balance sheet, with total available liquidity of £468 million and financial reserves of £1,495 million.

Financial resilience and outlook

Throughout this economically challenging time, we have retained our credit ratings at A3, A- and A from Moody's, S&P and Fitch respectively. These ratings continue to be among the best in the UK utility sector. We monitor our financial performance using measures which focus on the covenants included in our whole business securitisation documentation and on the measures required to preserve our credit ratings. Gearing remains low and well within covenant and credit rating thresholds. The continued pressure on our adjusted ICR is principally caused by inflation placing pressure on operating and financing costs. While we recognise this ratio will remain under pressure for the remainder of AMP7, recovery is anticipated early in AMP8.

2024 Price Review

In October 2023 we submitted our most ambitious business plan ever to Ofwat, the industry's economic regulator. We are aiming to spend some £4 billion on our infrastructure in AMP8 (2025-2030) – 93% more than we expect in AMP7. This includes £2.5 billion to protect the natural environment. We recognise our world is changing and we must change with it. We have big ambitions to improve outcomes for the environment and the quality of services delivered to customers, minimising service failures. To achieve this, we must also adapt to meet the challenges posed by the trends that are working against us, notably climate change. Ofwat will publish its draft determination of the AMP8 price control on 11 July 2024, and its final determination in December 2024 which will come into effect on 1 April 2025.

Ofwat Investigation

On 28 May 2024, Ofwat published its final decision following its investigation into Welsh Water's self-declared leakage and per capita consumption misreporting in 2020/21 and 2021/22. Ofwat imposed a nominal fine of £1 together with required undertakings to make customer redress of £40 million which the Group had made of its own volition during 2023 and a commitment to additional expenditure of £59 million on leakage and Per Capita Consumption (PCC) activities during the two years to 31 March 2025. These are materially unchanged from what the Group had proposed to Ofwat in 2023, as reported in the FY 23 annual report and accounts.

Financing Needs

Over the next few years, we will be looking to refinance some £2 billion of existing debt and raise a further £1 billion of new debt. We expect to issue instruments across a broad range of maturities reflecting the long-term nature of our business, primarily in the sterling bond market where historically there has been strong appetite for our debt. However, we will also explore alternative sources of finance.

Revenue

Our revenues mainly come from the water and wastewater services we provide to customers. Our prices are set every five years by Ofwat's price review process and this, to a large extent, determines how much we can invest in our services and infrastructure.

Revenues in FY 24 were 10% higher than in FY 23, mainly due to price rises, which were in line with Ofwat's allowance but notably below headline inflation in the period.

We are acutely aware of the pressures the current cost-of-living crisis, driven by inflation, are having on our customers. We continue to expand our range of assistance tariffs to support customers through this period, with 130,000 customers now getting help to pay their bills, £14 million being contributed through our return of value not-for-shareholder structure during the year.

Operating profit (including IRE)

Our operating profit (including IRE (infrastructure renewals expenditure) but excluding depreciation, amortisation and exceptionals) for the year increased by £62 million to £432 million. The most significant movements, excluding revenue noted above, related to;

Cost pressures impacted our core operating cost base by £21 million (6%) year-on-year primarily driven by continued inflationary pressures. Gross employee costs increased due to the annual pay award of 6.2%, market rates rises and increased volume of outsourced contractor work on items such as new connections and leakage (53%).

Provisions for expected credit losses on outstanding customer debts have increased by £4 million (14%) to £28 million representing 3.0% of core revenue. The year on year increase principally reflects inflationary price increases to customer bills. We have 75% of household customers on direct debits, and with the help of proactive engagement and tailored assistance, customers who are struggling remain paying whilst being placed on payment plans.

Cost reductions improved our core operating cost base by £3 million with costs from climate change incidents mitigated through investment and maintenance; and the reduction of debt collection commissions reflecting our strategic change to manage debt collection in-house.

Operational decisions increased costs by £5 million, with our workforce, on average, bolstered by 236 FTEs and additional maintenance costs across the operations to protect the environment.

Energy costs have remained stable with our exposure mitigated through our power hedging policy and our self-generation capability. We typically hedge the majority of our electricity costs, saving us around 20% in the year. We continue to benefit from our forward purchase of around 60% of our gas requirement to March 2025. We continue to invest to increase our capacity to generate our own energy across the whole Glas Cymru Holdings Cyfyngedig (GCHC) group, an essential business venture to meeting our green targets, with around 25% of our total consumption produced internally to the wider GCHC group. We aim to increase this to 35% by 2030. We are currently reviewing our purchasing strategy for the next price review period to 2030.

Net Finance Costs

We use a range of financial instruments to help finance our operations. These include fixed-rate and index-linked bonds as well as fixed, variable and index-linked loans and finance leases. All of our index-linked debt is linked to RPI inflation, which remained historically high during FY 24, reducing from 13.5% in March 2023 to 4.7% in March 2024, an average of 7.6%. £127 million has been accrued on the balance sheet and will be paid when the associated debt matures, £65 million lower than last year.

We manage our interest rate exposure using derivative financial instruments. We have swapped some of our floating-rate debt to fixed-rate debt and some of our fixed rate debt to index-linked rates using 'swaps.' After taking into account the effect of these swaps, 82% of our debt is index-linked, with the remainder at a floating (6%) or fixed rate (12%).

Net finance expense was £93 million lower than last year mainly due to £126 million lower delayed debt accretion charges as a result of reducing inflation rates, offset by the rise in the Bank of England's ('BoE') base rate impacting our 6% of floating rate debt.

The total net finance expense of £211 million in the income statement is higher than the £196 million net cash interest paid and settlement of derivative financial instruments per the statement of cash flows. The difference is largely due to £127 million noncash indexation charges, offset by £19 million of capitalised borrowing costs, £40 million derivative settlements received after 31 March 2024 and £28 million reduction in interest accruals.

The fair value gains recognised during the year relate to the movement in interest rate swaps reflecting increases in long-term interest rates and reductions in Retail Price Index ('RPI') expectations, while power swap values are lower than last year with forecast reduction in power costs and completion of swap contracts. During FY 24 the movement in the value of swaps was a non-cash loss of £7 million (FY 23: gain of £160 million). See Note 4 for further information. Fair values fluctuate in line with market movements, which can be volatile, and this can give rise to significant gains and losses in the income statement.

Strategic report (continued)

Liquidity

At 31 March 2024, total liquidity stood at £468 million (2023: £564 million) and we held unrestricted cash and equivalents of £148 million (2023: £364 million). We have bilateral revolving credit facilities of £400 million available to us with a group of four key relationship banks (for further details, see Note 16). During the year, these facilities were renewed, increasing their capacity from £200 million last year to £400 million, of which £80 million was utilised, combined with a new loan of £150 million, for the termination of finance lease arrangements of £202 million and to support ongoing operations, part of our Treasury Strategy to utilise cheaper alternative cost of debt options and ensure financial responsibility.

We invest cash prudently, depositing for a maximum of three months, and only with highly-rated banks, with limits established in the Board-approved Treasury policy. We achieved an average deposit yield of 4.98% during the year, which compares favourably with the BlackRock ICS Sterling Liquidity Fund yield of 4.87%.

Financial Resilience

Under the terms of our whole business securitisation structure, we must maintain gearing below 85%. We therefore have significant headroom to deal with emerging risks. We remain well within our covenanted financial ratios, notably the ratio of net debt to the Regulatory Capital Value (RCV), a measure of the company's indebtedness relative to the value of the business recognised by Ofwat, and the senior interest cover ratio pre and post capital maintenance, a measure of pre and post capital maintenance cash flows over interest in a given period.

We have retained our ratings this financial year, (Moody's A3; S&P A-, and Fitch A), with these being among the highest in the UK utilities sector. High credit ratings promote investor confidence and allow us to access efficiently priced debt to fund our investment programme whilst keeping bills affordable for our customers.

In February 2024 Moody's updated credit analysis confirmed the Class B debt at A3 and the Class C at Baa2, both with a stable outlook. In March 2024 Fitch affirmed the Class B debt at A and Class C at BBB+, both with a stable outlook. The latest S&P rating was completed in November 2022, confirming our Class B debt rating at A- and our Class C subordinated debt at BBB, but revised the outlook from stable to negative. The Class A bonds, which are subject to a financial guarantee from Assured Guaranty UK Ltd, are unaffected by this action.

Dividends

No dividends were paid during the year (FY 23: none). No intra-group dividends have been declared and surpluses in the regulated business have been retained for the benefit of our customers.

Taxation

No corporation tax will be payable for FY 24. As in previous years, taxable profits are more than offset by capital allowances on our investment programme.

Loss before tax:

The Loss before tax was £173 million, an increase of £23 million on last year (2023: £150 million), as a result of the factors outlined above.

Cash flow:

Net cash generated from operating activities for the year ended 31 March 2024 totalled £377 million, the same amount generated in the previous year.

The net cash outflow from investing activities for the year ended 31 March 2024 was £358 million, which increased from £291 million in the previous year. This was principally caused by a higher level of investment in our capital programme.

Net cash flows before financing activities totalled £20 million, compared with £87 million last year.

Future developments

Capital investment

We have invested £480 million (including IRE) in FY 24. The following examples illustrate the breadth of improvements included in this year's programme.

We are currently progressing well on the single largest scheme of AMP 7, 2020-25, with the upgrading of valves and the spillway capacity at Llyn Celyn impounding reservoir in central north Wales. The £45 million investment in the reservoir will upgrade its storm reliance with enhanced draw off and scour capacity through a new valving arrangement and the addition of a new spillway to the dam structure. Llyn Celyn regulates the flow of water into the River Dee and this scheme will not only improve the asset's resilience but also enable NRW to maximise and more effectively control releases into the River Dee. We understand this is the biggest reservoir spillway currently under construction in Europe.

Strategic report (continued)

We have continued our significant investment in the water programme aligned to improving performance on leakage, customer acceptability of water, and water quality. We have a dedicated team investing £10 million on upstream losses on our water trunk main system fixing large complex leaks, and installing meters, and insertion points on the network to enable us to use innovative in-pipe leak detection techniques. We are also investing an additional £59 million between 2023 and 2025 on leak detection and repair on the wider water distribution network.

We are investing a further £10 million on a programme of works to clean and refurbish service reservoirs across our operating area. The programme has advanced throughout the year improving the condition of assets and reducing the risk of rainwater ingress into the tanks and refurbishing them to increase their operational life where required. We have invested £30 million to reduce the risk of iron and manganese in the water system causing customer complaints. Our Modelling of hydraulic, water quality and customer data has enabled us to highlight those areas of the water network that need to be replaced or cleaned. This programme of works is underway in urban and rural areas of Monmouth, Cardiff, Llyswen near Brecon, Rassau, Ebbw Vale and is about to move into the Vale of Glamorgan, Barry and Newport West.

Our Wye River phosphorous-related improvement projects at Eign, Rotherwas in Hereford, and at Leominster, went operational and achieved their Outcome Delivery Incentive commitment dates by March 2024. Following this intensive 18-month construction programme, the successful completion of these, our largest AMP7 Wastewater projects, is a significant achievement having delivered 142 km of river improvements. In addition to these large works, we have already completed projects at Norton, Presteigne, Weobley, Kingstone & Madeley, Clehonger and Peterchurch on the upper Wye. Schemes to reduce Phosphate at Clyro, Monmouth and Lower Cleeve have all started construction in the period. All the Wye River project commitments made as part of our Manifesto for Rivers in Wales will be delivered on time, totalling a £57 million investment.

Construction works have started in New Inn, near Pontypool, on an innovative Nature-Based Solution (NBS) that treats discharges from a SO before releasing it to the Afon Lwyd. The NBS will achieve a 'No Impact' outcome and the solution consists of storm discharges first passing through a new mechanical screen after which flows gravitate first through a series of aerated reed beds and then through constructed wetlands to provide natural treatment before releasing to the river. The £13 million investment will deliver a wetland habitat for aquatic life, enhanced biodiversity, new woodland areas and improved public amenity through footpaths and natural play spaces. Work is due to complete in 2024. This scheme is intended to be a forerunner of similar larger scale NBS which we will deliver in AMP8.

Looking ahead

Our focus in 2024 and 2025 will be primarily on performance recovery, where we fall short on some of our key regulatory measures. We would reiterate our significant disappointment at being classified as a lagging company by Ofwat and we are expending every effort to return to the levels of service and performance we have previously achieved. We know where we are off the pace, and have put in place plans and resources to make the necessary improvements. For our drinking water activities we are targeting improvements as follows:

- Water Quality – increased process control at our treatment works, our extensive treated water storage tank refurbishment programme, targeted mains replacement and improved network maintenance activities.
- Supply Interruptions – a challenging measure for us due to the high operating pressures, rurality and asset condition in our western area touched on above. However, we are implementing increased reactive maintenance resources in the most at-risk areas supported by faster deployment of alternative supplies, such as locally based water tankers and dedicated repair teams.
- Leakage – substantially increased 'find and fix' resources, improved network remote monitoring to better target repairs, our Cartref scheme to help fix customer supply pipe leaks, intelligent network pressure management and mains replacement.
- Per Capita Consumption – year-round customer engagement and communication campaigns, our education programme covering almost 90,000 school-aged pupils in FY 24, private leak repairs, and trials including smart meters and water butts.

In our wastewater business we are focusing improvements as follows:

- Waste Water Treatment Works Compliance – improved levels of planned maintenance to reduce equipment failure, additional portable treatment equipment to be deployed at the earliest detection of treatment deterioration, increased process control optimisation/ monitoring with fast escalation of potential failures, improved biosolids (sludge) handling to reduce treatment risk, and targeted capital investment.
- Pollution Incidents – on our sewerage network, increased remote monitors on high-risk sewers and at pumping stations, customer behavioural campaign 'stop the block' to prevent disposal of wet wipes, fat, oil and grease to sewers, targeted sewer cleansing, increased maintenance of pumped sewers and targeted capital investment.

Strategic report (continued)

Across the key performance improvement areas outlined above we are also

- applying innovative solutions and new technology, particularly in additional remote SMART monitoring to enable faster and better interventions;
- making full use of our data science capability, such as machine learning techniques, predictive analytics and improved management information to help get ahead of potential problems before they impact service or the environment; and
- working with over 70 external organisations from leading global expert consultancies, academia and technology business, to develop our innovation strategy focused primarily on our most challenging performance measures.

Climate change

Part of our ongoing 2050 strategy is to become a world-class, resilient, and sustainable water service for future generations. Tackling climate-related challenges is crucial to our success. The information provided in this disclosure demonstrates the embedding of climate-related considerations into our governance, strategy and risk management processes, and how we monitor progress with appropriate metrics.

Our strategy for managing climate-related risks is being continually refined to align with our goal of achieving energy neutrality by 2050. Our progress in fulfilling our commitments from last year is illustrated in our 2024 annual report page 30.

We acknowledge the significant challenges posed by climate change and are committed to addressing them by adhering to the recommendations of the TCFD. This will provide transparency to our stakeholders and is in line with our dedication to resilience and sustainability.

This is the third annual disclosure of our climate change risks, providing an update on our previous TCFD report published in our 2023 Annual Report.

The natural environment within which the Group operates is constantly changing, and this influences how its water and wastewater services are to be delivered in the future. The Group has embedded ambitious climate-related targets within its strategic goals, affecting the portfolio of assets required in its operations to deliver such services. We have conducted a review, in line with our TCFD disclosures, for potential impacts of climate change and environmental legislation on the Group's decarbonisation measures predominantly in respect of the valuation of the property, plant and equipment held by the Group and provisions or contingent liabilities. No amendments were considered necessary in the financial statements this year with further analysis to be conducted throughout the new financial year. We will review the impact of climate change on the financial statements annually upon further information becoming available.

The Group will continuously look to further enhance the accuracy of its useful life assessment through the introduction of more forward-looking information in asset life reviews. The Group will continue to mitigate the exposure that the carrying value of its book asset base has to climate-related risks through strategic planning activities that incorporate defined climate scenarios, climate change mitigation pledges, and long-term climate projections. The Group installs permanent flood defences and other resilience measures at the most vulnerable facilities to protect its assets.

Interest rate management

Our primary financing objective is to secure the right amount of funding at the lowest cost. The more efficient our funding, the lower our customers' bills. We aim to have sector-leading credit ratings and gearing at around 60%, as well as considering the timing of financing activity.

Just over half of our debt, on a pre-hedged position, is index-linked to RPI inflation (31 March 2023: 54%, 31 March 2022: 51%) and this provides a natural hedge to our asset base (as measured by Ofwat's regulatory capital value) and our inflation-linked revenues. Including the impact of inflation, our average cost of debt for the year was 7.7% (2023: 7.7%).

Taxation

We aim for compliance and transparency in our tax affairs and hold the Fair Tax Mark accreditation. As an organisation with a large capital investment programme, we receive capital allowances. These have the effect of deferring some of our corporation tax liabilities to future periods and help to keep customers' bills lower.

Full details of our corporation tax and deferred tax charges are provided in note 5 and our full tax strategy is available at [Tax strategy](#) which does not form part of this report.

Group tax strategy:

The tax strategy is managed at a group level by the Glas Cymru Holdings Cyfyngedig (GCHC). The Group is committed to acting in an open and transparent way in respect of its tax affairs. We pay a range of taxes, including business rates, employer's National Insurance and environmental taxes. We do not enter into artificial tax arrangements, use tax havens or take an aggressive stance in the interpretation of tax legislation. Full details of our tax strategy are published annually on our website at dwcymru.com/tax strategy. The Group has complied with the Tax Strategy for the year ended 31 March 2024.

Strategic report (continued)

Fair tax mark accreditation:

The Fair Tax Mark is an independent certification which recognises organisations that demonstrate they are paying the right amount of corporation tax at the right time and in the right place. More than 75 businesses have now been certified since the accreditation was launched in 2014. We aim for clarity and transparency in our tax strategy and are pleased to have been the first Welsh company to have secured the Fair Tax Mark accreditation.

Capital Investment

Welsh Water has a long-term strategy – Welsh Water 2050, first published in 2018. It outlines the key challenges and opportunities for the business over the long-term, and how we plan to respond to them to ensure we continue to provide a resilient and sustainable service. The strategy undergoes a full review and update every five years, with the first review having taken place in 2022.

Alongside Welsh Water 2050 (WW2050) we launched our Wellbeing Commitments in 2020. (These were the Welsh equivalent to the Public Interest Commitments published by water companies in England in 2019.) They are aligned to the seven Wellbeing Goals identified in the Wellbeing of Future Generations (Wales) Act.

Our Environmental Social and Governance (ESG) Strategy was reviewed and approved by the Board's ESG Committee in February 2022 (and is available to view at dwr.cymru.com/esg which does not form part of this report.). It includes 10 key objectives to support the focus on ESG issues in the context of Welsh Water 2050.

The Long-Term Delivery Strategy (LTDS) was developed alongside the PR24 Business Plan, meeting a requirement of Ofwat's PR24 methodology. It is focused on the enhancement investment required to meet agreed long-term outcomes to 2050 under a range of scenarios.

AMP7 Business Plan (2020-2025): After consulting our customers we agreed with Ofwat (under the PR19 process) a 5-year programme for 2020-25 involving more than £2.0 billion in capital investment. It includes real-terms bill reductions, efficiency improvements, and a total of 56 performance and investment delivery targets for each year of the period.

The PR24 Business Plan for the next five-year period 2025–2030 (AMP8), was submitted in October 2023 for scrutiny and challenge by Ofwat. It is aligned with our long-term goals under WW2050.

Our annual internal business plans set targets which are stretching but deliverable taking into account the previous year's performance and performance commitment targets set in the most recent price review.

Going concern:

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group and parent company have adequate resources for a period of at least 12 months from the date of their approval and that there are no material uncertainties to disclose (see note 1).

Financial key performance indicators

The Company is part of a group controlled by Glas Cymru Holdings Cyfyngedig (GCHC, the "group"). The Directors of Dŵr Cymru Cyfyngedig use group-wide key performance measures as indicators to the development, performance and position of the Company. These are discussed in the 2023-2024 Annual Report and Accounts of GCHC which does not form part of this report (available on the Group's website at [Corporate Reports](#)).

Customers are at the heart of everything we do. We measure our performance via eight "Outcomes" which are based on broad groupings of targets set by Ofwat at the last price review – "Outcome Delivery Incentives" (ODIs). The groupings represent the key elements of the essential services we provide to our customers across our supply area.

The regulatory targets are supplemented by our internal business and financial planning processes. Every year targets are discussed and agreed by the Board of Directors. The Executive team is held to account by our Non-Executive Directors to ensure that the targets are sufficiently challenging and to monitor performance in accordance with those targets.

Our Company vision to Earn the Trust of our Customers Every Day underpins our approach to delivering services, and the Board is conscious of the need to set targets which maintain and build on that trust.

The Board also takes the opportunity to understand the views expressed by customers and other stakeholders in the extensive engagement exercises undertaken as part of establishing Welsh Water 2050, and in the context of setting the Group's five-year business plans for 2020-25.

Strategic report (continued)

Principal risks and severity

From the perspective of the Group, the principal risks and uncertainties are integrated with the principal risks of the GCHC group and are not managed separately and are discussed in the 2023-24 Annual Report and Accounts of GCHC. These include:

- Environmental performance and reputation
- Business continuity
- Climate change impacts and transition risks
- Health and safety major incident
- Cyber, information and operational technology
- Operational performance and costs
- Loss of trust, particularly by our customers
- People, talent and diversity
- Finance (funding) risk

Emerging risks are discussed in depth by the Board twice each year and are also discussed in the 2023/24 Annual Report and Accounts of GCHC.

- Substances of Emerging Concern (Wastewater & Drinking Water)
- Legislative divergence

S172 statement

The Directors are required to act in a manner which complies with their duties as set out in the Companies Act 2006.

The relevant provisions of Section 172 of the Companies Act require a director of a company to act in a way they consider, in good faith, would most likely promote the success of the company. In doing this, the director must have regard to, among other matters:

- the likely consequences of any decision in the long term.
- the interests of the company's employees.
- the need to foster the company's business relationships with suppliers, customers and others.
- the impact of the company's operations on the community and the environment.
- the desirability of the company maintaining a reputation for high standards of business conduct.

Set out below is an overview of how the Board has performed its duties in this regard during the year. For further information, please see the Governance Report on our Group Annual Report 2023-2024.

Stakeholder engagement

The Board oversees measures to ensure that stakeholder interests are always considered. Papers prepared by management for Board approval include information on relevant stakeholder considerations to be discussed as part of the debate when making decisions. This is to ensure that sufficient attention is given to stakeholder concerns, and that the interests of all relevant stakeholders are considered in the Board's decision making.

Supplier engagement

Supply chain risk is noted as one of the principal strategic risks reviewed at every Board meeting, and the Board receives monthly reports via the Monthly Management Report (MMR) from the Commercial Director, including an update on any procurement or key supplier issues. This has been a particular focus of Board attention over the past year in order to ensure the availability of appropriate skilled competitive supplier resource to deliver the planned material increase in the capital investment programme during AMP8. This helps ensure that the services provided to customers, the delivery of our investment schemes, and the provision of other goods and services, are in line with our expectations and Company values. Board members also meet regularly with representatives of contractors working on our Capital Projects programme when attending site visits. We have a Supplier Payment Policy and we are a signatory to the UK Government Prompt Payment Code.

Employee engagement

The Board recognises the importance of attracting, developing and retaining the right people. In accordance with best practice, we have employment policies in place which provide equal opportunities for all employees, irrespective of sex, race, colour, disability, sexual orientation, religious beliefs or marital status. The Board promotes inclusivity and supports developing each individual to their full potential. Regular updates on health and safety turnover, absence and sickness levels are received and key policies such as Equality, Diversity and Inclusivity, and pay, are reviewed at the Board or at relevant Committee meetings. There are also regular updates from the Executive on discussions with the recognised trade unions through the Senior-Negotiating team and in relation to employee engagement surveys and the action plan agreed by the Executive Team in response to colleague feedback from the survey.

Strategic report (continued)

Engagement with Glas Members

The role of Glas Members is set out in the Governance Report of our Group Annual Report. Our Members are drawn from across the supply area and the independent Member Selection Panel, chaired by Sir Paul Silk, aims to ensure a broad spread of background, skills and experience within the Membership.

Debra Bowen Rees, one of our Non-Executive Directors, is a member of the independent Member Selection Panel and, therefore, has a particular connection with the Glas Membership.

The Panel carries out an annual recruitment process to refresh the Membership as Members step down (after a maximum 9-year term). The Board meets with Members in July and December each year and welcomes input from Members on key strategic issues at these meetings, where there is always an opportunity for Member feedback and discussion. The company Secretariat team ensures Members are kept up to date on current issues affecting the business on a regular basis and feeds back Member views in a report to the Board at each Board Meeting.

Engagement with the independent environmental advisory panel (IEAP)

This group includes representatives from environmental non-governmental organisations (NGOs), academics and third sector organisations. The independent Environmental Adviser to the Board's Quality and Safety Committee (QSC) attends meetings of the IEAP, and reports back to the Quality and Safety Committee on issues of relevance to the Committee.

Engagement with Glas Cymru investors

During FY 23 members of the Board and DCE attended the Group's Annual Investors Meeting in London. The Group's Treasury team is also in regular contact with investors and credit rating agencies throughout the year. All formal communications with investors are approved by the Board, and investors receive a six-monthly Investor Report on which they are welcome to follow up with the Treasury team.

The role of the DCE

The Dŵr Cymru Executive (DCE) Team, which includes the Chief Executive and Chief Financial Officer, are responsible for the operational management of the Company. The Team are designated as senior management for the purpose of the UK Corporate Governance Code but not for the purposes of section 414C(8) of the Companies Act 2006. The DCE comprises the senior functional management roles and those with responsibility for interacting with the Company's principal stakeholders.

Our Managing Directors for Water, Waste Water and Retail (Household Customers) attend all Board meetings.

The role of the Board

The Board oversees measures to ensure that stakeholder interests are always taken into account. Papers prepared by the Executive Team for Board approval include information on relevant stakeholder considerations to be discussed as part of the debate when making decisions. This is to ensure that sufficient attention is given to stakeholder concerns, and that the interests of all relevant stakeholders are taken into account in the Board's decision making.

This includes making decisions about the long-term. As is very much aligned to our Purpose, the decisions the Board make now will have long-term implications for our customers and communities now and for generations to come. This is particularly true in relation to the long-term availability of water which is impacted by the environment, climate change and the demographics and usage habits of the communities in which we serve. The Board receives regular updates on long-term trends and considers long-term strategies for carbon and energy, water and waste water management resource planning.

Through direct engagement with employees through employee engagement sessions, informal meetings with managers and by conducting operational site visits the Board is able to see and experience first hand how our culture and values are applied across the business. Maintaining an effective culture within Welsh Water is a key component to support the delivery of our strategies and the Board's decision making needed to promote the long-term success of the Company.

By order of the Board



P M Davis
Chief Financial Officer
10 July 2024

Directors' report

The performance review of the Company can be found within the Strategic Report on pages 3 to 10. This provides detailed information relating to the Company, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2024. Full details and analysis of the operational performance of Dŵr Cymru Cyfyngedig during the year to 31 March 2024 are included in the published 2023-24 Annual Report and Accounts of GCHC.

The directors have pleasure in presenting their annual report, together with the audited financial statements for the year ended 31 March 2024 on pages 22 to 63.

Directors

The Directors of the Company who were in office during the year, and up to the date of the signing of the financial statements, are set out on page 1.

Directors' indemnity

The Company has in place Directors' and Officers' insurance giving cover against legal action brought against the Directors and an indemnity in circumstances where a Director has not acted fraudulently or dishonestly. The indemnity is a qualifying indemnity for the purpose of the Companies Act and is for the benefit of all Directors. No claims have been made against this policy since the date of the last report.

Employees

The Board recognises the importance of attracting, developing and retaining the right people. In accordance with best practice, we have employment policies in place which provide equal opportunities for all employees, irrespective of sex, race, colour, disability, sexual orientation, religious beliefs or marital status. Further information on the Board's methods for engaging with the workforce are on our Group Annual Report.

Engagement with stakeholders

Details of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, are set out in the Strategic Report on our Group Annual Report.

Research and development

With the support of our customers, regulators, and governments alike for improved services and reducing our carbon and environmental footprint, we continue to look for better ways of working or advances in technology. We have made good progress delivering the agenda set out in our Innovation Strategy, with links to over 100 academic and other institutions, technology specialists, and global innovation concerns. For details on our investment and research into technical and innovation projects see pages 76 to 77 of the Strategic Report in the Group Annual Report and Accounts which does not form part of this report.

Corporate governance

During the year ended 31 March 2024 we have applied the principles and complied with the provisions of the 2018 UK Corporate Governance Code and Ofwat's Guidance on Board Leadership, Transparency and Governance, as updated in 2019, and as required by our Licence conditions. Further details can be found in the Governance section on our Group Annual Report.

Persons of significant control

We maintain a Register of People with Significant Control to comply with the requirements of the Small Business, Enterprise and Employment Act 2015 (2015 Act). The Company has identified registrable relevant legal entities (RREs) within the Group structure.

Innovation

Over the past 12 months, we have continued to make good progress delivering the agenda set out in our Innovation Strategy, which we refreshed and published in 2022. We have been working with over 100 academic and other institutions, our centre of excellence for innovation – Spring Innovation Ltd, technology specialists, and global innovation concerns to undertake research, and develop and trial new technologies we can adopt. Our refreshed strategy confirms the original 2 drivers of our approach to innovation are still very much fit for purpose. see Our Challenges | Dŵr Cymru Welsh Water (dwrcymru.com).

Firstly, to develop and progress new technologies to improve customer service, create efficiencies and reduce resource use, carbon and costs. Secondly, to use our research and evidence-led work to help shape the views of regulators and governments, and so enable the development of new innovative policies to be formulated which facilitate and support the delivery of our 2050 vision, for example, on catchment solutions and nutrient trading.

Directors' report (continued)

So far this Asset Management Period we have received over 500 proposals for innovation at our Innovation Portal at dwrcymru.com/innovation, and completed some 69 Innovation projects arising from these. We have invested some £7.1m in leveraged research, achieving an overall leverage ratio of just over 8:1. We remain one of the most highly involved companies with the Ofwat Innovation funded projects, and look forward to the total size of available funds growing from £200m in AMP7 to £400m in AMP8. These innovations should enable us to drive further efficiencies in resource use and in our carbon and environment footprints, as well as financial benefits.

Our research work continues to be used to help support policy change in the EU through Eureau, the European industry trade body. We were pleased to see the inclusion of the principle of producer responsibility in the newly agreed Urban Wastewater Treatment Directive, requiring the pharmaceutical industry to fund at least 80% of certain treatment processes required to further reduce the presence of pharmaceutical products in treated sewage effluents. Similarly, the sector will be undertaking further monitoring of its performance, and environment footprint so that we can make better, more sustainable investment decisions going forward. This sets a powerful precedent and should assist the whole water sector and pharmaceutical and chemical industries to move to a more sustainable footing. Our research programme is now focusing on a wide range of topics, including how best to progress nature-based sustainable investments for our supply area.

We are planning our next biennial virtual Innovation Conference, celebrating our innovation successes to date, and looking forward to AMP8 in terms of establishing stronger partnerships to deliver improvements and efficiencies for our customers.

We remain very active in the support of Spring Innovation Ltd, the centre of excellence for innovation in the water sector. Spring is now fully operational and making great strides to progress one voice innovations and disseminate the knowledge arising from the trials work we as a sector undertake.

With the support of our customers, regulators, and governments alike for improved services and reducing our carbon and environmental footprint, we continue to look for better ways of working and advances in technology. We have made good progress delivering the agenda set out in our Innovation Strategy, with links to over 100 academic and other institutions, technology specialists, and global innovation concerns.

Greenhouse gas emissions

The UK Water Industry Research Limited developed a standardised workbook & associated methodology for estimating Operational greenhouse gas, GHG, emissions, called the Carbon Accounting Workbook, CAW, to bring consistency and accuracy to the reporting process across the water industry. Our data is audited annually to ISO 14064 carbon reporting standard. The workbook has been in place for over ten years and is annually reviewed to incorporate the latest best practice and science regarding estimation & reporting of greenhouse gas emissions and is updated accordingly. In assessing progress against our target to be net-zero by 2040, we report our performance against our Scope 1 and 2, and Scope 3 emissions.

Education programme and our visitor attractions

We have broadly maintained customer satisfaction scores in FY 24, achieving 5th place in the sector-wide C-MeX rating. When compared with other Water and Sewerage companies (WASC), with activities more comparable to ours, we are placed 3rd in the C-Mex rating. This is supported by the level of social tariffs we have continued to make available to customers through our HelpU and WaterSure schemes, along with extending our support to more customers in vulnerable circumstances by expanding the availability of our Cymuned scheme. Our reach for priority services for vulnerable customers improved year-on-year and beat both the business plan and FD targets. We also performed well on community education and visitor centre attendees, improving year-on-year and beating targets on both these measures. Our visitor centres welcomed over a million people, boosted by our new centre near Cardiff following our restoration of the Lisvane and Llanishen reservoirs.

Supporting vulnerable customer and social tariffs

We are acutely aware of the pressures the current cost-of-living crisis, driven by inflation, are having on our customers. We continue to expand our range of assistance tariffs to support customers through this period, with 130,000 customers now getting help to pay their bills, £14 million being contributed through our return of value not-for-shareholder structure during the year.

The customer voice is represented through the Independent Challenge Group (ICG).

Over recent years, working with debt advice agencies, we have developed a range of financial support packages to help over 145,000 households who struggle to pay their bills. Our latest support scheme, Cymuned, is aimed at providing working household customers with temporary support to pay their water bills. Until we launched Cymuned, working households were not usually eligible for financial assistance from Welsh Water, but the scheme enables us to provide short-term support if their household bills exceed their income. This is the only scheme of its kind being offered in the sector, and we have expanded its availability during FY 24 following its launch in late 2023. Our 'Here for You' campaign aims to raise awareness of the financial support on offer from Welsh Water while breaking down perceived barriers for customers getting in touch if they are struggling.

Directors' report (continued)

Supporting vulnerable customer and social tariffs (continued)

One of our most popular schemes is the HelpU tariff. This helps low-income households on a means tested benefit by putting a cap on the amount they pay for their water, based on how many people are living at the property. Working with over 300 local organisations (including Citizen's Advice, Welsh Government's NEST scheme to support energy efficiency improvements, Job Centre Plus, housing associations and foodbanks) to help identify and support customers who may be eligible for a discounted bill.

We hosted two open 'Your Water, Your Say' meetings to help inform the development of our 2025-30 Business Plan. We meet quarterly with CCWater and our Independent Customer Challenge Group, which play a key role in protecting customers' interests. We track customer perceptions including trust and satisfaction, against key indicators. We also offer customers online self-service options to report problems and they can also contact us 24/7 through an array of different channels.

Biodiversity

Our biodiversity strategy sets out our ambitions, objectives and action plan to maintain and enhance biodiversity and ecological resilience across our operational assets and landholdings, within the fulfilment of our functions. Our strategic objectives to achieve this, as already supported by our biodiversity plan, focus on the following areas:

- Restore habitats and look after the protected sites we own.
- Work in partnership with our regulators and stakeholders and promote research opportunities.
- Improve the management of invasive non-native species (INNS).
- Develop and engage our colleagues as ambassadors and work better to understand our customers' expectations.
- Maintain and enhance biodiversity at our operational assets and landholdings.

Our biodiversity mission links directly to our duty in Section 6 of the Environment (Wales) Act 2016. It requires us to produce and publish a corporate biodiversity action plan and report progress every 3 years. Our first Biodiversity plan was published in 2017 and refreshed in 2020. Our latest updated plan will be published in 2023. By delivering this mission we will support and meet our legislative requirements relating to biodiversity and ecology, and so help move our business to a sustainable footing. The strategy aims to deliver performance improvements in both the short term and the medium term through to 2030, and ensure our plans remain aligned with the longer-term objectives of Welsh Water 2050.

Social

Our company vision is to Earn the Trust of our Customers Every Day. Building strong relationships with our customers and communities is key to maintaining that trust as we deliver essential services to 3.1 million people across our supply area. It is central to our strong staff engagement that they feel able to make a positive impact through their service delivery.

Equality, diversity and inclusivity

In this financial year we have achieved our best safety performance with a total of 5 reportable injuries and 17 serious lost time incidents. This continues a trend of progressive reduction over the last decade from 2011 when we had over 30 reportable accidents. A significant amount of effort goes into achieving this high standard of safety performance and we are very grateful to our managers, people, and our safety professionals for their dedication and input. Our 'Safety Takes Every Person' (STEP) training programme is well established and continues to be used to engage our people in contemporary health safety and wellbeing best practices. STEP also underpins our safety culture and longstanding elements of our improvement plan such as our quarterly Executive-led 'Safety Days'. These and the 'Take 5' personal risk assessment process and monthly 'Safety Conversation' engagement plan are helping us firmly embed a safety first mindset in our people and our contract partners. Alongside our direct safety plan we expend a lot of effort focused on occupational health and wellbeing. We have retained our RoSPA Gold Award and the Welsh Government Platinum Award for occupational health.

Our 2023 Employee Engagement Survey saw an 89% completion rate, our highest ever return and a 75% company level engagement score, matching that of 2022. This was especially pleasing as the backdrop of high inflation at the start of 2023 meant we had to renegotiate our existing pay deal at a time when our people were dealing with a cost-of-living challenge in their home lives. While we were able to reach a sensible and fair outcome for the Company and our people it was encouraging to see our high level of employee engagement sustained.

Other highlights from the 2023 survey were:

- 98% of our people are clear about their role in terms of their own health and safety
- 94% of people believe the Company takes health and safety seriously
- 91% believe Welsh Water strives to deliver great service to its customers; and
- 80% Would recommend Welsh Water as a good place to work.

In 2024, we will engage our people to develop our 'AM 8 Ready' plans, ahead of the start of the new regulatory period starting in April 2025. Tighter performance targets, greater customer expectations, sustained political interest, and challenges such as our biggest ever capital investment programme, will require the very best capability within the organisation.

Directors' report (continued)

Our service improvement and cost efficiency plans are dependent on our people, and we will continue to support, develop, and reward our colleagues to meet these challenges. We will also build on our progressive approach with our trade unions to agree the changes necessary to achieve better performance, while at the same time ensuring we maintain our position as a leading employer in Wales through our wider people plan, covering key areas such as equality, diversity and inclusion. Alongside this we will maintain an ongoing commitment to training, personal development, and corporate social responsibility, so that our people continue to give their best and remain proud ambassadors for Welsh Water as a trustworthy provider of essential services and a great employer.

We have also supported our employees through the cost-of-living crisis. Having already implemented the increase to the Real Living Wage for all affected employees, we worked with our recognised trade unions to make a one-off payment of either £1,000 or £2,000 to eligible colleagues in December 2022 and agreed a 6.2% pay award from 1 April 2023 for most of our employees.

Our support for graduates and apprentices

We are continuing to invest in recruiting new talent into Welsh Water by identifying those with the right skills, attributes and behaviours to become our highly skilled workforce of the future. We continue to review the programmes we offer, and our apprentice offering is for craft roles as well as in support functions and degree apprenticeships.

We continue to partner with the University of South Wales to deliver our network75 programme which is a combined work placement and part-time study route to a degree, allowing students to work, earn and learn. Over the past 12 months, we have recruited 41 graduates and apprentices and 2 colleagues have taken part in the network75 programme.

Auditor FY24

The decision to appoint Deloitte LLP as Auditor to the Group was approved by the Glas Cymru Board at the AGM in July 2023. Deloitte LLP acted as Auditor of the Group for the accounts for the year ending 31 March 2024 and is subject to annual re-appointment by the Members at the AGM in respect of each subsequent financial year. Accordingly, in accordance with Section 489 of the Companies Act 2006, a resolution proposing the appointment of Deloitte LLP as Auditor of the Group will be put to the Members at the forthcoming AGM.

Human rights

We are committed to respecting human rights in relation to colleagues, and our supply chain (see page 111 of our Group Annual Report for information on our Supplier Code of Conduct). Our internal Code of Conduct is supported by several Group policies including, Anti-bullying and Harassment, Whistleblowing, Anti-bribery and Corruption, and Anti-Fraud.

Working collaboratively

One of the prevalent features in Wales is our ability to work in close partnerships, as is required in the case of public bodies by the Well-being of Future Generations (Wales) Act. The Act requires public bodies to demonstrate in their decision making the impact that they could have on people living in Wales in the future as well as in the present. This is to show that they are acting in accordance with the sustainable development principle, as defined in the Act. The Act directly supports 5 ways of working which are all compatible with our Vision and views on sustainability, albeit we are not a public body as defined under the Act. These are:

- To carry out sustainable development – intrinsic to the nature of our business and vision.
- Thinking for the long term – avoiding short-termism and considering how decisions will impact on the wellbeing of future as well as current generations.
- Prevention – acting early and with others to tackle the root cause of problems before they arise or get worse to bring about better outcomes for individuals, public bodies and society as a whole.
- Integration – ensuring that the full range of consequences of an action are considered so that activity in one area of work can be shaped to complement, rather than undermine, activities in others.
- Collaboration – working with others, so that as many objectives as possible can be met with the resources and expertise available and not trying to solve problems alone but understanding the benefits of involving as wide a range of people as possible in helping shape the decisions and services that will affect their lives.

Whistleblowing

A healthy culture where individuals feel able to speak out about anything that causes them concern is an important part of our three lines of defence compliance model. Colleagues, suppliers, business partners and other stakeholders are encouraged to 'Speak Up' to raise concerns about conduct which is contrary to our values. Where appropriate, concerns will be investigated by the Business Assurance Team, reporting directly to the Audit Committee. The Committee receives reports on the outcome of investigations in private sessions with the Head of Business Assurance. We are fully committed to protecting any employee who reports a breach or suspected breach of the Code of Conduct or raises any other public interest disclosure. We publicise an external helpline, which provides an additional confidential and secure means to raise concerns.

Directors' report (continued)

Sustainable Procurement Policy

We have established our sustainable procurement aspirations through collaboration with key stakeholders, covering environmental, economic and social areas. Our aspirations have been mapped against DCWW's ESG Strategy Objectives, the Well-being of Future Generations (Wales) Act and are included in our Sustainable Procurement Policy (SPP). We have assessed the impact on these sustainable procurement aspirations in the key categories we procure by undertaking risk and opportunity heatmapping of existing procurement contracts against the aspirations. We are in the process of detailing our implementation plan for deployment of the Sustainable Procurement Policy in the current financial year.

Supply Chain Compliance Standards

We launched the Supplier Code of Conduct (SCC) in April 2021. Since then we have:

- Included supplier acceptance and confirmation of compliance with the SCC as a pass/ fail test at the Pre-Qualification Questionnaire stage tender processes.
- Incorporated compliance with the SCC as standard wording in all goods and services contracts which have been awarded, changed or extended since April 2021.
- Amended the purchase order terms and conditions to incorporate the requirements of the SCC.

Modern Slavery Awareness

We held an annual week-long campaign on modern slavery awareness. In October 2022, Procurement, in conjunction with the Hope for Justice Alliance, engaged with and trained 36 operational Contract Managers, 15 colleagues from the Procurement and Compliance teams, and 37 suppliers (which provide services with a higher risk of modern slavery occurring in their supply chain) on how to identify the signs that modern slavery may be occurring and to confirm our reporting procedures in the event that modern slavery is suspected to be taking place. We also highlighted the Supplier Code of Conduct and the requirement to comply with this during the training sessions. Our Anti-slavery statement can be found at dwcymru.com/antislavery.

All members of the Procurement team have completed the Chartered Institute of Procurement and Supply's (CIPS) Ethical Procurement and Supply e-Learning and Test certification and Welsh Water successfully attained the CIPS Corporate Ethics Mark accreditation. This signals to Welsh Water's suppliers, customers, potential employees, and other stakeholders that they are dealing with an organisation that is committed to ensuring its staff are trained in ethical sourcing and supplier management, and that we have adopted ethical values in the way in which we source and manage suppliers.

Anti-bribery, corruption and anti-fraud

Our Group policy makes it clear that we will not tolerate any acts of fraud, dishonesty, bribery, corruption, theft or improper disclosure of confidential information. The Company treats these issues very seriously and expects any issues to be reported immediately. This is reinforced by our strict policy on hospitality and gifts from suppliers, which is regularly monitored and actively enforced.

No breaches of policy were notified to Internal Audit or the external whistleblowing hotline during the period 2022-23.

Conflicts of interest

We require our employees to perform their duties honestly and to avoid conflict between any personal, financial or commercial interests and their responsibilities to Welsh Water.

External directorships and other outside business interests are closely monitored, along with the nature and number of external directorships held by the Directors in order to satisfy ourselves that any additional appointments will not adversely impact their time commitment to their rôle at Welsh Water. Before appointment of a Director, the appointee is asked to disclose any other interests that may result in a conflict of interest and all Directors are required to report to the Board any future business interests that could result in an actual or perceived conflict of interest. Any proposed new external appointments of an existing Director must be discussed with the Chair of the Board, in the first instance, and submitted to the Nomination Committee for approval.

Data protection and information security

Welsh Water is committed to ensuring that we handle the personal information of our customers and employees in a responsible and honest way, including respecting their data protection rights in compliance with legislation. Our Privacy Statement is available on our website at [Privacy-policy](#).

Political donations

It is Board policy not to make donations to political parties or to incur political expenditure. No donations or payments were made which would require to be disclosed under section 366 of the Companies Act 2006.

Directors' report (continued)

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effect of changes in debt market prices, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Dividend

No dividend was declared or paid in the year (2023: none).

Task Force on Climate-related Financial Disclosures : Climate risk assessment

Our commitment to our customers and the environment involves us mitigating and adapting to the impacts of climate change. From April 2022, certain large businesses in the UK are required by law to include climate risks in their annual reporting. Welsh Water views corporate governance as a core discipline and as such has taken the decision to report in line with these requirements by following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We have worked with Jacobs to produce a climate risk disclosure, covering the four key disclosure areas of the TCFD: Governance, Strategy, Risk Management, and Metrics & Targets, and recognising that this is our first year of reporting we are taking steps towards future full compliance with the 11 TCFD recommended disclosures. The full report is available at [TCFD Report](#).

Going concern

The financial statements for FY24 have been prepared on the going concern basis. For the Directors' Going Concern statement and detail of why the Going Concern assumption is considered appropriate, see page 28 within accounting policies.

Regulatory accounts

Condition F of the Instrument of Appointment under which Dŵr Cymru Cyfyngedig operates requires that Dŵr Cymru Cyfyngedig publish additional financial information as an 'appointed business'. A copy of this information will be published on Dŵr Cymru Cyfyngedig's website by 15 July 2023 and will also be available on request from the Company Secretary.

Group structure

These financial statements for Dŵr Cymru Cyfyngedig cover the year to 31 March 2024. The Company's immediate parent company is Dŵr Cymru (Holdings) Limited. The entire share capital of Dŵr Cymru (Holdings) Limited is owned by Glas Cymru (Securities) Cyfyngedig, which is wholly owned by Glas Cymru Anghyfyngedig. The ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board



P M Davis
Chief Financial Officer

Registered office:
Linea
Fortran Road
St Mellons
Cardiff
CF3 0LT

10 July 2024

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent Company financial statements in accordance with UK-adopted international accounting standards and applicable law.

Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the Group's assets, liabilities, financial position and profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to the member of Glas Cymru Anghyfyngedig

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Glas Cymru Anghyfyngedig (the 'company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and company's affairs as at 31st March 2024 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated statement of changes in equity;
- the parent company balance sheet;
- the parent company statement of changes in equity;
- the consolidated cash flow statement;
- the material accounting policy information; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law, and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

Basis for opinion

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

We are independent of the group and company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

- reviewing the group's borrowing arrangements, in particular the assessment of level of committed undrawn facilities including the revolving credit facility of £400 million;
- assessing the assumptions used in the cash flow forecasts for consistency with Board approved budgets and future plans for the remaining period of AMP (Asset Management Plan) 7 and the latest forecast for the first three months of AMP8;
- testing the arithmetic accuracy of the cash flow forecast;
- evaluating covenant compliance and headroom on those covenants; and
- assessing the appropriateness of management's going concern disclosures in light of the above assessment.

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 group's or 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 the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent auditor's report to the member of Glas Cymru Anghyfyngedig (continued)

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the group's and 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.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, the directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's business sector.

We obtained an understanding of the legal and regulatory frameworks that the group and company operate in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's and company's ability to operate or to avoid a material penalty. These included the license conditions imposed by The Water Services Regulatory Authority (Ofwat), Environment Agency, Drinking Water Inspectorate, National Rivers Authority, Natural Resources Wales, Wales Act, GDPR and Health & Safety.

We discussed among the audit engagement team including relevant internal specialists such as tax, pensions, IT, treasury and ESG regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

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.

Independent auditor's report to the member of Glas Cymru Anghyfyngedig (continued)

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

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with Ofwat and other regulatory authorities.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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

Delyth Jones

Delyth Jones (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Cardiff, United Kingdom

10 July 2024

Consolidated income statement for the year ended 31 March 2024

| | | 2024 | 2023 |
|--|-------------|----------------|----------------|
| | | £m | Restated £m |
| Continuing activities | Note | | |
| Revenue | 2 | 924.4 | 841.3 |
| Operating costs: | | | |
| - Operational expenditure | 3 | (368.3) | (374.1) |
| - Impairment of trade and other receivables | 3 | (28.3) | (24.8) |
| - Other operating income | 3 | 5.2 | 5.3 |
| - Exceptional item | 3 | - | (30.8) |
| - Infrastructure renewals expenditure | 3 | (101.3) | (78.0) |
| - Depreciation and amortisation | 3 | (385.6) | (345.6) |
| | | <u>(878.3)</u> | <u>(848.0)</u> |
| Operating profit/(loss) | | 46.1 | (6.7) |
| Profit on disposal of property, plant and equipment | | 0.3 | 0.4 |
| Profit/(loss) before interest | | <u>46.4</u> | <u>(6.3)</u> |
| Financial expenses: | | | |
| Financial income | 4 | 20.5 | 14.7 |
| Financial expenses | 4 | (270.0) | (297.6) |
| Fair value gains on derivative financial instruments | | 30.1 | 139.3 |
| Settlements accruing in the year | 4 | 37.4 | (20.9) |
| Other movements on derivative financial instruments | 4 | (7.3) | 160.2 |
| Total financial expenses | | (219.4) | (143.6) |
| Loss before taxation | | (173.0) | (149.9) |
| Taxation | 5 | 41.5 | 25.8 |
| Loss for the year | | (131.5) | (124.1) |

The Company has taken the exemption under section 408 of the Companies Act 2006 not to present the parent company's income statement. The result of the parent company for the year to 31 March 2024 was a profit of £0.1m (2023: £0.1m (restated)).

The comparators for financial expenses and fair value gains on derivative financial instruments have been restated. There is no impact on the loss for the year. More information is available under note 1 to these financial statements.

The notes on pages 28 to 63 form part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 March 2024

| | Note | 2024 £m | 2023 £m |
|--|------|----------------|----------------|
| Loss for the year | | (131.5) | (124.1) |
| Items that will not be reclassified to profit or loss | | | |
| Actuarial gain recognised in the pension scheme | 21 | 26.4 | 124.5 |
| Related deferred tax | 6 | (6.6) | (31.1) |
| Revaluation of property, plant and equipment | 7 | 141.8 | 593.4 |
| Related deferred tax | 6 | (35.4) | (148.4) |
| | | 126.2 | 538.4 |
| Total comprehensive (expense)/income for the year | | (5.3) | 414.3 |

Consolidated balance sheet as at 31 March 2024

| | Note | 2024 £m | 2023 Restated £m |
|---|------|------------------|------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 7,293.5 | 6,959.2 |
| Intangible assets | 9 | 201.0 | 202.2 |
| Trade and other receivables | 11 | 1.6 | - |
| Other financial assets: | | | |
| - derivative financial instruments | 15 | - | 4.1 |
| - employee benefits | 21 | 31.6 | 12.0 |
| | | <u>7,527.7</u> | <u>7,177.5</u> |
| Current assets | | | |
| Inventories | | 7.9 | 5.3 |
| Trade and other receivables | 11 | 648.2 | 650.6 |
| Cash and cash equivalents | 12 | 148.4 | 363.5 |
| Other financial assets: | | | |
| - derivative financial instruments | 15 | 1.2 | 5.8 |
| | | <u>805.7</u> | <u>1,025.2</u> |
| Total assets | | <u>8,333.4</u> | <u>8,202.7</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 13 | (627.0) | (685.1) |
| Provisions | 17 | (5.4) | (17.8) |
| Other financial liabilities: | | | |
| - borrowings | 14 | (237.7) | (94.7) |
| | | <u>(870.1)</u> | <u>(797.6)</u> |
| Net current (liabilities) / assets | | <u>(64.4)</u> | <u>227.6</u> |
| Non-current liabilities | | | |
| Trade and other payables | 13 | (740.4) | (540.8) |
| Employee benefits | 21 | (2.6) | - |
| Provisions | 17 | (4.8) | (5.4) |
| Other financial liabilities: | | | |
| - borrowings | 14 | (4,008.7) | (4,090.9) |
| - derivative financial instruments | 15 | (398.6) | (444.5) |
| Deferred tax - net | 6 | (813.3) | (823.3) |
| | | <u>(5,968.4)</u> | <u>(5,904.9)</u> |
| Total liabilities | | <u>(6,838.5)</u> | <u>(6,702.5)</u> |
| Net assets | | <u>1,494.9</u> | <u>1,500.2</u> |
| Equity | | | |
| Revaluation reserve | | 1,696.2 | 1,692.0 |
| Retained earnings | | (201.3) | (191.8) |
| Reserves | | <u>1,494.9</u> | <u>1,500.2</u> |

The notes on pages 28 to 63 form part of the financial statements.

The financial statements on pages 22 to 63 were approved by the Board of Directors on 10 July 2024 and were signed on its behalf by:

PM Davis

P M Davis
Director

The comparators for derivative financial instruments have been restated. There is no impact on net assets. More information is available under note 1 to these financial statements.

Registered N^o 3975719

Consolidated statement of changes in equity for the year ended 31 March 2024

| | Share capital £m | Revaluation reserve £m | Retained earnings £m | Total £m |
|-------------------------------|------------------------|------------------------------|----------------------------|-------------|
| At 1 April 2022 | - | 1,339.7 | (253.8) | 1,085.9 |
| Loss for the year | - | - | (124.1) | (124.1) |
| Actuarial loss net of tax | - | - | 93.4 | 93.4 |
| Revaluation net of tax | - | 445.0 | - | 445.0 |
| Transfer to retained earnings | - | (92.7) | 92.7 | - |
| At 31 March 2023 | - | 1,692.0 | (191.8) | 1,500.2 |
| Loss for the year | - | - | (131.5) | (131.5) |
| Actuarial gain net of tax | - | - | 19.8 | 19.8 |
| Revaluation net of tax | - | 106.4 | - | 106.4 |
| Transfer to retained earnings | - | (102.2) | 102.2 | - |
| At 31 March 2024 | - | 1,696.2 | (201.3) | 1,494.9 |

Parent company balance sheet as at 31 March 2024

| | Note | 2024 £m | Restated 2023 £m | Restated 2022 £m |
|-----------------------------|------|--------------|------------------------|------------------------|
| Assets | | | | |
| Non-current assets | | | | |
| Investments | 10 | 0.8 | 0.7 | 0.6 |
| Loans to group undertakings | | 3.3 | 3.3 | 3.3 |
| | | <u>4.1</u> | <u>4.0</u> | <u>3.9</u> |
| Current assets | | | | |
| Trade and other receivables | | 0.6 | 0.5 | 0.5 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | | (3.7) | (3.6) | (3.6) |
| | | <u>(3.7)</u> | <u>(3.6)</u> | <u>(3.6)</u> |
| Net assets | | <u>1.0</u> | <u>0.9</u> | <u>0.8</u> |
| Reserves | | | | |
| Share capital | 25 | - | - | - |
| Retained earnings | | 1.0 | 0.9 | 0.8 |
| Total reserves | | <u>1.0</u> | <u>0.9</u> | <u>0.8</u> |

The comparatives for 2022 and 2023 have been restated. See note 1 for further details.

Parent company statement of changes in equity for the year ended 31 March 2024

| | Share capital £m | Retained earnings £m | Total £m |
|----------------------------------|------------------------|----------------------------|-------------|
| Balance at 1 April 2022 restated | - | 0.8 | 0.8 |
| Profit for the year restated | - | 0.1 | 0.1 |
| Balance at 1 April 2023 restated | - | <u>0.9</u> | <u>0.9</u> |
| Profit for the year | - | 0.1 | 0.1 |
| Balance at 31 March 2024 | - | <u>1.0</u> | <u>1.0</u> |

The comparatives for 2022 and 2023 have been restated. See note 1 for further details.

The financial statements on pages 28 to 63 were approved by the Board of Directors on 10 July 2024 and were signed on its behalf by:

P M Davis

P M Davis
Director

Registered N° 3975719

Consolidated cash flow statement for the year ended 31 March 2024

| | Note | 2024 £m | 2023 Restated £m |
|---|------|----------------|------------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations * | 18a | 377.4 | 377.5 |
| Income tax received | | 0.5 | 0.6 |
| Net cash inflow from operating activities | | 377.9 | 378.1 |
| Cash flows from investing activities | | | |
| Interest received | | 21.2 | 13.2 |
| Purchase of property, plant and equipment | | (372.4) | (296.6) |
| Purchase of intangible assets | | (39.3) | (38.6) |
| Proceeds from sale of plant and equipment | | - | 0.4 |
| Grants and contributions received | | 32.2 | 30.5 |
| Net cash outflow from investing activities | | (358.3) | (291.1) |
| Net cash flow before financing activities | | 19.6 | 87.0 |
| Cash flows from financing activities | | | |
| New loans drawdown | | 230.0 | - |
| Term loan issue costs | | (1.9) | - |
| Term loan repayments | | (65.4) | (58.4) |
| Interest paid | 18b | (192.5) | (128.7) |
| Receipts on derivative financial instruments | 18c | 8.7 | 49.5 |
| Payments on derivative financial instruments | 18c | (11.8) | (70.4) |
| Payment of lease liabilities | | (201.8) | (17.5) |
| Net cash outflow from financing activities | | (234.7) | (225.5) |
| (Decrease) in cash and cash equivalents | 19b | (215.1) | (138.5) |
| Cash and cash equivalents at 1 April | | 363.5 | 502.0 |
| Cash and cash equivalents at 31 March | 12 | 148.4 | 363.5 |

* Exceptional items of £nil (2023: £30.8 million) are excluded from cash flows generated from operations, per note 18.

The comparators for interest paid and receipts/payments on derivative financial instruments have been reclassified following a change in accounting policy (see note 1). There is a £149.6m increase to net cash inflow from operating activities with a corresponding increase to net cash outflow from financing activities, there is no impact on net cash outflow for the prior year. More information is available under note 1 to these financial statements.

There were no cash flow activities to report for the parent company during the year to 2024 (2023: none).

Notes to the financial statements (continued)

Accounting policies for the year ended 31 March 2024

Glas Cymru Anghyfyngedig ('the Company') is a private company incorporated, domiciled and registered in Wales in the UK. The registered number is 3975719 and the registered address is Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently to both years presented.

Basis of preparation

The consolidated financial statements of Glas Cymru Anghyfyngedig and the parent company financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards ("UK-adopted IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed assets, other financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss. The presentational and functional currency in these accounts is sterling and all balances are shown rounded in £m.

The preparation of financial statements to conform with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on pages 34-37.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Intra-group transactions and profits are eliminated on consolidation. The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. The parent company financial statements present information about the Company as a separate entity and not about its group.

Going concern

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group and parent company have adequate resources for a period of at least 12 months from the date of their approval and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting, the Directors have reviewed the resources available to the Group in the form of cash and committed bank facilities headroom, which stands at £468 million at 31 March 2024, further extended post year end following a new £125m term loan being agreed, as well as consideration of the Group's capital adequacy. The Group presently has £400m revolving credit facilities available to use at its discretion and should the Group deem beneficial, will be utilised in part to manage operational cash flows. £80m was drawn as at 31 March 2024 with repayment made during May 2024. The Group's revolving credit facilities currently have a termination date of February 2027. The Board has approved a Treasury refinancing strategy which sets out the approach to be followed to meet the Company's financing needs for the next 6 years. The Group has evaluated the present market environment and considered our AMP 8 refinancing requirement, where we will need to refinance over £3bn. This level of liquidity is considered adequate to meet operational needs in the short-term and means we would not require further funding beyond our existing revolving credit facilities until March 2026, where our next material debt repayment is due to occur.

The Group has maintained active relationships with a number of lenders and also monitors market trends, being aware of the regular, well-subscribed debt issuances in the sector. Considering the Group's credit ratings being among the highest in the industry, the Directors are confident in the Group's ability to raise the required funds, in a timely manner and at a competitive rate, with various alternative options available such as early issuance of our AMP 8 refinancing, private placement bonds and term loans.

The Directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The financial plan has been subjected to a number of severe but plausible downside scenarios in order to assess the group's ability to operate within existing covenants and facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; low and high inflation environments; elevated levels of bad debt; outcome delivery incentive penalties; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include deferral of capital expenditure and a reduction in other discretionary totex spend.

Notes to the financial statements (continued)

Going concern (continued)

The directors have also assessed the potential impacts resulting from the cost-of-living crisis and interest rates presently affecting the UK, and although they generate a negative on our financials, none of these factors pose a significant concern to disclose in relation to the Group's ability to continue as a going concern.

Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain headroom within the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken our financial metrics, they remain within rating agencies' guidance for our current ratings.

Having considered these matters, the Directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 April 2023:

Amendments

- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Insurance Contracts (Amendments to IFRS17)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (IAS 12)

The adoption of these standards, amendments and interpretations has not had a material impact on the financial statements of the Group or parent company.

The Group and company have changed accounting policy for the classification of interest paid on the cash flow statement. Interest paid is now classified as a financing activity as this is deemed to better reflect the nature of the cash flows.

Future changes to accounting standards

At the date of approval of these financial statements, there are new Standards and Amendments, which have not been applied in these financial statements, the Directors anticipate that the adoption of these Amendments in future periods will have no material impact on the financial statements of the Group or parent company.

Revenue recognition

Revenue represents the income receivable in the ordinary course of business for performance obligations delivered, excluding value added tax. Revenue is segmented into two income streams.

Regulated revenue relates to the provision of water, sewerage and related retail services. Revenue from customers with meters is recognised when the service is provided and is measured based on actual meter readings and estimated consumption for the period between the last meter reading and the year-end based on tariffs from the scheme of charges published annually. For customers who are not metered, the performance obligation is the ability to provide water and sewerage services throughout the period. Such customers are charged on an annual basis, coterminous with the financial year and revenue is recognised on a straight-line basis over the financial year.

All water companies have a legal obligation to allow third parties to establish an authorised connection to their networks and a number of activities may be necessary in order to achieve this, giving rise to the following transactions and accounting treatments under IFRS 15:

- Connection charges: these are amounts received from developers for connection to the network which the group recognise as income on delivery of that performance obligation.
- Infrastructure charges and requisitions: third party contributions towards the Group's obligation to ensure future service provision to the connection or mains over its life; the Group estimate that an average connection lasts for 80 years and defer the release of charges over that period.
- Asset adoptions: usually sewers adopted at no cost, whereby the receipt of the asset is out of scope of IFRS 15 and should therefore be recognised at fair value (with deferral of related non-cash income).
- Diversions: payment in return for moving a water or sewer main to accommodate other infrastructure changes. The performance obligation is to move the main, with no additional asset creation, therefore revenue is recognised immediately.

Other operating income principally relates to sales of gas. Revenue from sales of gas is recognised upon delivery. The Group's energy strategy is to enter into contracts which fix the price of consumption less exports of future power purchases in order to reduce the impact of power price variances.

Notes to the financial statements (continued)

Exceptional items

Exceptional items are those significant items which are disclosed separately by virtue of their size and/or nature to enable a true understanding of the Group's performance.

Investments

The Company's investments comprise equity holdings in wholly-owned subsidiaries, as set out in note 10. These are stated at historical cost.

Business combinations

In accordance with IFRS 3, business combinations are accounted for using the acquisition method as at the acquisition date, being the date on which control is transferred.

Property, plant and equipment

The economic value of the Group's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during its price reviews every five years. The Group considers that a fair value approach to valuing its assets better reflects the underlying value of the assets than historical cost accounting which understates the assets' current value in use.

As at 31 March 2024 the total value of tangible and intangible fixed assets has been revalued to the Group's 'shadow-RCV' (Regulatory Capital/Asset Value), being the 31 March 2024 RCV published by Ofwat in its PR19 Final Determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

The carrying value of assets is reviewed for impairment if circumstances dictate that the carrying value may not be recoverable; asset lives and residual values are reviewed annually.

Property, plant and equipment comprise:

- a) Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
- b) Other assets (including properties, over ground operational structures and equipment, and fixtures and fittings).

Infrastructure assets

Infrastructure assets comprise principally impounding reservoirs and a network of underground water and wastewater systems. For accounting purposes, the water system is segmented into components representing categories of asset classes with similar characteristics and asset lives. The wastewater system is segmented into components representing geographical operating areas, reflecting the way the Group operates its wastewater activities.

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is treated as additions, which are included at cost. Expenditure incurred in repairing and maintaining the operating capability of individual infrastructure components, "infrastructure renewals expenditure", is expensed in the year in which the expenditure is incurred.

The depreciation charge for infrastructure assets is determined for each component of the network and is based on each component's cost, estimated residual value and the expected remaining average useful life. The useful average economic lives of the infrastructure components range principally from 35 to 150 years, with a small number representing approximately 4% of the total number of infrastructure assets falling outside of this range.

Other assets

Other assets are depreciated on a straight-line basis over their estimated useful economic lives, which are as follows:

| | |
|--|--------------|
| Freehold buildings | 60 years |
| Operational structures | 5 – 80 years |
| Plant, equipment and computer hardware | 3 – 40 years |

Assets in the course of construction are not depreciated until commissioned. Land is not depreciated.

Borrowing costs

Borrowing costs are general and specific borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Adopted assets

Adopted assets at no cost comprise principally sewers. They are recognised as additions at fair value and depreciated on a straight-line basis over an estimated useful economic life of 80 years.

Notes to the financial statements (continued)

Intangible assets

Intangible assets principally comprise computer software and related system developments. Intangible assets are initially included at cost less accumulated amortisation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when the relevant recognition criteria are met.

The carrying values of intangible assets are reviewed for impairment if circumstances indicate they may not be recoverable. Intangible assets are amortised on a straight-line basis over their estimated useful economic lives, which range between 7 and 20 years. These asset lives are reviewed annually.

Leases

At inception of a contract the group assesses whether a contract is, or contains, a lease. Where a lease is present, a right-of-use asset and lease liability is recognised at the commencement date. The lease liability is measured at the present value of future lease payments due over the term of the lease, with the right-of-use asset recognised as property, plant and equipment at cost. This is generally equivalent to the initial measurement of the lease liability.

Lease payments are discounted using the interest rate implicit in the lease or, if that is not readily available, the group's incremental rate of borrowing. Generally, the Group uses its incremental borrowing rate as the discount rate. After the commencement date, the lease liability is increased for the accretion of interest (being the unwinding of the discounting applied to future lease payments) and reduced by lease payments made. In addition to this the carrying amount is updated to reflect any remeasurement or lease modifications. Remeasurements are typically required as a result of rent reviews or changes to the lease term. In these cases a corresponding adjustment to the right-of-use asset is made.

Depreciation of right-of-use assets is charged on a straight-line basis over the term of the lease. Where leases have a term of less than 12 months from the commencement date and do not have a purchase option, the group applies the short-term lease recognition exemption available under IFRS 16. The group applies the low value recognition exemption permitted by the standard to leases of assets with a value of less than £2,500. Payments for short-term and low value leases are instead charged to operating costs on a straight-line basis over the period of the lease.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

Grants and customer contributions

Grants and customer contributions in respect of expenditure on property, plant and equipment have been offset against these assets.

Capital expenditure programme incentive payments

The Group's agreements with its construction partners involved in delivering capital expenditure programmes incorporate incentive bonuses payable after completion of the programmes. The cost of property, plant and equipment additions includes an accrual for incentive bonuses earned to date, relating to projects substantially completed at the year-end, where the likelihood of making the incentive payment is considered probable. Amounts recoverable from contract partners relating to targets not being achieved are recognised only on completed projects.

Inventory

Inventories are stated at the lower of cost and net realisable value.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and measured subsequently at amortised cost less provision for impairment. They are first assessed individually for impairment, or collectively where the receivables are not significant individually. Where there is no objective evidence of impairment for an individual receivable, it is included in a group of receivables with similar credit risk characteristics and these are assessed collectively for impairment based on the expected credit loss. Movements in the provision for impairment are recorded in the income statement.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition and typically include cash in hand and deposits with banks or other financial institutions.

Notes to the financial statements (continued)

Pension benefits

1) Defined benefit scheme

The asset recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting year. The fair value of these assets has been estimated based on the latest available observable prices, updated with reference to movements in comparable observable indices to the reporting date, and adjusted for judgements to reflect differences in the liquidity and credit components of the asset pricing. The defined benefit obligation is calculated annually by an independent actuary using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. More information is provided in note 21.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the income statement.

2) Defined contribution scheme

Obligations for contributions to the scheme are recognised as an expense in the income statement in the period in which they arise.

Other financial liabilities

Debt is measured initially at fair value, being net proceeds after deduction of directly attributable issue costs, with subsequent measurement at amortised cost. Debt issue costs are recognised in the income statement over the expected term of such instruments at a constant rate on the carrying amount.

Trade payables are obligations to pay for goods and services acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year, or in the normal operating cycle of the business.

Derivative instruments utilised by the Group are interest rate swaps, inflation swaps and power hedges. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the Group. Derivatives are recognised initially and subsequently re-measured at fair value. During the year to 31 March 2024, only one of the Group's derivatives qualified for hedge accounting (2023: one), but the Company elected not to apply hedge accounting. These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

Loans receivable

Loans receivable are measured at fair value on initial recognition. After initial recognition, loans receivable are subsequently measured at amortised cost using the effective interest rate method whereby interest is credited to the income statement and added to the carrying value of loans receivable at a constant rate in proportion to the loan amount outstanding. The Group recognises a loss allowance for expected credit losses (ECL) on its loans receivable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

Financing income and expenses

Financing expenses include interest payable, indexation on index-linked borrowings, index-linked swaps and finance charges on lease liabilities recognised in profit or loss using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation

Income tax for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in reserves. Current tax is the expected tax payable on the taxable income for the year using rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Notes to the financial statements (continued)

Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax has been recognised in relation to rolled-over gains except for where reinvestment has been made in certain operational assets which the Group plans to use until the end of their useful economic life. The Group anticipates that these assets will then be scrapped for negligible proceeds, or proceeds less than their tax base, and therefore no chargeable gain is expected to arise in the future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been estimated reliably. More information is provided in note 17. Provisions are not recognised for future operating losses.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation is small.

Financing risk management objectives and policies

Treasury activities are managed within a formal set of treasury policies and objectives, which is reviewed regularly and approved by the Board at least annually. The policies specifically prohibit any transactions of a speculative nature and the use of complex financial instruments. Certain detailed policies for managing interest rate, currency, inflation risk and liquidity risk are approved by the Board and may be changed only with the consent of Dŵr Cymru Cyfyngedig's Security Trustee. Risk is mitigated further by limiting the level of exposure to any one counterparty.

The Group uses financial instruments to raise finance and manage operational risk; these instruments principally include listed bonds, leases, bank loan facilities and derivatives.

1) Credit risk

The Group's Board approved treasury policy adopts a prudent approach to cash management and timed deposits are placed for a maximum of three months with banks subject to minimum long-term rating criteria of A-/A3/A-. Bonds can be purchased from certain AA-rated counterparties with maturities of up to one year and commercial paper purchases of up to one year can be placed with certain AAA-rated supranationals only. During the year ended 31 March 2024 the maximum cash investment with a single counterparty was £100 million (2023: £100 million).

2) Interest rate risk

The Group is covenanted to hedge at least 85% of its total outstanding financial liabilities into either index-linked or fixed rate obligations. As at 31 March 2024, the Group had hedges covering 94% of its total outstanding financial liabilities into either index-linked or fixed rate obligations, including free cash balances (2023: 100%). For this purpose, floating rate interest liabilities are hedged through a combination of derivative instruments and cash balances. The regulatory framework under which revenues and the regulatory asset value are indexed also exposes the Group to inflation risk. Therefore, subject to market constraints and Board approval, the Group may seek to raise new debt through index-linked instruments or enter into appropriate hedging transactions.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £4,503 million as at 31 March 2024 (2023: £4,179 million), £85 million related to floating rate debt (2023: none). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2024, 94% (2023: 97%) of the Group's gross debt was at fixed or index-linked (RPI) rates of interest after taking into account interest rate and RPI swaps. The hedges established to manage interest rate risks are generally economic in nature, but do not satisfy the requirements in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £399 million in the balance sheet at 31 March 2024 (2023: £435 million) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil as payments are made.

Notes to the financial statements (continued)

3) Power price hedges

The Group enters into contracts which fix the price of a proportion of future power purchases in order to reduce the impact of power price variances. These contracts qualify as financial instruments and are included within the financial statements.

4) Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The Group's policy is to ensure that the maturity profile does not impose an excessive strain on its ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £4,224 million (2023: £4,135 million) can fall due in any 24-month period.

5) Liquidity risk

The Group maintains committed banking facilities in order to provide flexibility in the management of its liquidity.

Under the Common Terms Agreement which governs obligations to bondholders and other financial creditors, the Group is required to have cash available to fund operations for 12 months.

As at 31 March 2024, the Group had committed borrowing facilities of £400 million, of which £320 million (2023: £200 million) remained undrawn, and cash and cash equivalents (excluding debt service payments account) of £148 million (2023: £364 million). There is also a £10 million overdraft facility renewable on an annual basis.

As at 31 March 2024 there was also a special liquidity facility of £135 million (2023: £135 million); this is required in order to meet certain interest and other obligations that may not be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the Group's debt financing covenants. The facility has been provided by an insurance provider and is renewable on a rolling five-year evergreen basis.

6) Capital risk

The Group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the Group operates, the Group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the Group's borrowing covenants) as a proportion of its Regulatory Capital Value as determined by Ofwat and linked to movements in the Consumer Prices Index (CPIH) and Retail Prices Index (RPI). As at 31 March 2024 the measure of regulatory gearing was 60% (2023: 59%).

In respect of the risks detailed above, further quantitative disclosures are provided in note 16.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements conforming to IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

1) Provision for impairment of trade receivables

Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. Management use standardised collection rates as observed over the preceding three years to determine the level of bad debts. These are as follows:

Measured debt based on historical data:

- 100% of debt not recovered for a period of over two years old;
- 99% of debt between 1-2 years; and
- 5% of debt less than a year old.

Unmeasured debt based on historical data:

- 100% of debt not recovered for a period of over two years old;
- 99% of debt between 1-2 years; and
- 8% of debt less than a year old.

Notes to the financial statements (continued)

Accounting estimate - The probability of failing to recover a debt is based on expected credit loss, determined by past experience, as shown in the bullet points above, and expected future movements in collection rates, adjusted for changes in external factors (including the estimated impact of the current affordability crisis impacting UK households). The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. The key sensitivity assumptions used in the provisioning process are as follows:

- A £2 million increase in the provision, equivalent to 1% deterioration in cash collection rates, providing for the current economic situation; and
- 90% of charging orders will be recovered in future periods based on historic trend.

To the extent that the failure to recover debts in arrears alters by 5%, the provision for impairment would increase or decrease by £2.0 million (2023: £2.0 million).

2) Pension benefits

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. The key assumptions are the discount rate, price inflation, salary increases and mortality rates, which are used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high-quality corporate bonds, denominated in sterling, that have time to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2024 would increase or reduce by £5.0 million (2023: £5.7 million). It should be noted that actual rates may differ from the assumptions used due to changing market and economic conditions and longer or shorter lives of participants and, as such, this represents a key source of estimation uncertainty. Sensitivities in respect of the assumptions used during the year are disclosed in note 21.

If the scheme's assets underperform relative to the discount rate used to calculate the liabilities, this will increase the value of the projected deficit. With the exception of cash, assets consist of pooled investment funds, alternative strategy funds and property funds which are not quoted on an active market. Of total assets amounting to £420.0 million (2023: £412.1 million), assets with a fair value of £113.4 million (2023: £114.8 million) are Level 3 financial assets; these are considered to be the least liquid and hardest to value and are therefore subject to a higher degree of estimation. The fair value of these assets has been estimated based on the latest available observable prices, updated with reference to movements in comparable observable indices to the reporting date, and adjusted for judgements to reflect differences in the liquidity and credit components of the asset pricing. A 5% movement in the fair value of these Level 3 financial assets would increase or decrease the overall carrying value of the pension liability by £5.7m (2023: £5.7 million).

The mortality assumption used to calculate the present value of the pension obligations is broken down into two distinct parts. Firstly, current mortality rates (base table), and secondly, how these rates should allow for future improvements. For the present value calculation, the S3PxA base tables have been used, adjusted for weightings of 101% for males and 104% for females, with improvements in line with the CMI 2022 projection model, with a long-term trend rate of 1.0% p.a. The CMI model is used by UK pension schemes and insurance companies which need to make assumptions about future mortality rates.

3) Accounting for leakage and per capita consumption restatement

As reported in FY 23 the Group proposed a customer redress package totalling £29 million to address the restatement of the Group's leakage and per capita consumption performance. In March 2024 Ofwat concluded their investigation into "Welsh Water leakage performance", accepting the proposed package.

Accounting judgement: The Group has applied judgement to the structure of the package, splitting the redress between immediate customer rebate and foregoing future RCV. Customer rebates of £15 million have been defrayed in full in FY 24 and also will forego £14 million for the RCV uplift at PR24.

A provision is not recognised at 31 March 2024 for the £14m redress element as it represents lower expected prices to be charged to customers to be agreed at a future date through the regulatory mechanism. Under the regulatory mechanism for PR24, the Group is entitled to recover regulatory overspend for FY 21 and FY 22 that is attributable to leakage expenditure, but the Group will not take this into account in the RCV uplift on 1 April 2025.

Notes to the financial statements (continued)

4) Fair value estimation

In accordance with IFRS 13 Fair Value Measurement, trading and treasury derivatives of the Group are categorised into different levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).

Level 3: inputs for the asset or liability not based on observable market data.

All of the Group's treasury derivatives are categorised as Level 2. In accordance with IFRS 13 an adjustment factor has been applied to the swaps based on industry standard practice to take into account credit risk by estimating future cash flows based on applicable interest rate curves. Projected cash flows are then discounted back using discount factors which are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate.

Trading derivatives, relating to power price hedges, are categorised as Level 2 where marked-to-market valuations are received for these trades. Where marked-to-market valuations are not received the fair values are estimated rather than observable and are therefore categorised as Level 3.

At 31 March 2024 the fair values of derivatives were as follows:

Level 2:

Assets: trading derivatives £1.2 million, treasury derivatives £nil (2023: trading derivatives £9.9 million, treasury derivatives £nil).

Liabilities: trading derivatives £nil, treasury derivatives £398.6 million (2023: trading derivatives £nil, treasury derivatives £444.5 million).

Trading derivatives relate to power hedges. Treasury derivatives relate to interest rate swap contracts. All derivatives are recorded on the balance sheet at fair value.

Level 2 debt investments are valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

5) Capitalisation

There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, including employee and other internal expenditure on both infrastructure and non-infrastructure assets meet the relevant criteria for capitalisation (directly attributable to the asset, provide probable economic benefit and can be measured reliably) and therefore are included in the valuation of property, plant and equipment, or alternatively should be expensed immediately. The Group capitalises expenditure relating to employee costs on both a direct and an indirect basis, through the use of timesheets and estimation of overhead costs that is attributable to a capital project, which is reviewed at a minimum annually. Were our capitalisation percentage to increase or decrease by 5% this would result in a financial impact of £9.3m, based on total employment costs. This is monitored continually through a process of capital programme cost challenge and operating cost scrutiny, complemented by a third-party analysis of the capital programme breakdown between maintenance costs charged to the income statement and property, plant and equipment additions to the balance sheet.

6) Useful economic life impact on depreciation

The estimated useful economic lives of Property, plant and equipment (PPE) and intangible assets is based on management's experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE and intangibles investment to the Group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively. As such, this is a key source of estimation uncertainty. The depreciation and amortisation expense for the year was £384.5 million. A 10 per cent increase in average asset lives would have resulted in a £31.5 million reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £34.6 million increase in this figure.

7) Climate change

The natural environment within which the Group operates is constantly changing, and this influences how its water and wastewater services are to be delivered in the future. The Group has embedded ambitious climate-related targets within its strategic goals, affecting the portfolio of assets required in its operations to deliver such services. A review has been conducted, in line with our TCFD disclosures for potential impacts of climate change, and environmental legislation or the Group's decarbonisation measures, predominantly in respect of the valuation of the property, plant and equipment held and provisions or contingent liabilities. No amendments were considered necessary in the financial statements this year with further analysis to be conducted throughout the new financial year. We will review the impact of climate change on the financial statements annually upon further information becoming available.

Notes to the financial statements (continued)

The Group will continuously look to further enhance the accuracy of its useful life assessment through the introduction of more forward-looking information in asset life reviews. The Group will continue to mitigate the exposure that the carrying value of its book asset base has to climate-related risks through strategic planning activities that incorporate defined climate scenarios, climate change mitigation pledges, and long-term climate projections. The Group installs permanent flood defences and other resilience measures at the most vulnerable facilities to protect its assets.

8) Income from connections to the water and sewerage network

The Group receives income from developers for new connections to the water and sewerage networks in the form of adopted infrastructure assets. In assessing this income, we have judged the contract to be outside the scope of IFRS 15 and therefore recognised a deferred income balance at the fair value of the assets adopted which is released to the income statement to reduce the depreciation of the associated assets to which they relate. Any connection charges to developers or domestic customers for new connections to the network are recognised immediately in revenue on completion of the new connection as that is judged to be the performance obligation under IFRS 15.

RESTATEMENT

Group

The balance sheet comparators for 31 March 2023 have been restated for the presentation of derivative financial instruments. Derivative financial instruments are now presented as a single unit of account, whereas previously multiple units of account were applied to each instrument. This has resulted in changes to derivatives in the balance sheet as follows:

- non-current assets – decrease of £314.4 million
- current assets – decrease of £21.3 million
- current liabilities – decrease of £26.3 million
- non-current liabilities decrease of £309.4 million

There is no impact on the total balance of derivative financial instruments or on net assets.

The consolidated income statement and consolidated cashflow statement (see changes in accounting policies) for the year to 31 March 2023 have been restated for the presentation of financial expenses, with £20.9 million now disclosed as settlement accruing on derivative financial instruments as an element of the fair value gain on derivatives rather than being included in the financial expenses heading. There is no impact on total financial expenses, the loss for the year, or net cashflow for the year.

Parent company

The investment in subsidiary undertakings has been restated to treat interest waived on loans to subsidiary undertakings as a capital contribution. There is an increase in the investment cost at 1 April 2022 of £0.6m and an increase of £0.7m at 31 March 2023 with a corresponding increase in retained earnings. Trade and other receivables has been increased by £0.3m in 2022 and 2023 to reflect a group relief tax debtor and trade and other payables has been increased by £0.1m for a group relief tax creditor.

2. Revenue

The Directors consider that there is only one operating segment, being the operation of water and sewerage business (and peripheral commercial activities) in the UK. As the Group has only domestic activities there is also only one geographical segment; therefore, the disclosures for this segment have also already been given in these financial statements. The Dŵr Cymru Executive is the Group's chief operating decision maker with reports provided to it on this basis.

While the Group operates in a single segment, its activities can be disaggregated into the following principal income streams:

| Group | 2024 | 2023 |
|--------------------------------|--------------|--------------|
| | £m | £m |
| Regulated revenue | | |
| Water | 374.2 | 330.6 |
| Sewerage | 495.6 | 457.3 |
| Retail | 46.8 | 46.9 |
| Total regulated revenue | 916.6 | 834.8 |
| Other (non-regulated) | 7.8 | 6.5 |
| Total revenue | 924.4 | 841.3 |

Regulated revenue relates to the provision of water, sewerage and related retail services operating under Dŵr Cymru Cyfyngedig's licence as part of the water industry and England and Wales, regulated by The Office of Water Trading (Ofwat).

Notes to the financial statements (continued)

2. Revenue (continued)

Other (non-regulated) revenue relates to income streams which are not subject to Ofwat's price control; these principally comprise organic energy generation and certain other activities which are peripheral and/or complementary to the Group's core water and sewerage business.

On 25 May 2023, Ofwat launched an investigation into "Welsh Water's reporting of leakage and PCC and on 31 May 2023 served a S203 Notice under the Water Industry Act 1991 requiring further information from the Company. As reported in FY 23 the Group proposed a customer redress package totalling £29 million, accepted by Ofwat when their investigation was concluded in March 2024. As part of this package Customer rebates of £15 million were provided for at 31 March 2023 and recognised within the FY 23 Water income stream. The rebates have been defrayed in full during FY 24.

3. Operating profit/(loss)

The following items have been included in arriving at the operating profit/(loss):

| Group | 2024 | 2023 |
|--|---------------------|---------------------|
| | £m | £m |
| Operating expenditure | | |
| Power | 76.1 | 74.3 |
| Chemicals | 22.7 | 21.9 |
| Materials and equipment | 9.6 | 9.6 |
| Vehicles and plant | 5.9 | 6.6 |
| Office expenses | 6.7 | 5.9 |
| Property costs | 3.8 | 3.5 |
| Insurance | 7.5 | 6.6 |
| Water and Sewerage contractors | 12.3 | 27.1 |
| Laboratories and analytical services | 1.7 | 1.4 |
| Collection commissions | 1.5 | 1.9 |
| IT contracts | 17.3 | 14.9 |
| Bought-in services and other costs | 53.7 | 51.0 |
| | <u>218.8</u> | <u>224.7</u> |
| Employee costs (note 20) | 193.7 | 185.0 |
| Staff costs capitalised or classified as infrastructure renewals expenditure | (88.0) | (79.1) |
| | <u>105.7</u> | <u>105.9</u> |
| Research and development credit | (0.5) | (0.5) |
| Rates | 26.3 | 27.0 |
| Natural Resources Wales/Environment Agency charges | 17.2 | 16.3 |
| Fees payable to auditors | 0.8 | 0.7 |
| Total operational expenditure | <u>368.3</u> | <u>374.1</u> |
| Impairment of trade and other receivables | 28.3 | 24.8 |
| Other operating income | (5.2) | (5.3) |
| Exceptional items | | 30.8 |
| Infrastructure renewals expenditure | 101.3 | 78.0 |
| Depreciation and amortisation | | |
| - Depreciation of property, plant and equipment | 328.4 | 318.4 |
| - Movement on deferred income | 14.8 | (12.4) |
| - Amortisation of intangible assets | 42.4 | 39.6 |
| Total depreciation and amortisation | <u>385.6</u> | <u>345.6</u> |
| Total operating costs | <u>878.3</u> | <u>848.0</u> |

The Group incurred insignificant expenses relating to short-term leases, leases of low-value assets or variable lease payments in 2024 and 2023.

Notes to the financial statements (continued)

3. Operating profit/(loss) (continued)

Staff costs in the year of £3.6 million (2023: £nil) have been classified to infrastructure renewals expenditure.

Other operating income principally comprises income from the export of internally generated gas.

Release of deferred income relates to the income recognised on assets adopted by the Group at nil cost where the assets are initially recognised at fair value within fixed assets and depreciated over their useful economic life with a corresponding balance in deferred income.

Exports of renewable electricity is included within power costs as it is treated as a natural hedge to our consumption. Our energy strategy is to enter into contracts which fix the price of consumption less exports of future power purchases in order to reduce the impact of power price variances. During the year, consumption charges amounted to £83.4 million (2023: £82.6 million) and we exported £8.4m (2023: £15.0 million).

Services provided by the Group's auditors

During the year the group obtained the following services from its auditors; £737,000 of which were paid by the Group's wholly-owned subsidiary, Dŵr Cymru Cyfyngedig whilst the remainder were paid by the subsidiaries in the Welsh Water Holdings Limited group.:

| | Group | |
|--|--------------|--------------|
| | 2024 £000 | 2023 £000 |
| Audit fees | | |
| Audit of subsidiary companies | 516 | 467 |
| Total audit fees | 516 | 467 |
| Audit-related assurance services | 106 | 111 |
| Other assurance services | 141 | 71 |
| Total audit and audit-related assurance services | 763 | 649 |
| Total cost of services provided by the Group's auditors | 763 | 649 |

Regulatory audit services include audit work in respect of regulatory requirements: the Annual Performance Report.

The Board has adopted a formal policy with respect to services received from external auditors. All non-audit work will be subject to prior competitive tendering or approval by the Audit Committee.

Exceptional item

There were no exceptional items in the year to 31 March 2024.

In the year to 31 March 2023, we recognised an exceptional item totalling £30.8 million. This item represents award of pension increases above a 5% cap. Under a 'best endeavours' clause in our pension scheme rules full RPI increases could only be awarded if certain criteria were met. In FY 23 scheme awards above a 5% cap had been paid by the pension scheme and, as the scheme was now in surplus, these conditions were expected to be paid in the future. Therefore, the expense in FY 23 represents the additional awards given. In the future it is expected that changes to this assumption will be presented in Other Comprehensive Income as required under IAS19. This was disclosed as exceptional in FY23 as the accounting treatment of these increases through the profit and loss account would only occur this year, was of a significant value, and did not closely reflect day-to-day operational expenditure. For the avoidance of doubt management will make consideration of the 'best endeavours' clause in all future periods and as such any movement in estimate will be presented as Other Comprehensive Income as required under IAS19.

Notes to the financial statements (continued)

4. Financing costs

| | Group | |
|--|----------------|----------------|
| | 2024 | 2023 |
| | £m | £m |
| Interest on investments | 19.8 | 14.7 |
| Net interest income on pension scheme liabilities | 0.7 | - |
| Finance income | 20.5 | 14.7 |
| Financial expenses: | | |
| Interest payable on bonds | (102.0) | (97.5) |
| Indexation on index-linked bonds | (115.3) | (161.4) |
| Indexation on index-linked loan | (11.7) | (30.3) |
| Interest payable on leases (including swaps to RPI) | (28.9) | (15.9) |
| Other loan interest | (23.7) | (11.7) |
| Other interest payable and finance costs | (7.0) | (6.8) |
| Net interest charge on pension scheme liabilities | - | (2.3) |
| Capitalisation of borrowing costs under IAS 23 (2024: 5.5%; 2023: 7.9%) | 18.6 | 28.3 |
| Financial expenses before fair value gains/(losses) on derivative financial instruments | (270.0) | (297.6) |
| Settlements accruing on derivative financial instruments | 37.4 | (20.9) |
| Fair value (losses)/gains on interest rate swaps | (42.6) | 32.1 |
| Fair value gains on index-linked swaps | 44.1 | 157.2 |
| Fair value (losses) on trading derivatives | (8.8) | (29.1) |
| Fair value gains on derivative financial instruments | 30.1 | 139.3 |
| Net finance cost | (219.4) | (143.6) |
| Fair value losses/(gains) excluded for covenant reporting | 7.3 | (160.2) |
| Net finance costs for covenant reporting | (212.1) | (303.8) |

The comparators for financial expenses and fair value gains on derivative financial instruments in the year have been restated. Financial expenses have reduced by £20.9m with a corresponding decrease in fair value gains on derivatives. There is no impact on the loss for the year. More information is available under note 1 to these financial statements.

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges. Consequently, the Group's interest rate and index-linked swaps are fair valued at each balance sheet date with the net loss or gain disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 15 in respect of derivative financial instruments recognised in the balance sheet.)

Interest rate swap movements are caused by fluctuations in long-term interest rates, while the index-linked swap movements result from fluctuations in the value of index-linked gilts.

Notes to the financial statements (continued)

5. Taxation

Analysis of credit in the year:

| | Group | |
|--|-------------|-------------|
| | 2024 £m | 2023 £m |
| Current tax | | |
| - Current tax on loss for the year | (0.1) | - |
| - Current tax on research and development credit | - | (0.1) |
| - Adjustment in respect of prior years | 0.1 | 0.1 |
| Total current tax | - | - |
| Deferred tax | | |
| - Origination and reversal of timing differences | 40.1 | 46.1 |
| - Adjustment in respect of prior years | 1.4 | (20.3) |
| Total deferred tax (note 6) | 41.5 | 25.8 |
| Taxation credit | 41.5 | 25.8 |

Current tax is corporation tax which is payable on a company's profit or loss adjusted for tax purposes and is only charged where a taxable profit arises after these tax adjustments - see current tax reconciliation.

Current taxes in respect of prior years of £0.1 million (2023: £0.1 million) relate to tax credits for R&D and the remediation of contaminated land.

The deferred tax credit in respect of prior years has arisen from the identification of an additional plant and machinery expenditure which was eligible for a 130% super-deduction when the 2023 corporation tax computation was finalised. The 2023 comparative includes a prior year deferred tax charge of £21.0 million resulting from changes to the valuation of inflation linked swaps which arose during that year. These had previously been expected to reverse after March 2023 when the corporation tax rate would be 25% rather than 19%. However, as they reversed in 2023, when the tax rate was 19%, an additional charge of £21.0 million was disclosed as a prior year item as it related to a change in an estimate made at 31 March 2022.

The 'super-deduction' regime for plant and machinery expenditure ended on 31 March 2023. Therefore, there is no tax credit in the current period.

In December 2021, the Organisation for Economic Co-operation and Development (OECD) released model rules for a new global minimum corporate tax framework applicable to multinational enterprise groups with global revenues exceeding €750m ('Pillar Two'). The BEPS Pillar Two Minimum Tax legislation was substantively enacted in June 2023 in the UK and will be effective for the Group's financial year beginning 1 April 2024. The Group has applied the mandatory temporary exception under IAS 12 in relation to the accounting for deferred taxes arising from the implementation of the Pillar Two rules. The Group has assessed its potential exposure to Pillar Two income taxes and the new rules are not expected to have a material impact on the tax charge for the Group.

The effective rate of tax for the year is lower (2023: lower) than the standard rate of corporation tax in the UK of 25% (2023: 19%). The differences are explained below:

| | Group | |
|---|----------------|----------------|
| | 2024 £m | 2023 £m |
| Loss before tax | (173.0) | (149.9) |
| Loss before tax multiplied by the corporation tax rate in the UK of 25% (2023: 19%) | 43.3 | 28.5 |
| Effect of: | | |
| - Adjustments in respect of prior years | 1.5 | (20.2) |
| - Depreciation charged on non-qualifying assets | (2.6) | (1.7) |
| - Expenses non-deductible for tax purposes | (0.7) | (0.1) |
| - 130% super deduction for plant and machinery | - | 2.8 |
| - Difference in standard rate of corporation tax (19%) and rate used for deferred tax (25%) | - | 16.5 |
| Taxation | 41.5 | 25.8 |

Notes to the financial statements (continued)

5. Taxation (continued)

Current tax reconciliation

The table below reconciles the notional tax charge at the UK corporation tax rate to the total current tax charge for the year.

| | Group | |
|--|----------------|----------------|
| | 2024 | 2023 |
| | £m | £m |
| Loss before tax | (173.0) | (149.9) |
| Expected tax credit 25% (2023: 19%) | 43.3 | 28.5 |
| Depreciation in excess of capital allowances | (62.8) | (34.6) |
| Pension costs in excess of payments | 0.2 | (6.2) |
| Expenses not deductible for tax purposes | (0.2) | (0.2) |
| Environmental non-compliance fines - disallowed | (0.5) | - |
| Fair value movements in derivatives - non taxable | 21.4 | 66.0 |
| IFRIC 18 - release of income not taxable | (3.5) | 2.3 |
| Movement in provisions deductible when paid | 0.5 | 0.3 |
| Capitalised interest - tax deductible when capitalised | 4.7 | 5.4 |
| R&D Expenditure Credits taxed in prior years | - | 0.1 |
| Adjustments in respect of prior years | 0.1 | 0.1 |
| Tax losses carried forward | (3.2) | (61.7) |
| Current taxation | - | - |

The Group invests heavily in capital expenditure and is therefore able to claim tax relief in the form of capital allowances, a Government tax relief which aims to stimulate this type of investment. As the Group has no shareholders the surpluses it generates help keep water bills down and are also reinvested to improve the quality of services to customers, rather than being paid to shareholders as dividends. This reinvestment is often in the form of capital expenditure which attracts further capital allowances. As a result of the Group's profit forecasts and the capital allowances it is able to claim following the introduction of the 'full expensing regime for plant and machinery expenditure, the Group does not expect to pay corporation tax during AMP8 (2026 – 2030).

The most significant factor impacting the Group's current tax charge is the difference between depreciation charged on property, plant and equipment in the financial statements and the tax relief claimed for this expenditure (capital allowances). Deferred taxes are recognised on the temporary difference between the carrying amount of the fixed assets in the accounts and the amount that will be deductible for tax purposes in future years. Depreciation exceeds the claim for capital allowances as the Group is able to determine the amount of capital allowances it claims during each period in accordance with the tax legislation. Capital allowances have not been fully claimed this year, or in the prior period.

Treasury derivative financial instruments are carried at their fair value. Fair value gains and losses (excluding settlements accruing) arising between balance sheet dates are recognised in the income statement but are not subject to corporation tax. Deferred taxes are recognised on the temporary difference which is equal to the net fair value of the derivatives in the financial statements less the amounts which have been deducted for tax purposes.

Tax relief is claimed for interest costs which include the effect of the current year cash flows relating to treasury derivative financial instruments. Tax relief is also claimed for interest which is capitalised as part of fixed assets (see note 4). The group is entirely UK resident for tax purposes and is funded wholly by external debt which is fully deductible in accordance with UK tax legislation. The group has elected to be treated as 'qualifying infrastructure companies' under the Public Benefit Infrastructure Exemption provided for within the corporate interest restriction legislation. As a result there is no interest restriction for the current period (2023: £nil).

New debt is raised through bond issues and the Group's bonds are listed on the Luxembourg stock exchange. As 'quoted Eurobonds', there is no requirement to deduct UK withholding tax from interest payments. As such, there are no tax advantages to listing bonds in Luxembourg compared to London, as bonds listed on either exchange benefit from a withholding tax exemption in relation to interest. Whilst bonds are issued as bearer bonds, they are transferred electronically via Euroclear and Clearstream and have not been issued in 'definitive form' (paper form).

Notes to the financial statements (continued)

6. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2023: 25%).

The movement in the deferred tax provision is as shown below:

| | Group | |
|--|--------|--------|
| | 2024 | 2023 |
| | £m | £m |
| At 1 April | 823.3 | 669.6 |
| (Credit) to income statement | (41.5) | (25.8) |
| Charge to statement of comprehensive income in respect of actual gains on pension benefits | 6.6 | 31.1 |
| Charge to statement of comprehensive income in respect of the revaluation of fixed assets | 35.4 | 148.4 |
| At 31 March | 823.8 | 823.3 |

Deferred tax liabilities at 31 March 2024 are disclosed on the balance sheet as £813.3 million deferred tax liabilities and £10.5 million set against the pension scheme surplus under non-current assets.

| | Group | |
|--|--------------|--------------|
| | 2024 | 2023 |
| | £m | £m |
| Effect of: | | |
| - Tax allowances in excess of depreciation | 345.2 | 365.0 |
| - Deferred tax on revaluation of fixed assets | 567.2 | 565.9 |
| - Capital gains rolled over | 4.0 | 4.0 |
| - Deferred tax on tax losses carried forward | (100.8) | (91.0) |
| - Deferred tax on losses on derivative financial instruments | (1.0) | (22.5) |
| - Pensions | 10.5 | 3.7 |
| - Other tax differences | (1.3) | (1.8) |
| Net deferred tax | 823.8 | 823.3 |

An analysis of the movements in the major deferred tax liabilities and assets recognised by the company is set out below:

| | Accelerated tax depreciation | Pensions | Tax losses | Other | Total |
|---------------------------|------------------------------|----------|------------|---------|--------|
| | £m | £m | £m | £m | £m |
| At 1 April 2022 | 806.4 | (19.3) | (6.2) | (111.3) | 669.6 |
| Charge/(credit) to income | (19.9) | (8.1) | (84.8) | 87.0 | (25.8) |
| Charge/(credit) to equity | 148.4 | 31.1 | - | - | 179.5 |
| At 1 April 2023 | 934.9 | 3.7 | (91.0) | (24.3) | 823.3 |
| Charge/(credit) to income | (53.9) | 0.2 | (9.8) | 22.0 | (41.5) |
| Charge/(credit) to equity | 35.4 | 6.6 | - | - | 42.0 |
| At 31 March 2024 | 916.4 | 10.5 | (100.8) | (2.3) | 823.8 |

Deferred taxes have been recognised on the temporary difference between the carrying amount of the fixed assets in the accounts and the amounts that will be deductible for tax purposes (capital allowances) in future years. As capital allowances have exceeded the depreciation charged on the fixed assets to date, there is a deferred tax liability of £345.2 million at the balance sheet date (2023: £365.0 million). A deferred tax liability of £567.2 million (2023: £565.9 million) has also been recognised in relation to revaluation surpluses arising from revaluing fixed assets to reflect Ofwat's 'shadow regulatory capital value'. The associated deferred tax charge is charged to the revaluation reserve.

The Group has recognised a deferred tax asset of £1.0 million (2023: £22.5 million) in respect of derivative financial instruments which are carried at their fair value in the accounts. The fair value movements relating to derivatives are not subject to corporation tax in the period in which they arise but are taxable/deductible in later periods when the actual cash flows occur. The maturities of the derivatives are set out in note 15, and in some cases extend to 2057.

A deferred tax liability of £10.5 million (2023: £3.7 million) has been recognised in relation to the surplus on the pension scheme – see note 21.

Notes to the financial statements (continued)

6. Deferred tax (continued)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. These deferred tax assets will be recovered against the deferred tax liabilities in relation to fixed assets which will reverse in the same periods. The Group has the ability to determine the amount of capital allowances it claims, enabling taxable profits to be available in the periods in which deferred tax assets are recovered.

The group has tax losses of £403 million carried forward at 31 March 2024 (2023: £364 million).

Deferred tax has not been provided on £133.0 million of chargeable gains which have been rolled over where the new asset has been classified as operational structures e.g. concrete tanks. These assets are typically demolished or scrapped at the end of their useful economic life and therefore we do not expect a chargeable gain will arise in the future. If deferred tax were recognised in respect of these gains, then the deferred tax liability at 31 March 2024 would increase by £33.3 million (2023: £33.3 million) being the rolled over gain multiplied by the rate used to calculate deferred taxes of 25% (2023: 25%).

The company has a deferred tax asset of £0.3 million at 31 March 2024 (2023: £0.3m asset).

7. Revaluation reserve

The economic value of the Group's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during its five yearly price reviews. The Group considers that a fair value approach to valuing its assets better reflects the underlying value of the assets than historical cost accounting which understates the assets' current value in use.

As at 31 March 2024 the total value of tangible and intangible fixed assets for Dŵr Cymru Cyfyngedig has been revalued to the Group's 'shadow-RCV', being the 31 March 2024 RCV published by Ofwat in its PR19 Final determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

The carrying value of assets is reviewed for impairment if circumstances dictate that the carrying value may not be recoverable, asset lines and residual values are reviewed annually.

| Revaluation reserve movement | Group | |
|--|------------|------------|
| | 2024 £m | 2023 £m |
| Revaluation reserve as at 1 April | 1,692.0 | 1,339.7 |
| Revaluation of assets to RCV | 141.8 | 593.4 |
| Depreciation charge on revalued assets | (136.3) | (114.5) |
| | 5.5 | 478.9 |
| Deferred tax on revaluation | (35.4) | (148.4) |
| Deferred tax on depreciation charge | 34.1 | 21.8 |
| | (1.3) | (126.6) |
| Revaluation reserve as at 31 March | 1,696.2 | 1,692.0 |

Notes to the financial statements (continued)

8. Property, plant and equipment

| Group - Current year | Freehold land and buildings £m | Infrastructure assets £m | Operational structures £m | Plant, equipment, computer hardware £m | Total £m |
|---|-----------------------------------|-----------------------------|------------------------------|---|----------------|
| Cost or valuation | | | | | |
| At 1 April 2023 | 42.0 | 3,445.4 | 5,106.6 | 278.8 | 8,872.8 |
| Revaluation | - | 5.1 | - | - | 5.1 |
| Additions net of grants and contributions | - | 241.9 | 271.3 | 7.7 | 520.9 |
| Disposal | - | - | - | (2.5) | (2.5) |
| At 31 March 2024 | 42.0 | 3,692.4 | 5,377.9 | 284.0 | 9,396.3 |
| Accumulated depreciation | | | | | |
| At 1 April 2023 | 25.2 | - | 1,615.0 | 273.4 | 1,913.6 |
| Revaluation | - | (51.8) | (84.9) | - | (136.7) |
| Charge for the year | 0.7 | 51.8 | 272.8 | 3.1 | 328.4 |
| Released on disposal | - | - | - | (2.5) | (2.5) |
| At 31 March 2024 | 25.9 | - | 1,802.9 | 274.0 | 2,102.8 |
| Net book value | | | | | |
| At 31 March 2024 | 16.1 | 3,692.4 | 3,575.0 | 10.0 | 7,293.5 |
| At 31 March 2024 (historic cost) | 16.1 | 2,443.1 | 2,505.6 | 10.0 | 4,974.8 |
| Group - 2023 | | | | | |
| Cost or valuation | | | | | |
| At 1 April 2022 | 42.6 | 3,029.5 | 4,891.6 | 281.4 | 8,245.1 |
| Revaluation | - | 210.8 | - | - | 210.8 |
| Additions net of grants and contributions | - | 205.1 | 215.0 | 0.1 | 420.2 |
| Disposal | (0.6) | - | - | (2.7) | (3.3) |
| At 31 March 2023 | 42.0 | 3,445.4 | 5,106.6 | 278.8 | 8,872.8 |
| Accumulated depreciation | | | | | |
| At 1 April 2022 | 25.0 | - | 1,682.7 | 273.3 | 1,981.0 |
| Revaluation | - | (71.7) | (310.9) | - | (382.6) |
| Charge for the year | 0.8 | 71.7 | 243.2 | 2.7 | 318.4 |
| Released on disposal | (0.6) | - | - | (2.6) | (3.2) |
| At 31 March 2023 | 25.2 | - | 1,615.0 | 273.4 | 1,913.6 |
| Net book value | | | | | |
| At 31 March 2023 | 16.8 | 3,445.4 | 3,491.6 | 5.4 | 6,959.2 |
| At 31 March 2023 (historic cost) | 16.8 | 2,275.9 | 2,397.9 | 5.4 | 4,696.0 |

The net book value of Property, plant and equipment includes £230.6 million in respect of assets in the course of construction (2023: £343.3 million).

The net book value of Property, Plant and equipment includes £113.2 million of borrowing costs capitalised in accordance with IAS 23 (2023: £118.0 million), of which £16.7 million were additions in the year (2023: £25.1 million).

The net book value of freehold land and buildings includes £15.9 million in respect of land, which is not depreciated (2023: £15.9 million).

Notes to the financial statements (continued)

Right-of-use assets

Included within the above are right-of-use assets as analysed below:

| Group - 2024 | Infrastructure assets £m | Operational structures £m | Total £m |
|--|--------------------------------|---------------------------------|--------------|
| Net book value at 1 April 2023 | 684.6 | 0.1 | 684.7 |
| Disposal | (269.3) | - | (269.3) |
| Revaluation | 20.8 | - | 20.8 |
| Depreciation charge for the year | (39.4) | - | (39.4) |
| Net book value at 31 March 2024 | 396.7 | 0.1 | 396.8 |
| Net book value at 31 March 2024 (historical cost basis) | 265.1 | 0.1 | 265.2 |

Right-of-use assets

Included within the above are right-of-use assets as analysed below:

| Group - 2023 | Infrastructure assets £m | Operational structures £m | Total £m |
|--|--------------------------------|---------------------------------|--------------|
| Net book value at 1 April 2022 | 657.0 | 26.4 | 683.4 |
| Disposal | - | (26.9) | (26.9) |
| Revaluation | 81.6 | 3.4 | 85.0 |
| Depreciation charge for the year | (54.0) | (2.8) | (56.8) |
| Net book value at 31 March 2023 | 684.6 | 0.1 | 684.7 |
| Net book value at 31 March 2023 (historical cost basis) | 452.2 | 0.1 | 452.3 |

The disposal of £269.3 million (2023: £26.9 million) represents the termination of lease arrangements, with the Group retaining ownership of the underlying assets.

The Group's leases are principally made up of water and sewerage treatment infrastructure assets and equipment in order to carry out its operations.

The parent company owns no Property, plant or equipment.

9. Intangible assets

| Group - 2024 | Cost £m | Amortisation £m | Net book value £m |
|-----------------------------|--------------|--------------------|-------------------------|
| At 1 April 2023 | 538.1 | (335.9) | 202.2 |
| Additions/(charge) for year | 41.2 | (42.4) | (1.2) |
| At 31 March 2024 | 579.3 | (378.3) | 201.0 |

| Prior year | Cost £m | Amortisation £m | Net book value £m |
|-----------------------------|--------------|--------------------|-------------------------|
| At 1 April 2022 | 499.5 | (296.3) | 203.2 |
| Additions/(charge) for year | 38.6 | (39.6) | (1.0) |
| At 31 March 2023 | 538.1 | (335.9) | 202.2 |

Intangible assets principally comprise computer software and related system developments.

The net book value of intangible assets includes £42.1 million in respect of assets in the course of construction (2023: £33.0 million). The net book value of intangible assets includes £13.3 million of borrowing costs capitalised in accordance with IAS 23 (2023: £12.6 million) of which £1.9 million were additions in the year (2023: £3.1 million).

The parent company owns no intangible assets.

Notes to the financial statements (continued)

10. Investments

Group

Equity of less than 10% is held in the following unlisted company:

| | Principal activities | Country of incorporation | Holding |
|----------------------------------|----------------------|--------------------------|-------------------------|
| Water Research Centre (1989) plc | Water research | England and Wales | B Ordinary Shares of £1 |

Company

The parent company has a £1 investment in Glas Cymru (Securities) Cyfyngedig (100% holding of £1 ordinary shares) and has indirect investments in the following subsidiary undertakings:

| | Principal activities | Tax Residency | Country of incorporation | Class of capital | Holding |
|------------------------------|----------------------|---------------|--------------------------|--|---------|
| Dŵr Cymru (Holdings) Limited | Holding company | UK resident | England and Wales | Ordinary shares of £1 and redeemable preferred ordinary shares of £1 | 100% |
| Dŵr Cymru Cyfyngedig | Water and sewerage | UK resident | England and Wales | Ordinary shares of £1 | 100% |
| Dŵr Cymru (Financing) UK plc | Raising finance | UK resident | England and Wales | Ordinary shares of £1 | 100% |

The registered office of all the above companies is Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT.

| | 2024 | Restated 2023 |
|----------------------------|------|------------------|
| | £m | £m |
| Investment in subsidiaries | | |
| At 1 April | 0.7 | 0.6 |
| Capital contribution | 0.1 | 0.1 |
| At 31 March | 0.8 | 0.7 |

Comparatives have been restated to reflect interest waived on loans to subsidiary undertakings to be treated as a capital contribution. There is an increase in the investment cost at 1 April 2022 of £0.6m and an increase of £0.7m at 31 March 2023.

11. Trade and other receivables

| | Group | |
|---|--------------|------------------|
| | 2024 | Restated 2023 |
| | £m | £m |
| Current | | |
| Trade receivables | 559.1 | 604.4 |
| Provision for impairment of trade receivables | (84.2) | (80.7) |
| Trade receivables - net | 474.9 | 523.7 |
| Prepayments and accrued income | 112.6 | 109.1 |
| Other receivables | 60.7 | 17.8 |
| Total trade and other receivables | 648.2 | 650.6 |
| Non-current | | |
| Other receivables | 1.6 | - |
| Total trade and other receivables | 649.8 | 650.6 |

The prior year comparatives have been restated to show trade receivables subject to charging orders gross within trade receivables rather than as a reduction to the provision for impairment. The impact of the change was to increase trade receivables by £7.4 million with a corresponding increase in provision for impairment. There is no impact on net trade receivable.

All non-current receivables are due within five years from the balance sheet date.

Notes to the financial statements (continued)

11. Trade and other receivables (continued)

As at 31 March 2024, based on a review of historical collection rates it was considered that £84.2 million (2023: £80.7 million) of trade receivables were impaired and these have therefore been provided for. The impaired receivables relate mainly to the measured and unmeasured supply of water and sewerage services. Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired.

The ageing of receivables was as follows:

| Current year Trade receivables | Total £m | Provided for £m | Net £m |
|-----------------------------------|--------------|-----------------------|--------------|
| Billings in advance | 362.6 | - | 362.6 |
| Under one month | 26.7 | (1.7) | 25.0 |
| Between one and six months | 47.2 | (3.0) | 44.2 |
| Between six months and one year | 31.5 | (2.0) | 29.5 |
| Between one and two years | 36.3 | (33.1) | 3.2 |
| Between two and three years | 24.5 | (23.3) | 1.2 |
| Over three years | 30.3 | (21.1) | 9.2 |
| | 559.1 | (84.2) | 474.9 |

| Prior year Trade receivables | Total £m | Provided for £m | Net £m |
|---------------------------------|--------------|-----------------------|--------------|
| Billings in advance | 408.1 | - | 408.1 |
| Under one month | 23.2 | (1.0) | 22.2 |
| Between one and six months | 40.2 | (1.6) | 38.6 |
| Between six months and one year | 28.1 | (1.1) | 27.0 |
| Between one and two years | 42.5 | (32.8) | 9.7 |
| Between two and three years | 26.4 | (24.2) | 2.2 |
| Over three years | 35.9 | (20.0) | 15.9 |
| | 604.4 | (80.7) | 523.7 |

Movements in the provision for impairment of trade receivables are as follows:

| | Group | |
|--|-------------|-------------|
| | 2024 £m | 2023 £m |
| At 1 April | 80.7 | 77.0 |
| Charge to income statement | 27.6 | 23.7 |
| Receivables written off during the year as uncollectable | (24.1) | (20.0) |
| At 31 March | 84.2 | 80.7 |

During the year the Group has written off £24.1 million of debt which had been provided for in full (2023: £20.0 million).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The majority of trade receivables relates to a large number of small customer bills (household and non-household) such that the concentration risk is deemed low. Included within other receivables is £39.4m (2023: £14.2m) from one quasi-governmental body. Accrued income represents contract assets in respect of timing differences between customer bills and Group's year end.

The creation and release of provision for impaired receivables have been included in operational expenditure.

The risk of impairment of other classes of trade and other receivables is very low. All trade and other receivables are denominated in sterling.

Notes to the financial statements (continued)

11. Trade and other receivables (continued)

The tables below illustrate the impact of applying the “expected loss” model in accordance with IFRS 9. Debt provisioning is based on historical experience as adjusted for certain forward-looking factors.

| 2024 | Historical | Forward- | Adjustment | Historical | Forward- | Total |
|-------------------|---------------|------------|------------|-------------|------------|-------------|
| | default rates | looking | | impairment | looking | |
| | % | adjustment | total | £m | adjustment | impairment |
| | | % | % | | £m | £m |
| Billed in advance | - | - | - | - | - | - |
| < 1 month | 4.4% | 1.9% | 6.3% | 1.2 | 0.5 | 1.7 |
| 1 > 6 months | 4.4% | 1.9% | 6.3% | 2.1 | 0.9 | 3.0 |
| 6 months > 1 year | 4.4% | 1.9% | 6.3% | 1.4 | 0.6 | 2.0 |
| 1 > 2 years | 91.1% | - | 91.1% | 33.1 | - | 33.1 |
| 2 > 3 years | 95.2% | - | 95.2% | 23.3 | - | 23.3 |
| > 3 years | 97.7% | - | 97.7% | 21.1 | - | 21.1 |
| | | | | 82.2 | 2.0 | 84.2 |

| 2023 restated | Historical | Forward- | Adjustment | Historical | Forward- | Total |
|-------------------|---------------|------------|------------|-------------|------------|-------------|
| | default rates | looking | | impairment | looking | |
| | % | adjustment | total | £m | adjustment | impairment |
| | | % | % | | £m | £m |
| Billed in advance | - | - | - | - | - | - |
| < 1 month | 3.9% | 2.2% | 6.1% | 0.9 | 0.5 | 1.4 |
| 1 > 6 months | 3.9% | 2.2% | 6.1% | 1.6 | 0.9 | 2.5 |
| 6 months > 1 year | 3.9% | 2.2% | 6.1% | 1.1 | 0.6 | 1.7 |
| 1 > 2 years | 75.0% | - | 75.0% | 32.0 | - | 32.0 |
| 2 > 3 years | 89.5% | - | 89.5% | 23.6 | - | 23.6 |
| > 3 years | 71.2% | - | 71.2% | 19.5 | - | 19.5 |
| | | | | 78.7 | 2.0 | 80.7 |

* The Forward looking adjustment for 2023 has been restated to reflect recoverability of 90% charging order in historical impairment.

The Group holds around 7,550 charging orders as collateral against £12.5 million of debt (2023: 7,400 orders against £12 million of debt).

The Group's trade receivables provisioning methodology incorporates an “expected loss” model which also determines an appropriate level of losses against which to provide in the measured income accrual. The impact on the accrual as at 31 March 2024 is £4.7m, being a revenue provision of 5% against a gross balance of £94.2m (2023: £4.1 million and 5%).

Company

The parent company's loan to group undertakings of £3.3 million (2023: £3.3 million) represents two loans to wholly-owned subsidiaries, Dŵr Cymru Holdings Limited (£1.9 million) and Dŵr Cymru Cynfyngedig (£1.4 million). The loan attracts interest at bank of England base rate plus 1%. Interest on the loans has been waived in the year.

12. Cash and cash equivalents

| | Group | |
|--------------------------|--------------|--------------|
| | 2024 | 2023 |
| | £m | £m |
| Cash at bank and in hand | 9.7 | 27.3 |
| Short-term deposits | 138.7 | 336.2 |
| | 148.4 | 363.5 |

The effective interest rate on short-term deposits as at 31 March 2024 was 5.1% (2023: 3.9%) and these deposits had an average maturity of 1 day (2023: 46 days). All cash and cash equivalents were held in sterling.

Notes to the financial statements (continued)

13. Trade and other payables

| | Group | |
|------------------------------------|--------------|--------------|
| | 2024 | 2023 |
| | £m | £m |
| Current: | | |
| Trade payables | 60.5 | 64.2 |
| Capital payables | 58.0 | 56.1 |
| Other taxation and social security | 4.0 | 3.6 |
| Accruals | 97.2 | 141.0 |
| Deferred income | 407.3 | 420.2 |
| | <u>627.0</u> | <u>685.1</u> |
| | | |
| | 2024 | 2023 |
| | £m | £m |
| Non-current | | |
| Accruals | 26.0 | - |
| Deferred income | 714.4 | 540.8 |
| | <u>740.4</u> | <u>540.8</u> |

14. Other financial liabilities – borrowings

| | Group | |
|--------------------------------------|----------------|----------------|
| | 2024 | 2023 |
| | £m | £m |
| Current | | |
| Interest accruals | 18.2 | 30.3 |
| Bonds (Unamortised bond premium) | 0.8 | 0.8 |
| Bonds (Unamortised bond issue costs) | (1.5) | (1.5) |
| Term Loans | 170.3 | 64.2 |
| Lease liabilities | 49.9 | 0.9 |
| | <u>237.7</u> | <u>94.7</u> |
| | | |
| | 2024 | 2023 |
| | £m | £m |
| Non-current | | |
| Interest accruals | 4.4 | 20.0 |
| Bonds | 3,273.1 | 3,157.8 |
| Unamortised bond premium | 0.8 | 1.6 |
| Unamortised bond issue costs | (11.2) | (10.7) |
| Term Loans | 615.2 | 545.0 |
| Lease liabilities | 126.4 | 377.2 |
| | <u>4,008.7</u> | <u>4,090.9</u> |

The parent company has no borrowings.

A security package was granted by DCC, as part of the Group's bond programme for the benefit of holders of senior bonds, finance lessors and other senior financial creditors. The obligations of DCC are guaranteed by the Group, Glas Cymru (Securities) Cyfyngedig and Dŵr Cymru (Holdings) Limited. The main elements of the security package are:

- i) a first fixed and floating security over all of DCC's assets and undertaking, to the extent permitted by the Water Industry Act, other applicable law and its licence; and
- ii) a fixed and floating security given by the guarantors referred to above which are accrued on each of these companies' assets including, in the case of Dŵr Cymru (Holdings) Limited, a first fixed charge over its shares in DCC.

The Group's Class A Bonds of £1,197 million (2023: £1,141 million) benefit from a guarantee from Assured Guaranty UK Ltd. Assured Guaranty's credit rating is graded as A1/AA by Moody's, Standard & Poor's and is not rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher of the financial guarantor's rating or the underlying rating of these bonds, of A1/AA/A from Moody's, Standard & Poor's and Fitch respectively. The underlying rating (A3/A-/A) reflects the standalone credit quality of these bonds without the benefit of the guarantee from Assured Guaranty and is the same as the credit ratings of the Group's Class B bonds of £1,576 million (2023: £1,517 million).

The Group's Class C bonds of £500 million (2023: £500 million) were rated Baa2/BBB/BBB+ by Moody's, Standard & Poor's and Fitch respectively.

Notes to the financial statements (continued)

14. Other financial liabilities – borrowings (continued)

Term loans include £80m (2023: nil) drawn down on revolving credit facility (RCF) of £400m (2023: £200m). The RCF bears interest at Sonia plus 0.45% and expires on 27 February 2027. In December 2023 the Group agreed a new term loan with NatWest for £150m expiring on 31 March 2031, the loan was fully drawn in the year. The remaining term loan balance of £556m relates to loans with EIB and KfW, with an average repayment period of 4.3 years, of which £217m is index-linked and £338m floating, deriving an average interest rate of 6.22% in the year.

In May 2024 the Group agreed a new term loan with KfW for £125m with a committed term to 31 March 2029 with interest payable at a rate of SONIA plus 1.15% paid semi-annually.

15. Derivative financial instruments

Derivative financial instruments are held for economic hedging purposes. However, they do not qualify as accounting hedges and movements in their fair value are taken to the income statement (see note 4).

| Group - 2024 | Fair values | |
|---------------------|--------------------------|-------------------------------|
| | Assets £m | Liabilities £m |
| Current | | |
| Power hedging swaps | 1.2 | - |
| | <u>1.2</u> | <u>-</u> |
| Non-current | | |
| Index-linked swaps | - | (376.7) |
| Interest rate swaps | - | (21.9) |
| | <u>-</u> | <u>(398.6)</u> |
| Total | <u>1.2</u> | <u>(398.6)</u> |
| Group – 2023 | Fair values | |
| | Assets Restated £m | Liabilities Restated £m |
| Current | | |
| Power hedging swaps | 5.8 | - |
| | <u>5.8</u> | <u>-</u> |
| Non-current | | |
| Index-linked swaps | - | (418.4) |
| Interest rate swaps | - | (26.1) |
| Power hedging swaps | 4.1 | - |
| | <u>4.1</u> | <u>(444.5)</u> |
| Total | <u>9.9</u> | <u>(444.5)</u> |

The comparators for derivative financial instruments assets and liabilities have been restated. There is no impact on overall total derivative financial instruments. More information is available under note 1 to these financial statements.

The Group has reviewed all contracts for embedded derivatives that are required to be accounted for separately if they do not meet certain requirements set out in IFRS 9; the Group has no such embedded derivatives.

One (2023: none) swap was terminated in the year with a termination payment of £3.9m (2023: nil) included within the movement of fair value of derivatives in the income statement.

The parent company has no derivative financial instruments or embedded derivatives.

Notes to the financial statements (continued)

Interest rate swaps

At 31 March 2024 an interest rate swap fixes the interest rate on £192 million (2023: £192 million) of floating liabilities held by the Group. The maturity date of the swap is 31 March 2031 and the fixed interest rate is 5.67% per annum, payable quarterly.

Index-linked swaps

Lease swaps

The index-linked swaps have the effect of index-linking the interest rate on £176 million (2023: £378 million) of lease liabilities by reference to the Retail Prices Index (RPI).

The notional amount of index-linked swaps allocated to leases as at 31 March 2024 was £300 million (2023: £384 million), representing the average balance on the leases subject to floating interest rates for the year to 31 March 2024. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

The principal terms of the index linked swaps are as follows:

| | |
|-----------------------|---|
| Notional amount | £300 million amortising (2023: £384 million amortising) |
| Average swap maturity | 13 years (2023: 12 years) |
| Average interest rate | 1.50% fixed plus RPI (2023: 1.64% fixed plus RPI) |

Bond swap

The index-linked swap have the effect of index-linking the interest rate on £1,250 million of fixed rate bonds by reference to the RPI (2023: £1,250 million).

The principal terms are as follows:

| | |
|-------------------------|---|
| Indexed notional amount | £1,684 million (2023: £1,595 million) |
| Swap maturity | 14 years (2023: 15 years) |
| Interest rate | (0.15)% indexed by RPI (2023 (0.16)% indexed) |

16. Financial risk management

The policies of the Group in respect of financial risk management are included in the accounting policies note on pages 33 and 34. The numerical financial instrument disclosures as required by IFRS 7 are set out below.

a) Interest rate risk

The effective interest rates at the balance sheet dates were as follows:

| | 2024 | 2023 |
|---------------------------|------|------|
| Assets: | | |
| Cash and cash equivalents | 5.1% | 3.9% |
| Liabilities: | | |
| Bonds | 4.9% | 4.5% |
| Term loans | 3.8% | 3.0% |
| Other unsecured loans | 4.6% | 4.6% |
| Lease obligations | 6.6% | 6.1% |

Trade and other receivables and payables are non interest-bearing.

The effective interest rates ignore the effect of the interest rate and index-linked swaps set out in note 15. They also exclude the indexation charge applicable to the index-linked bonds.

Notes to the financial statements (continued)

16. Financial risk management (continued)

b) Liquidity risk

| Group - 2024 | Within 1 year £m | 1 - 2 years £m | 2 - 5 years £m | > 5 years £m | Total £m |
|----------------------------------|------------------------|-------------------|-------------------|-----------------|----------------|
| Assets: | | | | | |
| Cash and cash equivalents | 148.4 | - | - | - | 148.4 |
| Trade and other receivables | 648.2 | 1.6 | - | - | 649.8 |
| | 796.6 | 1.6 | - | - | 798.2 |
| Liabilities: | | | | | |
| Bonds | 0.8 | 481.1 | 499.2 | 2,293.6 | 3,274.7 |
| Term loans | 170.1 | 91.1 | 199.2 | 324.9 | 785.3 |
| Other unsecured loans | 0.2 | - | - | - | 0.2 |
| Lease liabilities | 49.9 | 30.4 | 4.0 | 92.0 | 176.3 |
| Trade and other payables | 627.0 | 15.6 | 46.8 | 678.0 | 1367.4 |
| Derivative financial instruments | (80.0) | 36.6 | 79.7 | 742.2 | 778.5 |
| Future interest payable | 163.9 | 148.3 | 336.0 | 681.1 | 1,329.3 |
| | 931.9 | 803.1 | 1,164.9 | 4,811.8 | 7,711.7 |

Liquidity risk

| Group - 2023 | Within 1 year £m | 1 - 2 years £m | 2 - 5 years £m | > 5 years £m | Total £m |
|----------------------------------|------------------------|-------------------|-------------------|-----------------|-----------------|
| Assets: | | | | | |
| Cash and cash equivalents | 363.5 | - | - | - | 363.5 |
| Trade and other receivables | 650.6 | - | - | - | 650.6 |
| | 1,014.1 | - | - | - | 1,014.1 |
| Liabilities: | | | | | |
| Bonds | 0.8 | 0.8 | 950.5 | 2,208.1 | 3,160.2 |
| Term loans | 64.1 | 88.5 | 219.6 | 236.8 | 609.0 |
| Other unsecured loans | 0.2 | - | - | - | 0.2 |
| Finance lease liabilities | 0.9 | 250.8 | 33.0 | 93.4 | 378.1 |
| Trade and other payables | 685.1 | 12.4 | 37.1 | 491.3 | 1,225.9 |
| Derivative financial instruments | 13.5 | (75.6) | 149.4 | 749.5 | 836.8 |
| Future interest payable | 171.7 | 157.5 | 357.3 | 725.0 | 1,411.5 |
| | 936.3 | 434.4 | 1,746.90 | 4,504.10 | 7,621.70 |

The minimum lease payments fall due as follows:

| | 2024 £m | 2023 £m |
|---|--------------|--------------|
| Gross lease liabilities | | |
| Within one year | 61.5 | 24.0 |
| Between two and five years | 54.6 | 319.5 |
| After five years | 128.5 | 127.4 |
| | 244.6 | 470.9 |
| Future interest | (68.3) | (92.8) |
| Net lease liabilities | 176.3 | 378.1 |
| Net lease liabilities are repayable as follows: | | |
| Within one year (note 14) | 49.9 | 0.9 |
| Between two and five years | 34.4 | 283.8 |
| After five years | 92.0 | 93.4 |
| Total over one year (note 14) | 126.4 | 377.2 |

Notes to the financial statements (continued)

16. Financial risk management (continued)

c) Fair values

The fair values of the Group's derivative financial instruments are set out in note 15. The following table summarises the fair value and book value of the Group's bonds.

| | 2024 | | 2023 | |
|-----------------|------------------|------------------|------------------|------------------|
| | Book value £m | Fair value £m | Book value £m | Fair value £m |
| Bonds (note 14) | 3,274.7 | 2,944.1 | 3,160.2 | 2,973.7 |

The fair values of all other financial instruments are equal to the book values.

d) Borrowing facilities

As at 31 March 2024 the Group had available committed borrowing facilities of £400 million, of which £320 million remains undrawn, in respect of which all conditions precedents have been met (2023: £200 million).

| | 2024 £m | 2023 £m |
|---------------------------------|--------------|--------------|
| Expiring in more than one year: | | |
| - revolving credit facilities | 400.0 | 200.0 |
| | <u>400.0</u> | <u>200.0</u> |

The facilities are all available for three years with a one-year extension option.

At 31 March 2024 Dwr Cymru (Financing) UK PLC had a special liquidity facility of £135 million (2023: £135 million), which it is required to maintain in order to meet certain Group interest and other obligations that cannot be funded through operating cashflow of the Group, in the event of a standstill being declared by the Security Trustee. A standstill would arise in the event that Dwr Cymru Cyfyngedig defaults on its debt financing covenants. The facility is a 5-year evergreen facility provided by an insurance provider.

All of the above facilities are at floating rates of interest.

e) Capital risk management

Gearing ratios

| | 2024 £m | 2023 £m |
|--|------------------|------------------|
| Total borrowings | (4,246.4) | (4,185.6) |
| Less: cash and cash equivalents | 148.4 | 363.5 |
| Net debt before CTA required adjustments | <u>(4,098.0)</u> | <u>(3,822.1)</u> |
| Unamortised bond costs | (12.7) | (12.2) |
| Swap indexation | (434.0) | (345.0) |
| Post year end settlements (note 18) | 40.5 | - |
| Net debt | <u>(4,504.2)</u> | <u>(4,179.3)</u> |
| Regulatory capital value (RCV) | 7,475.7 | 7,161.3 |
| Total capital | <u>2,971.5</u> | <u>2,982.0</u> |
| Gearing ratio | 60% | 58% |

As set out on page 33, the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt (total borrowings less cash and cash equivalents adjusted for unamortised bond issue costs, accrued settlements on derivative financial instruments, indexation on bonds where swaps convert the fixed rates to RPI excluding the fair value of derivatives) to the Ofwat published RCV (Property, Plant and Equipment revaluation is based on shadow RCV, an internal measure, which reflects adjustments to RCF for under or overperformance on measures such as totex and outcome delivery incentives).

Notes to the financial statements (continued)

17. Provisions

| Group – 2024 | Restructuring provision £m | Claims loss provision £m | Other provisions £m | Total £m |
|---|-------------------------------|-----------------------------|------------------------|-------------|
| At 1 April 2023 | 3.1 | 4.6 | 15.5 | 23.2 |
| Charged to income statement | - | 1.0 | 2.1 | 3.1 |
| Insured losses | - | 2.4 | - | 2.4 |
| Unused amounts reversed | (1.5) | - | (0.5) | (2.0) |
| Utilised in year | (0.6) | (1.2) | (14.7) | (16.5) |
| At 31 March 2024 | 1.0 | 6.8 | 2.4 | 10.2 |
| Split as: | | | | |
| Amounts to be utilised within one year | 1.0 | 2.3 | 2.1 | 5.4 |
| Amounts to be utilised after more than one year | - | 4.5 | 0.3 | 4.8 |
| At 31 March 2024 | 1.0 | 6.8 | 2.4 | 10.2 |

| Group - 2023 | Restructuring provision £m | Uninsured loss provision £m | Other provisions £m | Total £m |
|---|-------------------------------|--------------------------------|------------------------|-------------|
| At 1 April 2022 | 3.7 | 4.3 | 0.5 | 8.5 |
| Charged to income statement | - | 1.1 | 15.0 | 16.1 |
| Unused amounts reversed | - | - | - | - |
| Utilised in year | (0.6) | (0.8) | - | (1.4) |
| At 31 March 2023 | 3.1 | 4.6 | 15.5 | 23.2 |
| Split as: | | | | |
| Amounts to be utilised within one year | 1.4 | 1.4 | 15.0 | 17.8 |
| Amounts to be utilised after more than one year | 1.7 | 3.2 | 0.5 | 5.4 |
| At 31 March 2023 | 3.1 | 4.6 | 15.5 | 23.2 |

The parent company had no provisions at 31 March 2024 (2023: none).

Restructuring provision

This provided for the cost of a reduction in the headcount of 182 to meet a challenging cost efficiency target for the regulatory period 2020 to 2025. This forecast is reassessed each year.

For the year to 31 March 2024, £1.5 million restructuring cost was not deemed necessary due to natural attrition in the Group redeployment of staff and was subsequently released back to the income statement in operating expenses.

Claims loss provision

This provision is in respect of claims against the Group, where claims are partly or fully covered by insurance a corresponding insurance receivable is recognised in other receivables. The net loss provision after deducting an insurance receivable of £2.4 million (2023: nil) is £4.4 million (2023: £4.6 million).

The utilisation period of these liabilities is uncertain due to the nature of claims but is estimated to be within five years.

Other provisions

Other provisions are made for certain other obligations which arise during the ordinary course of the group's business.

As reported in FY 23 the Group proposed a customer redress package totalling £29 million to address the restatement of the Group's leakage and per capita consumption performance. In March 2024 Ofwat concluded their investigation into "Welsh Water leakage performance", accepting the proposed package. At 31 March 2023 the Group provided, under other provisions, £15 million for customer rebates as part of this package.

Other provisions also includes £2.1 million being management's estimate of expected fines related to regulatory prosecutions.

Notes to the financial statements (continued)

18. Net cash inflow from operating activities

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

| | Group | |
|--|---------------|--------------|
| | 2024 | 2023 |
| | £m | £m |
| Operating profit/(loss) | 46.1 | (6.7) |
| Adjustments for: | | |
| - Depreciation and amortisation | 385.6 | 345.6 |
| - Changes in working capital: | | |
| Decrease/(increase) in trade and other receivables | 0.4 | (56.3) |
| (Increase) in inventories | (2.6) | (1.0) |
| (Decrease)/increase in trade and other payables | (38.8) | 51.7 |
| - Exceptional item – pension increases | - | 29.6 |
| - Pension contributions above service cost | (0.3) | - |
| - (Decrease)/increase in provisions | (13.0) | 14.6 |
| | (54.3) | 38.6 |
| Cash generated from operations | 377.4 | 377.5 |

b) Interest paid

| | Group | |
|---|---------------|----------------|
| | 2024 | 2023 |
| | £m | £m |
| Interest payable per income statement | 270.0 | 297.6 |
| Less non-cash items: | | |
| - Indexation on index-linked bonds | (115.3) | (161.4) |
| - Indexation on index-linked debt | (11.7) | (30.3) |
| - Amortisation of bond issue costs | (1.5) | (1.5) |
| - Interest charge on pension scheme liabilities | - | (2.1) |
| - Amortisation of bond issue premium | 0.8 | 0.8 |
| - Effect of capitalisation under IAS 23 | 18.6 | 28.3 |
| - Decrease/(increase) in accruals | 31.6 | (2.7) |
| | (77.5) | (168.9) |
| Interest paid | 192.5 | 128.7 |

Notes to the financial statements (continued)

c) Derivative financial instrument settlements in the year

| | Group | |
|---|---------------|----------------|
| | 2024 | 2023 |
| | £m | Restated £m |
| Settlements accruing on derivative financial instruments per Income Statement | 37.4 | (20.9) |
| Less non-cash items: | | |
| Receipts settled post year end | (40.5) | - |
| | <u>(40.5)</u> | |
| Settlements accruing on derivative financial instruments per cash flow statement | (3.1) | (20.9) |

The comparators for settlements accruing on derivative financial instruments have been reclassified. There is no impact on the overall net cash outflow for the prior year. More information is available under note 1 to these financial statements.

19. Analysis and reconciliation of net debt

Net debt is defined as the value of cash and cash equivalents less net accrued interest and total borrowings.

a) Net debt at the balance sheet date may be analysed as:

| | Group | |
|---------------------------|------------------|------------------|
| | 2024 | 2023 |
| | £m | £m |
| Cash and cash equivalents | 148.4 | 363.5 |
| Debt due after one year | (3,877.9) | (3,693.7) |
| Debt due within one year | (169.6) | (63.5) |
| Lease liabilities | (176.3) | (378.1) |
| Accrued interest | (22.6) | (50.3) |
| | <u>(4,246.4)</u> | <u>(4,185.6)</u> |
| Net debt | (4,098.0) | (3,822.1) |

b) The movement in net debt during the year may be summarised as:

| | Group | |
|---|------------------|------------------|
| | 2024 | 2023 |
| | £m | £m |
| Net debt at start of year | (3,822.1) | (3,564.5) |
| Movement in net cash | (215.1) | (138.5) |
| Movement in debt arising from cash flows | 39.2 | 75.9 |
| Movement in net debt arising from cash flows | (175.9) | (62.6) |
| Movement in accrued interest | 27.7 | (2.5) |
| Indexation of index-linked debt | (127.7) | (192.5) |
| Movement in net debt during the year | <u>(275.9)</u> | <u>(257.6)</u> |
| Net debt at end of year | (4,098.0) | (3,822.1) |

Notes to the financial statements (continued)

20. Employees and Directors

a) Directors' emoluments

The aggregate emoluments of the Directors of Dŵr Cymru Cyfyngedig for their services as Directors of the Company are set out below:

| | 2024 | 2023 |
|---|--------------|--------------|
| | £000 | £000 |
| Salary (including benefits in kind) | 878 | 1,089 |
| Fees | 677 | 605 |
| | <u>1,555</u> | <u>1,694</u> |
| | | |
| Highest paid Director: P Perry (2023: P Perry) | | |
| Aggregate emoluments ¹ | <u>489</u> | <u>380</u> |
| | | |
| Accrued pension under defined benefit scheme | - | 412 |

¹ excluding pension accrual and long-term incentive plan

Retirement benefits are accruing for none of the Directors (2023: one) under defined benefit schemes, as one director crystallised his pension benefits with effect from 1 August 2023. None of the Directors are a member of the defined contribution scheme (2023: none).

With respect to remuneration payable to the Executive Directors:

- When reviewing Executive salaries, the Committee considered the proposed increases for the wider workforce, and business and individual performance to date in FY 24, and the rates of the National Living Wage and Real Living Wage. The Remuneration Committee decided to accept the recommendation of the Executive Directors that it would be appropriate to award the same increase as the wider workforce. The wider workforce had an agreement in place to award an increase in line with CPIH in December 2023. The Executive Directors were therefore awarded a 4.2% increase. All increases were with effect from April 2024.
- Under the AVPS, up to 100% of salary can be earned in any year. The overall performance achieved for FY 24 in the Executive Directors' AVPS was 25.77%. This compares with 41.39% in FY 23.
- The AVPS scorecard outcomes, in the Committee's view, were reflective of the performance challenges faced by the business, and the Committee did not elect to exercise its discretion to amend these outcomes. This resulted in total awards to the Executive Directors of:
 - Peter Perry: £91,364.62 (25.77% of salary) paid in July 2024.
 - Mike Davies: £72,412.75 (25.77% of salary) paid in July 2024.
- Under the LTVPS for the period 2020 to 2025, performance is assessed annually against interim goals. Interim payments are made up to 60% of maximum for each of the two elements: Totex performance; and Overall ODI outcomes for performance development measures. Overall performance is assessed over the five-year period of the AMP. This could result in payment or recovery of any under or overpaid amounts in the final year. The LTVPS scorecard summary did not result in payouts to the Executive Directors as the threshold levels were not reached.

(Further details are provided in the 2024 Remuneration Report which forms part of GCHC's 2024 annual report and consolidated financial statements.)

Notes to the financial statements (continued)

20. Employees and Directors (continued)

b) Staff costs during the year

| | 2024 | 2023 |
|-----------------------|--------------|--------------|
| | £m | £m |
| Wages and salaries | 163.3 | 156.3 |
| Social security costs | 16.9 | 17.6 |
| Other pension costs | 13.5 | 11.1 |
| | <u>193.7</u> | <u>185.0</u> |

Of the above, £88.0 million (2023: £79.1 million) has been capitalised or classified within infrastructure renewals expenditure, being the investment cost of employees work on the capital programme.

| Average monthly number of people (including executive directors) employed by the Group | 2024 | 2023 |
|--|--------------|--------------|
| | Number | Number |
| Regulated water and sewerage activities | <u>3,790</u> | <u>3,554</u> |

The Board delegates certain of the Group's Strategic and operational activities to the Dŵr Cymru Executive, a senior management group comprising both executive Directors and employees. Total remuneration of these key personnel was as follows:

| | 2024 | 2023 |
|---------------------|------------|------------|
| | £m | £m |
| Executive directors | 0.9 | 1.1 |
| Other key personnel | 3.8 | 3.5 |
| | <u>4.7</u> | <u>4.6</u> |

No remuneration was paid or is payable by the parent company. The Directors are employed by other companies in the Group and consider their duties to this company incidental to their other activities within the Group. The parent company had no employees during the year other than the Directors.

21. Pension commitments

The Group operates a funded defined benefit pension scheme (based on final pensionable salary and pensionable service), the DCWW Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund.

The Welsh Water Pension Scheme was closed to new members from 31 December 2005. A new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from 1 January 2006.

EFRBS

During 2011, the Group put arrangements in place via an Employer-Financed Retirement Benefit Scheme (EFRBS) for four 'capped' Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the DCWW Pension Scheme. At 31 March 2024, there were two remaining Executive Members with entitlements under this arrangement, one of whom is in receipt of his benefits.

Risks

Through the Scheme, the Group is exposed to numerous risks, the most significant of which are detailed below:

- Asset volatility:

Scheme liabilities are calculated using discount rates set with reference to bond yields (although discount rate methodology differs for accounting and funding purposes). If Scheme assets deliver a return which is lower than the discount rate, this will create or increase the Scheme deficit (all other things being equal). The Scheme holds various return seeking assets which are expected to outperform bonds in the long-term, albeit at the risk of short-term volatility.

- Movement in bond yields:

A decrease in corporate bond yields will increase the Scheme liabilities, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

- Inflation risk:

As a large majority of the members' benefits are linked to inflation (subject to maximum annual caps), a high level of inflation will result in an increase of benefits attributable to the members, which will in turn increase the Scheme's liabilities.

Notes to the financial statements (continued)

21. Pension commitments (continued)

- Life expectancy

The Scheme's obligations are to provide members with benefits for the remainder of their lives, so an increase in life expectancy will result in the Scheme paying members' benefits over a longer period, which will in turn increase the Scheme's liabilities.

Virgin Media Ltd v NTL Pension Trustees II Ltd & Ors

The Group is aware of the High Court ruling in the case of Virgin Media Ltd v NTL Pension Trustees II Ltd & Ors and is waiting for the outcome of the appeal, heard in June 2024, and any additional hearings, as well as confirmation from the Government as to whether it will issue new regulations in response to this issue.

Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2022 by Joanne Eynon of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated as at 31 March 2024 and the principal assumptions made by the actuaries were:

| | 2024 | 2023 |
|---|------------|------------|
| Discount rate | 4.7% | 4.6% |
| RPI Inflation assumption | 3.1% | 3.3% |
| Rate of uncapped pension increases | 3.1% | 3.3% |
| Rate of capped pension increases | 3.0% | 3.2% |
| Post retirement mortality (life expectancy): | | |
| - Current pensioners aged 65 - males | 86.3 years | 86.8 years |
| - Current pensioners aged 65 - females | 88.5 years | 89.0 years |
| - Future pensioners aged 65 (currently aged 45) - males | 87.2 years | 87.8 years |
| - Future pensioners aged 65 (currently aged 45) - females | 89.6 years | 90.2 years |

The mortality disclosures at 31 March 2024 use the CMI 2022 mortality projection model, with a long-term trend rate of 1.0% p.a.

The inflation risk premium (IRP) remains the same as the prior year at 0.4%.

Changes in the defined benefit obligation are as follows:

| | 2024 | 2023 |
|--|--------|---------|
| | £m | £m |
| At 1 April | 397.4 | 504.5 |
| Current service cost | 0.1 | 0.2 |
| Interest expense | 17.9 | 14.0 |
| Remeasurement: (gain) from change in financial assumptions | (21.1) | (135.7) |
| Benefits paid | (16.4) | (16.4) |
| Past service cost | 0.0 | 30.8 |
| At 31 March | 377.9 | 397.4 |

Changes in the fair value plan assets are as follows:

| | 2024 | 2023 |
|--------------------------|--------|--------|
| | £m | £m |
| At 1 April | 412.1 | 427.5 |
| Interest income | 18.6 | 11.7 |
| Actuarial gains/(losses) | 5.3 | (11.2) |
| Contributions | 0.4 | 0.5 |
| Benefits paid | (16.4) | (16.4) |
| At 31 March | 420.0 | 412.1 |

Notes to the financial statements (continued)

21. Pension commitments (continued)

| | 2024 £m | 2023 £m |
|----------------------|--------------|--------------|
| Scheme assets | | |
| Cash | 40.0 | 9.7 |
| Equity | 266.6 | 287.6 |
| Private equity | 113.4 | 114.8 |
| | <u>420.0</u> | <u>412.1</u> |

With the exception of cash, assets consist of pooled investment funds, which are not quoted on an active market, shown by the category in the table above. Of the total, assets with a fair value of £113.4 million are Level 3 financial assets (2023: £114.8 million); these are considered to be the least liquid and hardest to value and are therefore subject to a higher degree of estimation. See also the critical accounting estimates in note 1. Experience gains and losses are differences between the actual events as they have turned out and the assumptions that were made as at the date of the earlier actuarial valuation and changes in the actuarial assumption during the year.

Equity and Bonds assets are stated net of £5.6 million of derivative financial instruments (2023: £11.0 million). Cash assets include £0.1 million of derivative financial instruments (2023: £0.5 million).

Charges to the income statement and other comprehensive income are as follows:

| | 2024 £m | 2023 £m |
|--|--------------|--------------|
| Income statement: | | |
| Service costs | 0.1 | 0.2 |
| Net Interest (income)/costs | (0.7) | 2.2 |
| Exceptional pension increases | - | 30.8 |
| Total (credited)/charged to the income statement | <u>(0.6)</u> | <u>33.2</u> |
| Other comprehensive income: | | |
| Actuarial gain/(loss) on plan assets | 5.3 | (11.2) |
| Actuarial gain on defined benefit obligation | 21.1 | 135.7 |
| Total (credited) to the statement of comprehensive income | <u>26.4</u> | <u>124.5</u> |

In the year to 31 March 2023 a past service cost of £30.8 million was recognised representing the award of pension increases under the 'best endeavours' clause in our pension scheme rules where full RPI increases are awarded if certain criteria are met. This was recognised as an exceptional item as our defined benefit liability at 31 March 2023 provided for future pension increases above the 5% 'best endeavours' clause cap. Any movement in estimate in the year ended 31 March 2024 and in future periods is presented as Other Comprehensive Income as required under IAS 19. Further information on the recognition of the exceptional item is available in note 3 on page 43.

| | 2024 £m | 2023 £m |
|--|-------------|-------------|
| Present value of funded obligations | (377.9) | (397.4) |
| Fair value of plan assets | 420.0 | 412.1 |
| | <u>42.1</u> | <u>14.7</u> |
| Deferred tax liability allocated to pension scheme | (10.5) | - |
| Defined benefit asset recognised in the balance sheet | 31.6 | 14.7 |
| EFRBS unfunded liability | (2.6) | (2.7) |
| Net defined benefit asset recognised in the balance sheet | <u>29.0</u> | <u>12.0</u> |

The difference between the two amounts is recognised as a surplus or obligation in the statement of financial position. Where this difference results in a defined benefit surplus, this is recognised in accordance with IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', on the basis that the Group has an unconditional right to any excess funds that may exist following the closure of the pension scheme once all members have left the plan and their benefits have been settled.

Notes to the financial statements (continued)

21. Pension commitments (continued)

There were no special contributions paid in the year to 31 March 2024 (2023: £none).

| | Change in assumption | Movement in Liabilities £m |
|-----------------|-------------------------|----------------------------------|
| Discount rate | 0.10% | £5.0 |
| Price inflation | 0.10% | £4.8 |
| Life expectancy | 1 year | £9.0 |

The above sensitivity analysis is based on isolated changes in each assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur, and there is likely to be some level of correlation between the movements in different assumptions.

Effect on future cash flows

The level of contributions is reviewed at each triennial valuation, the latest of which was 31 March 2022.

Under the current Schedule of Contributions, no deficit recovery contributions are expected to be paid for the year-ending 31 March 2025. Future service contributions (consisting of amounts payable by members and the Group) will be in the region of £0.1 million.

The duration of the Scheme's liabilities is approximately 13 years.

Regulatory Framework

The Scheme is funded and governed in line with the requirements of the Pensions Regulator. We have not made any allowance for any minimum funding requirements under IFRIC14.

The Scheme operates under Trust law and the corporate trustee (Welsh Water Pension Trustee Limited) is responsible for its day-to-day governance. The Trustee Directors are assisted in the management of the Scheme by experienced professionals such as actuaries, administrators, and investment consultants.

The Trustees have put in place a diversified investment strategy which aims to meet the liabilities of the Scheme. Details are set out in the Scheme's Statement of Investment Principles. Day-to-day decisions around asset selection have been delegated to BlackRock as their fiduciary investment manager.

High inflation

For most Scheme Sections, pensions in payment (and in some instances deferred benefits) are increased on 1 April each year by the Retail Prices Index ("RPI") as measured over the relevant period, being the annual change in RPI announced for the previous September, December or January.

As a result of high levels of inflation, many Scheme sections received a full RPI increase in April 2023 via a 'best endeavours' rule (broadly a pension increase cap that is waived if the Scheme can afford to pay higher increases without requiring Company contributions). The Trustee and Group also agreed to provide an 3% discretionary pension increase, on top of the capped increase of 5% to Scheme sections that have a cap and are not subject the best endeavours rule.

22. Capital and other financial commitments

The Group's business plan at 31 March 2024 shows net capital expenditure and infrastructure renewals expenditure of £511 million (2023: £429 million) during the next financial year. While only a portion of this amount has been formally contracted for, the Group is effectively committed to a majority of the total as part of the capital investment programme approved by its regulator, Ofwat.

23. Related party transactions

In accordance with the exemption afforded by IAS 24 there is no disclosure in the consolidated financial statements of transactions with entities that are part of the Glas Cymru Anghyfyngedig group. Remuneration to key management personnel has been disclosed in note 20.

The parent company has loans outstanding to subsidiary undertakings of £1.4m (2023: £1.4m) with Glas Cymru (Securities) Cyfyngedig and £1.9m (2023: £1.9m) with Dwr Cymru Cyfyngedig. The parent company has loans due to Dwr Cymru (Holdings) Limited of £3.5m (2023: £3.5m). Interest has been waived on these loans.

Notes to the financial statements (continued)

24. Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either possible but not probable or probable but cannot be measured with sufficient reliability.

The Group is subject to ongoing investigations (pollution, water quality and compliance) by environmental regulators which could result in a financial outflow, however the potential impact cannot be quantified at this stage.

25. Share capital

| | 2024 £ | 2023 £ |
|--|-----------|-----------|
| Authorised | | |
| 10 (2022: 10) ordinary shares of £1 each | 10 | 10 |
| Allotted and fully paid | | |
| 10 (2022: 10) ordinary shares of £1 each | 10 | 10 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group.

26. Elan Valley Trust Fund

In 1984 Dŵr Cymru Authority entered into a conditional sale and purchase agreement with Severn Trent Water Authority for the sale of the aqueduct and associated works by which the bulk supply to Severn Trent reservoirs is conveyed.

The sum of £31.7 million, representing the consideration for the conditional sale, was invested in a trust fund. The principal function of the fund was to provide an income to Dŵr Cymru Authority, whilst preserving the capital value of the fund in real terms. Dŵr Cymru Authority's interest in this fund was vested in Dŵr Cymru Cyfyngedig under the provisions of the Water Act 1989.

The assets of the fund are not included in these financial statements. As at 31 March 2024 the market value of the trust fund was £89.0 million (2023: £90.0 million). Interest receivable includes £3.8 million (2023: £3.5 million) in respect of distributions from the Elan Valley Trust Fund.

27. Immediate and ultimate holding company and controlling party

The immediate and ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales. The largest and smallest groups within which the results of the Company are consolidated are those headed by Glas Cymru Holdings Cyfyngedig and Glas Cymru Anghyfyngedig respectively. Both consolidated financial statements can be obtained from the Company Secretary at Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT.

GLOSSARY

| | |
|-------------------------------------|---|
| AMP6 | AMP6 ran from 2015-2021. AMP7 will run from 2021-2025. |
| Anaerobic digestion | A process by which organic material is broken down by bacteria and other micro-organisms to generate renewable energy. |
| Assets | These include infrastructure such as water mains and sewers, dams and reservoirs, water and sewage treatment works, pumping stations, company laboratories, depots and workshops. |
| AVPS | Annual Variable Pay Scheme — a performance-related element of emoluments. |
| Bacteriological failures | The drinking water supplied to customers is sampled and analysed against a range of chemical and bacteriological parameters. If a sample shows a bacteriological parameter that exceeds the limit specified in the regulations, it is deemed a bacteriological failure. |
| Catchment | An area of land through which water drains into a body of water (such as a river or reservoir). |
| Combined sewer | Combined sewer for sewage and rain water runoff. |
| CSO | Combined Sewer Overflows act as relief valves which prevent the overloading of sewers which could otherwise lead to flooding of properties and sewage treatment works. |
| Company limited by guarantee | A private company that does not have shareholders or share capital. |
| CPNI | Centre for the Protection of National Infrastructure. |
| CCWater | Consumer Council for Water. |
| C-MeX | The customer measure of experience (C-MeX) is a measure of customer satisfaction. A company's C-MeX score is calculated as the weighted average of customer satisfaction (CSAT) scores from customer service (CS) and customer experience (CE) surveys. |
| Credit rating | Credit ratings provide an assessment of the credit quality of a company which can affect the cost of borrowing. |
| Customer Reserves | Customer Reserves is the difference between the RCV and net debt and is therefore a measure of the value created by the business for customers. Some of that value can be used for investment in the business and rebates to customers. We aim to maintain net debt at around 60% of the RCV with retained Customer Reserves as the remaining 40%. |
| Discharge permits | Legal agreements issued by the environmental regulator relating to the amount, quality and frequency of wastewater that can be returned to the environment. |
| DWI | Drinking Water Inspectorate. |
| Drinking Water Safety Plan | A proactive method of assessing risk to drinking water quality, which better protects public health. |
| Drought Plan | Statutory plan produced by a water company that details the actions to be taken to manage the supply of water in a drought. |
| Effluent | Water that flows from a sewage treatment plant after it has been treated. |
| Environment Agency (EA) | An executive, non-departmental Government body that has a statutory duty to protect and enhance the environment in England. |
| Financeability | The ability of appointed water companies to finance their functions through debt, equity or retained earnings. |
| Gearing | Net debt expressed as a percentage of Regulatory Capital Value. |
| Glas Cymru | Glas Cymru is the generic name used to refer to the Group holding company. Glas Cymru Cyfyngedig was formed in 2000 to own, finance, and manage Dŵr Cymru Welsh Water. During 2015-16 Glas Cymru Cyfyngedig was reregistered as Glas Cymru Anghyfyngedig and Glas Cymru Holdings Cyfyngedig was created to be the holding company for the Glas Cymru Group. |
| Groundwater | Water that can be found in the saturated zone of the soil. |
| Group | Glas Cymru and all its subsidiaries. |
| ICT | Information and communications technology. |
| IEAP | Independent Environmental Advisory Panel is an advisory panel to Welsh Water, consisting of representatives from front-line environmental organisations in Wales and England, and leading academics in specialist areas. |
| Leakage | Water lost between the treatment works and the customer's home or business. |

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| Let's Stop the Block | Behavioural change campaign being undertaken by Welsh Water which asks customers to help reduce the number of sewer blockages. |
| Liquidity | The availability of readily convertible assets into cash. This represents cash and cash equivalents and revolving credit facilities for the Group. |
| LVPS | Long-term Variable Pay Scheme. A performance-related element of emoluments. |
| 'Look-up' Compliance | Where a wastewater treatment works fails to meet the consented parameters set by the NRW or EA for less than 95% of the time. |
| Mean Zonal Compliance (MZC) | Mean Zonal Compliance is a measure of compliance in all the water quality zones for 39 key chemical and bacteriological parameters derived from the statutory monitoring programme of samples taken from customers' taps. |
| Megalitres (ML) | One megalitre is equal to 1,000 cubic metres or one million litres. A standard Olympic-size swimming pool contains 2.5 megalitres of water. |
| Natural Resources Wales (NRW) | Welsh Government sponsored body whose purpose it is to ensure that the natural resources of Wales are sustainably maintained, enhanced and used. |
| Net debt | As per definition in the Common Terms Agreement, total borrowings less cash and cash equivalents adjusted for unamortised bond issue costs, accrued settlements on derivative financial instruments, indexation on bonds where swaps convert the fixed rates to RPI less cash held outside the Glas Cymru Anghyfyngedig Group. Net debt excludes the fair value of derivatives. |
| Non-Executive Directors | Members of Glas Cymru's Board. Non-Executive Directors are not responsible for the day-to-day running but challenge management and oversee the running of the Group. See page 63 of the Group Annual Report and Accounts for further details of their role. |
| ODI | Outcome Delivery Incentive — This is the mechanism for rewards and penalties which underpins the performance measures set out in our Final Determination Ofwat PR14 and PR19 business plans. |
| Ofwat | The economic regulator of the water sector in England and Wales. |
| Operating costs | Total operating expenditure of the business, net of any operating income, primarily any profits or losses on the disposal of fixed assets. |
| Pollution Incidents | An accidental or deliberate release of contaminants such as oils, fuels and chemicals that can be harmful to human health and the environment. |
| PR19 | Ofwat's Price Review process 2019, the five-year regulatory price-setting prices for AMP7 (2021-2025), culminating in the Final Determination of prices issued to companies in December 2019. |
| PR24 | Ofwat's forthcoming Price Review process 2024, which will culminate in a Determination in December 2024, to set prices for AMP8 (2025-2030). |
| Pumping station | Used to pump water or sewerage from one place to another. |
| Quality and Environment Committee (QEC) | Board-level Committee in Glas Cymru which addresses performance and operational risk issues across the Company. |
| RainScape | Glas Cymru's approach to managing surface water and overloaded sewers (sustainable urban drainage systems). |
| Real terms | The change in a financial number after removing the effect of inflation. |
| Regulatory Capital Value (RCV) | The asset value of Dŵr Cymru, determined by Ofwat, on which our investment returns (or Regulatory Returns) is allowed to be made. This is, in effect, a proxy for the economic value in use of the appointed business of Dŵr Cymru Cyfyngedig. |
| Reservoir | A natural or artificial lake where water is collected and stored until needed. |
| Return of Value | Payments made for the benefit of our customers from distributable profits, that could otherwise be paid out to shareholders as dividends in a shareholder-owned company. |
| Rising main | A pumped pipeline that carries wastewater. |
| Scorecard | A statistical record used by Welsh Water to measure achievement or progress towards a particular goal. |
| Security and Emergency Measures Directive (SEMD) | Issued by Welsh Government and DEFRA to the water sector to provide guidance on how to respond to major incidents. |
| Service Incentive Mechanism (SIM) | An Ofwat measure designed to improve the level of customer service that water companies provide. |
| Service reservoir | A tank containing drinking water that is usually sited within or near to a water distribution system. |
| Serviceability | The capability of a system of assets to deliver an expected level of service to consumers and to the environment now and into the future. |

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| Sewer | An underground pipe that takes household and non-household wastewater and surface water away from properties for treatment and disposal. |
| Sewer flooding | Occurs when wastewater escapes from sewer pipes through a manhole cover or a drain, or by backing up through toilets. |
| Safety Takes Every Person (STEP) | Behavioural safety training which emphasises that each individual has responsibility for Health and Safety issues. |
| SSSI | Site of Special Scientific Interest |
| Storm tank | A tank into which, in wet weather, stormwater and wastewater is stored until the wastewater treatment works can treat it. |
| Surface water | Run-off from rainwater that falls onto customers' properties (such as roofs, paths and driveways). |
| Surface water drainage | The removal of rainwater, snow or melted ice from exterior areas of a property (such as roofs and driveways) often to a surface water sewer or combined sewer. |
| Sustainable Urban Drainage (SUDS) | A sustainable drainage system is designed to reduce the potential impact of new and existing developments with respect to surface water drainage discharges. |
| Totex | An Ofwat abbreviation for total expenditure. The total sum of capital expenditure and operational expenditure. |
| Trunk main | A main through which water is fed into a water distribution system. A trunk main will often run from a water treatment works to a service reservoir. |
| UKRI | UK Research and Innovation, a research funding body working combining 7 former Research Councils |
| UKWIR | UK Water Industry Research, a body set up by the water industry to support research and shape the industry's research agenda. |
| Wastewater | Waste matter from household or non-household properties that is carried away from properties in sewers or drains. |
| Wastewater treatment works (WWTW) | Wastewater treatment works are designed to remove biological or chemical waste products from water before it is returned to water sources. |
| Water main | A large pipe that carries treated water to households. |
| Water Resource Management Plan (WRMP) | This outlines how a water company will maintain a sustainable balance between water supplies and demand over the next 25 years. |
| Water treatment works (WTW) | Water treatment plants produce drinking water for public consumption or industrial water for manufacturing or other business operations. |
| Zonal Studies | Water network improvement programmes to reduce interruptions and increase customer acceptability of water. |

MEASURES OF SUCCESS: DEFINITIONS

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|------------|---|---|
| A1a | Safety of Drinking Water (% compliance) | Provide safe drinking water that meets the Drinking Water Inspectorate's standards. The percentage of the sample tests that are compliant with the standards. We take over 250,000 sample tests per year at our water treatment works, service reservoirs and at customer taps. |
| A1b | Safety of Drinking Water (Mean Zonal Compliance) | Mean Zonal Compliance is published annually in the Drinking Water Inspectorate (DWI) report. The MZC covers 39 different parameters such as iron, lead and aluminium, which are tested to establish the quality of water as received by customers. MZC is calculated as the average of the compliance levels for each parameter in each of our 87 water quality zones, which range in size from 27 population to almost 100,000 population. (The maximum allowable population in any one water quality zone is 100,000 allowable within the DWI regulations). |
| A2 | Customer acceptability | The number of contacts received from customers in the year regarding the appearance, taste or odour of drinking water, expressed as a rate per 1,000 customers. |
| A3 | Reliability of Supply | The average number of minutes that customers are without water within our supply area (includes both planned and unplanned interruptions). |
| B1 | Abstraction for water for use | The percentage compliance with our abstraction licences, as issued by Regulators. |
| B2 | Treating wastewater | For each of our wastewater treatment works there is a permit which regulates the quality of wastewater the company is allowed to discharge into rivers and coastal waters, which is regulated by the NRW. The measure is the percentage compliance against the discharge permits. |
| B3a | Preventing pollutions (cat 1, 2 & 3) | The measure is the number of incidents and the target is to reduce the number of pollution incidents (caused by blockages or collapsed sewers). Pollution incidents are categorised as category 1, 2 or 3 incident and reported by Natural Resources Wales and the Environment Agency. Category 1 — the most severe and has a major or serious impact on the environment, people or property. Category 2 — significant impact or effect on the environment, people or property. Category 3 — minor or minimal impact on the environment, people or property. |
| B3b | Preventing pollutions (cat 3 only) | As above but only category 3 pollution incidents (minor or minimal impact on the environment, people or property). |
| C1 | Responding to climate change | Reduce the amount of rainwater entering our sewers. The measure is the volume of surface water removed from the system, expressed as the number of equivalent properties. |
| C2 | Carbon footprint | To generate more renewable energy and therefore to offset our carbon emissions and the cost of imported energy (GWh hours per year). |
| D1 | SIM | Service incentive mechanism (SIM) is a measure introduced by the Regulator Ofwat to monitor and report customer service information across all water and wastewater companies as a comparative measure. For AMP7, Ofwat has replaced SIM with C-MeX. |
| D2 | At Risk Customer Service | The number of customers who are on our register of "at risk". They are deemed to be "at risk" because their service has repeatedly fallen short in one of the following five areas: discolouration of water; interruptions to supply, low pressure, odour from wastewater assets and sewer flooding. |
| D3 | Properties flooded in the year | The number of properties suffering internal sewer flooding per year. |
| D4a | Business Customer Satisfaction | Business customer satisfaction as measured by either satisfied or very satisfied in the six-monthly survey undertaken. |
| D4b | Non Household Customer Satisfaction | Business customer satisfaction as measured by the average customer score out of a total of 5 then converted to a percentage. |
| D5 | Earning the Trust of Customers | Customer trust as measured in an annual survey we undertake. |
| E1 | Affordable Bills | The Company will continue to make bills more affordable by maintaining falling bills in real terms, beating inflation by around 1% a year. |

| | | |
|-----------|---|---|
| E2 | Help for Disadvantaged Customers | The number of customers receiving assistance - the target is to help more customers who genuinely struggle to pay their bills by providing assistance through a range of social tariffs and our Customer Assistance Fund. |
| F1 | Asset Serviceability | Maintain our assets. Serviceability includes a basket of sub-measures used by Ofwat to monitor the effectiveness of our asset management and the maintenance of our assets. |
| F2 | Leakage | Reduce our leakage levels — megalitres per day (M/d). |
| F3 | Asset Resilience | Improve the resilience score of our most strategic assets. Improve the percentage of strategic assets that are resilient against a set of criteria. Strategic assets are those where failure would have a major impact on service to customers or on the environment. |
| G1 | RIDDOR Incidents | The total number of injuries reported each year to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR). It includes injuries that occur across the wholesale and retail businesses, as well as those involving our main contractors and capital partners. |
| G2 | Competence in Role | We have a "Progression in Role" framework and have established clear role profiles that define key criteria which we use to measure individuals' knowledge, skills and competence to undertake their respective roles. Our objective is that by 2021 (and ongoing beyond that) 95% of the outlined key roles will be deemed competent (with the remainder being new starters in training). |
| H1 | Financing Efficiency (credit rating) | The rating ascribed by the three main rating agencies: S&P, Moody's and Fitch. |

PR19 PERFORMANCE COMMITMENTS: DEFINITIONS

| | | |
|------------|--|---|
| Wt1 | Water quality compliance (CRI) | A CRI score is calculated for every individual compliance failure at water supply zones, supply points and treatment works, and service reservoirs. The annual CRI a company, for any given calendar year, is the sum of the individual CRI scores for every compliance failure reported during the year. |
| Wt2 | Water Supply Interruptions | The average number of minutes that customers are without water within our supply area (includes both planned and unplanned interruptions). It is calculated as the average number of minutes lost per customer for the whole customer base for interruptions that lasted three hours or more. |
| Wt3 | Acceptability of drinking water | The number of times the company is contacted by consumers due to the taste and odour of drinking water, or due to drinking water not being clear, reported per 1,00 population. |
| Wt5 | Unplanned outage % | This measure is a means of assessing asset health (primarily for non-infrastructure above ground assets), for water abstraction and water treatment activities. It is defined as the annualised unavailable flow, based on the peak week production capacity. This measure is proportionate to both the frequency of asset failure as well as the criticality and scale of the assets that are causing an outage. |
| Wt8 | Lead pipes replaced | This measure records the reduction in the number of lead pipes in our water supply network. |
| En1 | Treatment works compliance % | For our water and wastewater treatment works there is a permit which regulates the quality of wastewater the Company is allowed to discharge into rivers and coastal waters, which is regulated by Natural Resources Wales. The measure is the % compliance against the discharge permits. |
| En3 | Pollution incidents (Per 10,000km of sewer) | Reduce the number of pollution incidents (caused by blockages or collapsed sewers). Pollution incidents are categorised as category 1, 2 or 3 incident and reported by Natural Resources Wales and the Environment Agency. Category 1 - the most severe and have a major or serious impact on the environment, people or property. Category 2 - significant impact or effect on the environment, people or property. Category 3 - minor or minimal impact on the environment, people or property. |
| En4 | Leakage (% reduction) – 3-year average | Reduce our leakage levels – The percentage reduction of three-year average leakage in megalitres per day (M/d) from the 2019-20 starting baseline. |
| En5 | Per Capita Consumption (% reduction) – 3-year average | Reduce our per capita consumption (PCC) - Annual average PCC is defined as the sum of measured household consumption and unmeasured household consumption divided by the total household population. This measure is reported as a % reduction of our three-year average PCC. |
| Sv1 | C-MeX | C-MeX is a customer measure of experience and customer satisfaction. It comprises two survey elements: 1. Customer Experience Survey – a customer satisfaction survey among a random sample of the water company's customers; and 2. Customer Service Survey – a customer satisfaction survey among a random sample of those customers who have contacted their water company. The scores of each of the two surveys are weighted equally to produce the combined C-MeX measure. |
| Sv2 | D-MeX | D-MeX is a measure of customer satisfaction for developer services. A D-MeX score is calculated from two components that contribute equally: <ul style="list-style-type: none"> • qualitative D-MeX score, based on the ratings provided by developer services customers who transacted with the company throughout the reporting year to a customer satisfaction survey; and • quantitative D-MeX score, based on the company's performance against set of selected Water UK performance metrics throughout the reporting year. |
| Sv4 | Business customer satisfaction | This performance commitment measures the average customer score out of five from four quarterly business customer satisfaction surveys. The Company will undertake a survey of 250 business customers per quarter (1,000 in total per year). It will survey a sample from all customers, not just those who have contacted the company. |

| | | |
|-------------|---|---|
| Sv5 | Priority Services for Customers in Vulnerable Circumstance | We provide special assistance to those customers in vulnerable circumstances who are registered on our Priority Services Register (PSR). This measure reports on the number of households on the Company's PSR as a proportion of all households in the Company's region. |
| Rt1 | Internal sewer flooding (per 10,000 sewer connections) | The measure is calculated as the number of internal sewer flooding incidents normalised per 10,000 sewer connections, including sewer flooding due to severe weather events. |
| Rt3 | Sewer collapses (per 1,000 km of sewers) | A sewer collapse is where a structural failure has occurred to the pipe that results a service impact to a customer or the environment and where action is taken to replace or repair the pipe to reinstate normal service. This is reported as the number of sewer collapses per 1,000 kilometres of all sewers causing an impact on service to customers or the environment. |
| Rt4 | Total Complaints | The total complaints by household customers received by the Company per 10,000 connections. It includes the combined total of unwanted contacts (i.e. telephone complaints), written complaints (letter and email), and contacts via new contact channels (such as social media or web chat). |
| B12 | Vulnerable customers on social tariffs | The number of residential customers receiving financial support via our social tariffs. |
| B13 | Company level of bad debt | The Company level of bad debt is a measure of the total unpaid water and wastewater bills that are deemed uncollectable as a proportion of the total revenue billed in each reporting year. |
| En6 | KM of river improved | The cumulative length of river improved as a result of the company's actions to improve the health and aesthetics of rivers. |
| Ft10 | Community Education | The total number of children and adults who have participated in the company's education programme each year. |
| Ft11 | Visitors to recreational facilities | The total number of visitors to the company's recreational sites each year. |
| Co1 | Reportable injuries | The number of individual injuries reported to the Health and Safety Executive under RIDDOR per annum. |