

Registered N^o: 2366777

Dŵr Cymru Cyfyngedig

Annual report and financial statements
for the year ended 31 March 2025

Registered office
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Directors and advisers

Directors

J Hanson	Chairman (from 1 January 2025) Non-executive Director (to 31 December 2024)	
A Lyons	Chairman	(resigned 31 December 2024)
P Perry	Chief Executive Officer	
M Davis	Chief Financial Officer	(resigned 7 May 2025)
J Kenrick	Non-executive Director	
T Crick	Non-executive Director	
D Bowen Rees	Non-executive Director	
B Moorhouse	Non-executive Director	(resigned 31 December 2024)
L Thompson	Non-executive Director	
D James	Non-executive Director	(appointed 1 January 2025)
D Pope	Non-executive Director	(appointed 1 January 2025)
A Wilcox	Non-executive Director	(appointed 1 January 2025)
J Bevan	Non-executive Director	(appointed 11 February 2025)

Company Secretary

Nicola Foreman

Independent auditor

Deloitte LLP
5 Callaghan Square
Cardiff
CF10 5BT

Solicitor

Linklaters LLP
One Silk St
London
EC2Y 8HQ

Principal banker

National Westminster Bank Plc
27 High St
Brecon
LD3 7LF

Strategic report

The Directors present the Strategic report of Dŵr Cymru Cyfyngedig for the year ended 31 March 2025.

Principal activities

The principal activities of the Company 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.

Business financial review

Performance in FY25

Our operational financial performance was behind our financial plan primarily due to additional costs from red- weather storm events during the winter (notably Storms Bert and Darragh), a burst on a major trunk main located under the River Afon Ddu and inflationary cost pressures associated with the delivery of our services, with an operating profit, excluding depreciation and amortisation, of £381 million in the year, 12% lower than FY 24. We invested heavily in our capital programme, £508 million, delivering our largest ever annual capital investment to our infrastructure for the benefit of customers and the environment.

Our financing costs have reduced following easing of inflation but remain higher than historical averages with recent debt issuances at 5.75%. Throughout FY 25, we have grown the reach of our financial assistance schemes, 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, in line with the expectations of our customers and stakeholders. Overall, our operating profit this year declined by £51 million to £381 million. Our operating cash flow of £412 million was used to invest in our capital assets (£508 million), an increase of £129 million from last year. Further commentary can be found on the immediately following pages.

Our balance sheet remains strong with total available liquidity of £1,271 million and reserves £1,343 million.

Financial resilience and outlook

Over the course of AMP7 we have maintained a gearing ratio of 58% to 62%. Increased cost of debt have been the main drivers behind an increase in gearing in the year, to 62% at 31 March 2025.

In preparing for AMP8, and the significant uplift in investment, the Board of Glas Cymru Holdings Cyfyngedig (GCHC) Group reassessed its gearing policy, with the target re-set at below 65%, still substantially below the 85% level required in our debt covenants.

In February, credit rating agencies downgraded our senior class B credit ratings to Baa1/BBB+/A-, from A3/A-/A, with our junior class C ratings also downgraded a single notch, citing an increase in the risk profile of the sector, as well as our sizeable investment programme and requirement for additional leverage. While this is disappointing, our credit ratings are among the highest in the sector.

Gearing remains low compared to the sector and well within covenant and credit rating thresholds. However, it is important to acknowledge the uncertainties facing the industry and how events have impacted investor confidence, evidenced by the downgrade of the sector in February 2025. Maintaining our credit ratings is a priority for us, albeit the scale of investment in AMP8, the challenging regulatory regime and the timing of investment cashflows being reflected in customer bills means this will require significant and constant attention.

For the outcomes of our financial forecast stress testing, see the going concern note on page 163 and our long-term viability assessment on pages 56 to 59 of our Glas Cymru Holding Cyfyngedig Annual Report and Accounts ('GCHC ARA') [here](#).

2024 Price Review

In January we accepted Ofwat's Final Determination of our PR24 plans. In the months since, we have finalised our preparations for our largest ever capital investment programme, with over £4 billion to improve outcomes for the environment, the resilience of our assets and the quality of services delivered to customers. To support funding this expansion of our investment programme, the average annual household bill will rise by an average of 27% (£136) in 2025. We recognise this is a significant increase in bills and therefore will continue to invest in the wide range of financial support schemes that we offer to low-income households, deploying funding made possible by our not-for-shareholder status worth £14 million a year.

However, we recognise that, in asking customers to pay more, we must ensure that our services are efficient and deliver value. This will involve transforming the way in which many areas of our business operate and improving efficiency across the organisation. This work, which has already started, is a key priority for the Board and Executive.

Strategic report (continued)

AMP 7 reflection

As we come to the end of AMP7, it is an appropriate time to reflect upon what has been delivered. We have grown our Regulatory Capital Value (RCV - the value of the business as recognised by Ofwat) by 32% in nominal terms through investing £2.1 billion in our infrastructure and operational assets. We have successfully raised £1.4 billion of debt over this period, while maintaining one of the sector's lowest gearing ratios.

This was delivered against a difficult backdrop of a pandemic, a cost-of-living crisis for our customers, unprecedented energy prices and the highest inflation in over 40 years. We also saw a significant increase in activity needed to deliver improvements in our environment and combat extreme impacts of more unpredictable weather-related events on our operations, assets and network. Alongside these challenges, we continue to invest for the long term aimed at improving customer service, supporting more customers who are struggling to pay and enhancing the environment.

Financing Needs

Over the past year, the GCHC Group have sourced £950 million in funding, £750 million of which were sustainability bonds, demonstrating our financial resilience and the continued strong appetite for our debt in the sterling market. Our largest issuance performed well against other water utility issuances in the same calendar quarter, deriving a 5.75% coupon rate. This financing was used to settle £410 million of debt and derivative instruments and increase liquidity headroom by £540 million in readiness for our largest capital investment programme in our history. We raised these funds over a broad range of maturities and expect to continue to do so over the next 5 years, where we required refinancing of £2.5 billion.

Revenue

Our revenue mainly comes 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.

Revenue in FY 25 was 1% lower than in FY 24, mainly due to bill reductions, with a typical combined water and wastewater bill for household customers reduced by around 2.6%, offset by consumption increases and customer growth.

We are acutely aware of the financial pressures felt by our most vulnerable customers and we continue to expand our range of assistance schemes to assist customers through this period, with 153,000 customers now getting help to pay their bills, with £14 million contributed through our return of value not-for-shareholder structure during the year.

Operating profit (including IRE)

Our operating profit, which excludes depreciation and amortisation, for the year reduced by £51 million to £381 million. The most significant movements, excluding revenue noted above, related to:

Weather events (Atypical) - Extreme weather events with some storms receiving a red weather warning and a burst on a major trunk main located under a river resulted in unpredicted restoration costs to maintain operations and customer compensation for extended loss of service of £15 million.

Underlying cost pressures - impacted our core operating cost base by £26 million (6.3%) year-on-year: inflation increased contractor prices and gross employee costs, with the latter receiving an annual pay award of 4.2%. Increased volume of outsourced contractor work also contributed to cost pressure with our focus on infrastructure renewals (capital maintenance costs), in particular to reduce leakage, reflected by the increase in IRE spend of 20%.

One-off cost reductions - Improved our core operating cost base by £17 million, with a one-off return of historical local authority rates payments and one-off release of bad debt provision principally contributing to the reduction.

Provisions for expected credit losses on outstanding customer debts decreased by £7 million to £21 million reflecting a one-off release. Underlying charge in the year remained consistent at £28 million, representing 3.1% of regulated revenue. We have 76% of household customers on direct debits, and with the help of proactive engagement and tailored assistance, customers who are struggling remain paying while being placed on payment plans.

Capital investment

FY 25 saw us make one of the largest investments in our network than in any other year in our history, as we continue to invest in improvements across our regions and networks, as well as ensuring we are set up to deliver on the investment programme and improved service targets required in AMP8, with £508m invested during the year (34% higher than prior year).

During the year we invested £32 million available from our not-for-profit business model, "Customer return of value", most notably on improving river water quality.

Strategic report (continued)

Capital investment (continued)

Our Business Plan for the next five years is set to be the biggest investment period in our history. While we believe the outcome of the PR24 process represents good value for customers over the next five years, the Final Determination still presents significant challenges for the business to deliver, but we are focused and committed to delivering for our customers. We are absolutely focused on achieving performance levels that move us out of our current 'lagging' status as assessed in Ofwat's annual Water Company Performance Report for FY 24 and are encouraged by our progress in the last year, with performance improvements providing evidence that our actions are having the desired effects.

Net Finance Costs

Net finance expense was £141 million lower than the prior year mainly due to inflation easing pressures on indexation offset by an increase in cost of debt issuances in the year.

Our non-cash indexation reduced by £89 million. The combined impact of debt issuances (£950 million) and rising interest rates resulted in higher net interest payable of £20 million. This was mitigated through an increased return on our Treasury deposit investments of £8 million. Our effective interest cost for the period was 5.1%, 0.4% higher than FY 24 (4.7%) following market rates for new debt instruments.

The GCHC Group continues to secure efficient funding for the Company in line with the Group Treasury Policy, ensuring our interest rate risk is mitigated with a diverse range of debt instruments. This is achieved both through issuing fixed rate or index-linked debt and effective interest rate hedging through derivative swap instruments. Our intention in the near term is to reduce our inflation linked hedging as a proportion of debt to below 60%. After taking account of these swaps, 70% (FY 24: 83%) is index-linked, 5% (FY 24: 6%) is floating and 25% (FY 24: 12%) is fixed. Net finance expense of £207 million in the income statement (page 24) is higher than the £167 million net cash interest paid per the statement of cash flows (page 28). The difference is largely due to non-cash indexation charges of £116 million, partially offset by £52 million gain on loan modification and £19 million of capitalised borrowing costs.

The fair value gains recognised during the year relate to the value of interest rate swaps and settlements received during the year. In FY 25, we recognised a gain of £64 million consisting of cash settlements from derivatives (FY 24: £37 million) and a non-cash gain of £24 million (FY 24: £17 million) on the value of our derivatives reflecting reductions in Retail Price Index (RPI) expectations. 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.

Liquidity

At 31 March 2025, total liquidity stood at £1,270 million, comprising unrestricted cash and cash equivalents of £620 and undrawn credit and loan facilities of £650 million. We have bilateral revolving credit facilities of £400 million available to us with a group of 5 key relationship banks for 3 years to February 2028, along with a £250 loan facility for 18 months to September 2026. (for further details, see note 15d). During the year, the GCHC Group successfully raised £950 million, comprising Sustainability Senior bonds and new bank loans. Over the next five years, the GCHC Group needs to repay c.£2.5 billion of debt.

We invest cash prudently, depositing for a maximum of three months, and only with highly-rated banks, within limits established in the Board-approved Treasury policy. The treasury policy restricts investments to those counterparties that demonstrate an acceptable level of ESG risk. We achieved an average deposit yield of 4.90% during the year, which compares favourably with our benchmark of 4.85%.

Net debt

We fund our day-to-day operations and our capital investment programme from a combination of customer bills and borrowings from financial markets and institutions. Our net debt (total borrowings less cash and equivalents) on our Group common terms agreement basis at 31 March 2025 amounted to £4,815 million, an increase of £312 million on the prior year. Funding our capital investment programme and the servicing and accretion of debt are the main contributors to the rise in net debt.

Our average debt maturity is 10.1 years (31 March 2024: 9.2 years), reflecting the long-term nature of our asset base. Under the terms of our whole business securitisation, no more than 20% of our debt can fall due within a rolling 24-month period.

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 Regulatory (RCV), a measure of the company's indebtedness relative to the value of the business as recognised by Ofwat, and senior interest cover ratios, a measure of pre and post capital maintenance cash flows over interest in a given period.

Strategic report (continued)

Financial Resilience (continued)

In February 2025, our credit rating agencies issued a one notch downgrade on our credit ratings, noting a deterioration in the sector's business risk-profile and consequences of increased leverage required to fulfil our AMP8 investment programme. This is consistent with peer companies in the Water industry. Our ratings remain among the highest in the sector.

Strong credit ratings promote investor confidence and allow us to access efficiently priced debt to fund our investment programme while keeping bills affordable for our customers.

Dividends

No dividends were paid during the year (FY 24: 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.

Cash flow:

Net cash generated from operating activities for the year ended 31 March 2025 totalled £412 million, £33 million higher than the previous year.

The net cash outflow from investing activities for the year ended 31 March 2025 was £486 million, which increased from £127 million in the previous year. This was principally caused by a higher level of investment in our capital programme.

Net cash outflows before financing activities totalled £75 million, compared with £20 million inflow last year.

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. The tax strategy is managed at a group level by Glas Cymru Holdings Cyfyngedig (GCHC). The GCHC 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 dwrcymru.com/tax-strategy. The GCHC Group has complied with the Tax Strategy for the year ended 31 March 2025.

Fair tax mark accreditation:

In July 2021, Welsh Water became the first company in Wales to secure Fair Tax Mark accreditation, reflecting the Company's responsible and transparent management of its taxes. As a result, the financial statements in this report include enhanced disclosures which have been provided to develop stakeholder understanding of the total taxation reported.

Prompt Payment Code (PPC)

We signed up to the PPC in May 2019, committing to pay 95% of our suppliers within 60 days. From 1 July 2021 signatories were required to pay 95% of suppliers with fewer than 50 employees within 30 days of invoice receipt. As at the end March 2025, we were making payments to 95% of all small businesses we are aware of within 30 days of receipt, and 98% of total invoices for all suppliers within 30 days of receipt, with plans in place for further improvement.

How we plan

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 Group Board's ESG Committee in February 2022 (and is available to view at dwrcymru.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.

Strategic report (continued)

How we plan (continued)

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.

Our regulatory plans are broken into 5-year periods, called Asset Management Periods (AMP). AMP7 (2020 to 2025) is now complete. It involved more than £2 billion in capital investment and saw customer bills decrease in real terms.

AMP8 (2025 to 2030) is based on the outcome of the latest price review (PR24), which concluded in December 2024 with Ofwat's Final determination. It will see a significant step up in total expenditure on our operations and assets, in pursuit of a more resilient network, performance improvements, and major environmental investment.

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.

PR24 and AMP 8

FY 25 was the final year of the PR19 price review and it was also the crucial year in setting the regulatory settlement for the 2025 to 2030 period. In the last five years Welsh Water has not been alone in struggling to meet the stretching performance targets set by Ofwat in 2019, and the industry has come under huge public scrutiny and criticism. After the 2024 UK General Election the incoming Labour Government promised to tackle the problems while resetting relations with water companies.

It is against this backdrop that Ofwat prepared the Final Determination for PR24, published in December 2024. This set the revenues that companies are allowed to raise from customer bills over the 2025 to 2030 period (AMP8) to cover running costs and necessary investment on an efficient basis. It also set performance targets, with a package of financial rewards and penalties for over- or under- performance.

Following the Final Determination, 6 companies decided to request that Ofwat refer the matter to the Competition and Markets Authority for a redetermination. We were among the majority of companies that accepted the Final Determination as a challenging but manageable basis for taking the company forward into AMP8. Ofwat's view had shifted considerably since the Draft Determination, recognising many of our arguments about necessary expenditure, stretching but achievable performance targets, and the need to set the company on a sustainable financial footing to support the investment needed to address performance and resilience challenges.

The increased expenditure and a higher cost of capital (among other factors) will unfortunately result in significantly higher bills for customers. We regret this, but it is necessary to support the investments we need to make. We will continue to do all we can to make sure that customers who struggle to pay their bill will have access to support for which they are eligible through our social tariffs.

The conclusion of PR24 allowed the Board and senior management to begin immediately the job of delivering what will be our biggest ever five-year programme of investment, without the distraction of an appeal to the Competition and Markets Authority. While there are elements of the PR24 Final Determination that will be very challenging to deliver, notably on leakage and storm overflow spills, we are determined to meet our commitments to the regulator and regain the trust of customers and stakeholders. At the same time, we are embarking on a long-term programme of investment to accelerate the replacement of ageing assets in a phased manner that is affordable to customers.

Although we welcome the higher levels of investment PR24 brings for AMP8, this is not a panacea - sustained significant investment will be required in future reviews to deliver our longer term strategic objectives.

PR24 also puts in place a new set of reporting requirements, particularly around the 'price control deliverables' that will ensure each area of investment is implemented as planned, otherwise the related expenditure will be returned to customers through lower bills. We are well advanced with implementing the required changes to our systems and process. These will enable us to report more fully and openly than ever before on the progress of our investment plans through to 2030 and beyond.

Going concern:

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the 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 use group-wide key performance measures as indicators to the development, performance and position of the Company. These are discussed in the 2024-2025 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.

Strategic report (continued)

Financial key performance indicators (continued)

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.

Principal risks and severity

From the perspective of the Company, 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 2024-25 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 (IT and OT)
- Operational performance and costs
- Loss of trust, particularly by our customers
- People, talent and diversity
- Finance (funding)

Emerging risks are discussed in depth by the Board twice each year and are also discussed in the 2024-25 Annual Report and Accounts of GCHC ARA.

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

Strategic report (continued)

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 in our Group Annual Report 2024-25 [GCHC ARA](#).

Engagement with our stakeholders plays a vital role in our decision making, with all Board agenda items considering the interests of stakeholders and the impact on them of our decisions. While we aim to maintain a diverse range of skills, backgrounds, and experiences on the Board, we also value hearing directly from our stakeholders throughout the year. The Board continues to seek new ways of engaging with the varying perspectives of our customer and community stakeholder groups, including those engaged with our developer services, and with suppliers.

The Board's obligation to promote the long-term success of the Company

As a customer-led business, addressing the long-term effects of our operations on our communities and the environment are central to our strategy. Delivering that strategy necessarily involves fostering relationships with governments, regulators, suppliers and customers, but also critically depends on colleagues across the business and on our supply chain.

Customer engagement

The customer voice is represented through the Independent Challenge Group (ICG) which comprises customer and environmental advocates from a broad variety of backgrounds. It meets regularly to review and comment on customer research, strategy, policy and initiatives, and provides feedback to the Company to inform decision making.

Our Board met with customers throughout the development of the Company's PR24 Business Plan, and improved performance and service delivery for customers has been a focus for all Board and Committee meetings during FY 25. Throughout the year, extensive customer engagement has also been undertaken to inform the development of the Company's Vulnerable Customer Strategy.

Members of the Glas Cymru Group who are also customers also directly engage with the Board throughout the year through informal questions and challenge in addition to the role they fulfil at formal and informal Members Meetings.

Engagement with the Independent Challenge Group (ICG)

The Chair of the ICG attended the December 2024 Members meeting to provide; an overview of the role of the ICG, key updates and feedback from customers; in advance of formal questions being put to the Board and Executive colleagues.

Stakeholder engagement

The Board regularly hears directly from our principal stakeholders, including our regulators, through their attendance at Board and Committee meetings. The views of regulators are gathered both directly through invitations to attend Board and Performance and Safety Committee (PSC) meetings, and through regulatory correspondence. Additionally, stakeholder updates are relayed by members of the Dŵr Cymru Executive team (DCE) through monthly management reports (MMR) and updates to the Board.

During FY 25, the PSC heard directly from Directors of Natural Resources Wales and the Chief Inspector of the Drinking Water Inspectorate. The Chair participates in regular meetings chaired by the Chair of Natural Resources Wales alongside the Chairs of Ofwat and Hafren Dyfrdwy to review progress in improving river water quality in Wales. The Chair also attends periodic meetings of chairs of water companies across England and Wales with the Chairs of Ofwat and the Environment Agency to discuss issues affecting the sector. The CEO attends similar meetings of the Board of Water UK alongside other water company CEOs.

Strategic report (continued)

Stakeholder engagement (continued)

Members have attended the Phosphate Summit meetings called by the First Minister of Wales to improve river water quality and presented on the Company's contribution to this. Following the 2024 General Election members of the Board met with newly appointed Members of Parliament to discuss the Company's strategy and improvement plans and the Chair, CEO and CFO met with the newly appointed First Minister, Eluned Morgan who attended the Company's offices in October 2024. Board Members also periodically meet with the Welsh Government Cabinet Secretary for Climate Change and Rural Affairs alongside officials of Welsh Government, to review the company's progress against its objectives in the context of Welsh Government policy on water.

Throughout FY 25 the Company, and the Water Industry generally, has been the subject of continued and intense media and public scrutiny. In the face of this challenge executive colleagues, notably the CEO and our Managing Directors for Water and Wastewater, have made a concerted effort to devote time to meeting with interested stakeholder groups across Wales to better understand their viewpoints, concerns and needs. Among other groups, considerable time has been spent with groups and individuals with concerns linked to pollution and river quality, including attendance and participation at the Archbishop of Wales' Restoring Welsh Rivers summit and ongoing engagement with local and national bathing water groups.

Board Members attended the Drinking Water 2023 (Wales) presentation of the Chief Inspector of Drinking Water in July 2024 which provided an overview of the quality of public and private water supplies in Wales.

Supplier engagement

Supply chain risk is noted as one of the principal strategic risks reviewed by the Board, and the Board receives monthly reports via the 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 capital investment programme for AMP8. This work ensures that the services provided to customers, the delivery of investment schemes, and the provision of other goods and services, remain in line with our expectations and Company values. Board members also meet regularly with representatives of contractors working on our capital projects during site visits and have, following the establishment of a new Procurement Framework to deliver AMP8 programmes, met with key supply chain partner leads as a Board. The Company has a Supplier Payment Policy and is a signatory to the UK Government Prompt Payment Code (see page 74 in the [GCHC ARA](#) for details).

Employee engagement

The Board promotes inclusivity and supports developing everyone to their full potential. Regular updates on health and safety, staff turnover, absence and sickness levels are received and key policies such as Equality, Diversity and Inclusion, and pay, are reviewed at the Board or at relevant Committee meetings. There are also regular updates from the DCE on discussions with recognised trade unions, through the senior negotiating team, and in relation to agreed action plans following colleague feedback from the Company's employee engagement surveys.

The Chair of the Board and Non- Executive Directors meet regularly with groups of colleagues from all business areas. These meetings are informal without a fixed agenda, providing the opportunity for colleagues to raise issues with Non-Executives and for the Board to understand first-hand prevailing colleague concerns. Notes of the topics discussed at these meetings are taken and shared with other members of the Board at the next Board meeting. These meetings are typically held remotely to enable a wide geographic spread of colleagues to participate.

Separate meetings are also held with senior managers from across the business, which provide colleagues with the opportunity to discuss existing and emerging issues with Board members, and for Board members to receive direct feedback and insight within targeted areas of the business.

The CEO, CFO and members of the DCE also participate in annual Employee Roadshows across the Company's operational area. During the year, approximately 2,000 colleagues attended the Employee Roadshows and received key updates on strategic and operational plans and were given the opportunity to raise questions and provide valuable feedback.

Engagement with Glas Members

The role of Glas Members is set out on pages 82 and 97 of our Governance Report in our [GCHC ARA](#). Our Members are drawn from across our supply area and the Independent Membership Selection Panel (IMSP) 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 IMSP 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 formally meets with our Members in July and December each year and invites input and constructive challenge from Members on key strategic issues at these meetings. In addition, Regional Members Meetings at 3 different locations across our operating area are scheduled twice throughout the year to provide Members with key operational and strategic updates and act as a forum for further engagement and challenge from the Membership to the Board and DCE.

Strategic report (continued)

Engagement with Glas Members (continued)

The Company Secretariat team ensures that Members are kept up to date on current issues affecting the business on a regular basis and feeds back Members' views and engagement in the Company Secretary's report to the Board at each Board Meeting.

Key areas of Member engagement and challenge during FY 25 included:

- Environmental performance
- External communication and engagement with stakeholders
- Remuneration
- Customer bill increases
- Final Determination outcome

Engagement with the Independent Environmental Advisory Panel (IEAP)

The Panel includes representatives from environmental non-governmental organisations (NGOs), academics and third sector organisations. The independent Environmental Advisers to the PSC also attend meetings of the IEAP and report back to the PSC on issues of relevance to the Committee.

Engagement with Glas Cymru investors

During FY 25 members of the Board and DCE attended the GCHC Group's Annual Investors Meeting in London. Members of the Board and the Group's Treasury team have also maintained regular contact with investors and credit rating agencies to support updates to the Group's Prospectus and Bond Issuances (See page 97 for further detail in [GCHC ARA](#)). 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 team (the DCE), which is led by the CEO, is responsible for the operational management of the Company. The DCE is 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) are members of the DCE and attend all Board meetings as permanent invitees.

The role of the Board

The Board oversees measures to ensure that stakeholder interests are always considered. Papers shared with the Board include information on relevant stakeholder considerations to be discussed when making decisions to ensure that sufficient attention is given to stakeholder concerns, and that the interests of all relevant stakeholders are considered within the Board's decision making.

As is very much aligned to our Purpose, the decisions the Board makes 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 we serve. The Board receives regular updates on long-term trends and considers long-term strategies for carbon, energy, water, and wastewater management resource planning within its decision making processes.

By direct engagement with employees through feedback from the annual employee survey, employee engagement sessions, informal meetings with managers, and by conducting operational site visits (see page 97 in [GCHC ARA](#) for more details) the Board is able to see and experience how the Company's culture and values are applied across the business. Maintaining an effective and distinctive culture within Welsh Water, under our not-for-shareholder constitution, is a key component to support the delivery of our strategies and the Board's decision making to promote the long-term success of the Company. Read more on our culture and values at pages 8 to 10 of [GCHC ARA](#) report.

By order of the Board



Peter Perry
Chief Executive Officer
6 June 2025

Directors' report

The performance review of the Company can be found within the Strategic Report on pages 2 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 2025. Full details and analysis of the operational performance of Dŵr Cymru Cyfyngedig during the year to 31 March 2025 are included in the published 2024-25 Annual Report and Accounts of GCHC - [Group Annual Report and Accounts](#).

The directors have pleasure in presenting their annual report, together with the audited financial statements for the year ended 31 March 2025 on pages 24 to 67:

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.

Financial performance

The Company is in a strong financial position as at 31 March 2025; gearing remains within the Board's upper target of 65%. Read more in the Strategic Report.

Dividend policy

No dividends are paid outside the Group. Our non-shareholder model means that value created in the business is used for the benefit of customers to support social tariffs and to increase investment in assets to provide our essential services.

Dŵr Cymru Cyfyngedig – Appointed Business

In March 2016 the Glas Board approved a dividend policy to permit up to £100 million of funds to be distributed from the ringfenced Company within the GCHC Group, to facilitate the funding of commercial projects. In line with this Policy, intra-Group dividends totalling £30.2 million were paid in 2016-2017. No further intra-Group dividends have been paid and none are expected to be paid in the foreseeable future.

In the event that the Board considers such dividends in the future, it has confirmed that it will take into account the extent to which the appointed company is achieving its performance commitments for service delivery to customers and other regulatory obligations, and its other Price Review commitments in respect of issues to be taken into account in making any decision to pay a dividend. The current Dividend Policy was approved by the Board in February 2022 and by Ofwat in April 2022. See <https://dwrcymru.com/dividendpolicy>.

Financial instruments

Financial risk management and information on financial instruments is covered within notes 14 to the financial statements found at page 53 to 54.

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 and for 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 page 62 of [GCHC ARA](#).

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. Information on the Board's methods for engaging with the workforce can be found at [GCHC ARA](#).

Directors' report (continued)

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 in the year, are set out in the Strategic Report in [GCHC ARA](#).

Corporate governance

During FY 25 we have applied the principles and complied with the provisions of the 2024 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 in [GCHC ARA](#).

Amendment of articles of association

Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by a special resolution of the Company's Members.

Political donations

It is Board policy not to make donations to political parties or to incur political expenditure. A charitable donation of £30,000 was made in July 2024 to Step Change to support its work in providing debt advice to those we serve. We are disclosing this payment as this organisation also campaigns for government policy change, including on debt issues. However, none of the funding provided would have been used directly to support campaign work. Other than this, no donations or payments were made which would require disclosure under section 366 of the Companies Act 2006.

WaterAid

As appropriate for a Company with our corporate structure, we do not engage in corporate sponsorship. However, we continue to support WaterAid, which aims to provide clean water and sanitation in deprived areas overseas. 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).

Greenhouse gas emissions

In line with our commitment to transparent and best practice reporting, at page 5 of [GCHC ARA](#) we state our annual GHG (greenhouse gas) emissions footprint and an intensity ratio appropriate for our business, which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013.

Auditor FY 25

Deloitte LLP acted as External Auditor to Glas Cymru Holdings Cyfyngedig group (the Group) for the accounts for the year ended 31 March 2025. As part of the audit process we confirmed that, as far as each Director is aware; there is no relevant audit information of which the Auditor are unaware, that they have taken necessary steps to make themselves aware of relevant audit information and to establish that the Group's Auditor is aware of that information. We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the Company's performance;
- the Strategic Report includes a fair review of the performance of the business, its risks and strategy for the future; and
- the Directors consider the Annual Report to be fair, balanced and understandable.

In considering the development of the system of controls, the management team reviews the materiality and the relative cost benefit associated with each identified significant risk. The internal control systems are designed to provide reasonable assurance against misstatements, loss or failure. The process to review the effectiveness of internal control includes discussion with management on significant risk issues and a review of plans for, and results from, internal and external audit.

The Audit and Risk Committee reports the results of its review to the Board, which then draws its collective conclusion on the effectiveness of the system of internal controls. In fulfilling this responsibility, the Board considers regular reports from the Audit and Risk Committee, the Performance and Safety Committee and from management, and relies on its routine monitoring of key performance indicators and monthly reports of financial and operational performance.

Taken as a whole, these processes enable the Board to review the effectiveness of the internal control system during the course of the year and the Board considers there are largely adequate risk management and internal control systems to meet the organisation's objectives, noting inherent industry wide uncertainties and current activities to address risks out of appetite including long term funding risks.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP as Auditor of the Group will be put to the Members at the forthcoming AGM.

Directors' report (continued)

Human rights

We are committed to respecting human rights in relation to colleagues and our supply chain (see page 143 for information on our Sustainable Procurement Policy, Supply Chain Compliance Standards, and Anti-Slavery Policy of [GCHC ARA](#)). Our internal Code of Conduct is supported by several Company policies including Anti-bullying and Harassment, Whistleblowing, Anti-bribery and Corruption, and Anti-Fraud.

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 <https://corporate.dwrcymru.com/en/legal-privacy/privacy-policy>.

Innovation

Over the past 12 months, we have continued to make good progress delivering the agenda set out in our Innovation Strategy. We have been working with over 100 academic and other institutions, technology specialists, and global innovation concerns to undertake research, and to develop and trial new technologies we can adopt.

Since April 2020 we have received over 600 proposals for innovation at our Innovation Portal at dwrcymru.com/innovation and have completed 77 Innovation projects arising from these. We have invested £9.8m in leveraged research, achieving an overall leverage ratio of just over 8:1. We remain one of the most highly involved companies with Ofwat Innovation funded projects, and look forward to the total size of available funds growing from £200 million in AMP7 to £400 million 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.

We have a well-established research programme covering a wide range of topics, including how best to progress nature-based solutions for our supply area. This work is used to help support policy change in the EU through Eureau, the European industry trade body, and contributes to the UK sector analysis of its performance and environment footprint to support sustainable investment decisions.

Education programme and our visitor attractions

Our education programme helps us inspire the next generation of customers about the environment and sustainability. In delivering this programme, we work with Hereford Waterworks Museum, Eco-Schools, Cardiff Met School of Education, Groundwork Wales and Urdd Gobaith and, with the expertise of our seconded teachers, they enabled us to deliver free, high quality educational experiences to over 100,000 students in FY 25

For over 25 years, we have delivered a comprehensive, practical and industry-linked education programme within our communities. Its aim is to engage with current and future customers to increase their awareness of the value of water and the role the company plays in the communities it serves; supporting the delivery of key business objectives through behavioural change such as water efficiency and sewer misuse; and enhancing the company's reputation and building trust in the communities it serves.

Our outreach is delivered through an industry-unique model of annually seconding qualified teachers. The scale of delivery is not achieved at the expense of quality, with feedback from 1,400 schools validating the approach and commending its value for future generations.

In addition to surpassing our engagement targets during the post-Covid period - consistently engaging with upwards of 80,000 learners - the programme also ventures beyond the traditional. This sometimes involves a tailored and targeted approach to deliver social value and create a lasting legacy. For the purpose of this assessment, data from the last 3 years were reviewed, with additional focus put on the 2024/25 reporting year - a record year, where [over 100,000] pupils participated in one of our education sessions.

Directors' report (continued)

Affordability

Water bills are a small but important proportion of household outgoings particularly for low-income families. Over the last decade, thanks to efficiency, innovation and lower financing costs, bills have been flat or declining in real terms. However, the scale of investment planned for 2025 to 2030, to meet new environmental standards and to adapt to climate change, means that it is impossible to avoid increasing customer bills.

A typical annual household bill increased by £136 (27%) from 1 April 2025. We have chosen to apply a higher increase in the first year of this investment cycle, followed by smaller increases in subsequent years of the investment cycle (AMP), as we believe the overall increases in AMP8 will be more affordable under this approach.

Against this backdrop of increasing bills, ensuring affordability and providing financial assistance are key priorities for us. We are committed to providing efficient services that offer value to our customers while also implementing support plans for those facing financial difficulties. Between 2025 and 2030, we will contribute £13 million a year towards social tariffs. This will provide us with the capacity to accommodate any rise in unemployment over the next few years, which could result in demand for our social tariffs rising to 190,000.

Despite increased levels of support available and significant growth in this financial year we continue to face challenges reaching all the customers who may need help. National data suggests that around 170,000 customers may be income-deprived and therefore potentially eligible for water bill support. However, despite increased marketing, promotion and community engagement activity, we do not yet reach all the customers who need our help. We remain committed to working with our partners to increase awareness of our schemes and reaching all customers who are entitled to this support.

Equality, diversity and inclusivity

As part of the annual effectiveness review of the Board and Board Committees, the Board considers the balance of skills, knowledge, experience, independence and diversity representation as reviewed by the Committee. The Board is alert to opportunities to improve the current level of diversity regarding skills, experience, backgrounds, race, gender and personal attributes of Board members. The Committee reports on its progress in implementing the Board Diversity Policy and monitoring the diversity of the Board, and on the Group's gender diversity ratios in its Annual Report. It also reports on its oversight of plans to promote diversity within our workforce to ensure that the individuals working for us are representative of the communities that we serve, in accordance with the Group's policies supporting the development of equality, diversity and inclusion across the business.

In the opinion of the Committee, the Board currently benefits from an appropriately diverse range of skills, knowledge and experience. The Directors' biographies on pages 88 to 91 set out details of their backgrounds, skills and experience, which, for the Board taken as a whole, are diverse and wide-ranging (set out in the [GCHC ARA](#)). At the end of FY 25, 45% of our Glas Board members (FY 23-24: 56%) and 28% of the DCE (FY 23-24: 26%) are female, while in the wider workforce, of those senior managers reporting directly to a member of the DCE 37% (FY 22-23: 45%) are female.

We continue to support the recommendations of the Hampton- Alexander Review, which encouraged companies to increase the percentage of members of boards and in leadership teams (comprising the DCE and direct reports of the DCE) who are women to 40% by 2025, which has been achieved with the Group's Board. We are encouraged that we have been able to continue to meet this target and we will continue our focus to maintain this. We support the recommendations of the Parker Review, which encourages companies to increase the ethnicity on boards and we currently meet the voluntary target set by the Parker Review of having at least one Director from an ethnic minority background by 2024.

Although we are not a listed company, we comply with the UK Listing Rules to meet specific Board diversity targets on a 'comply or explain' basis. The targets are:

- At least 40% of the Board are women (45% for FY 25)
- At least one of the senior Board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) is a woman.
- At least one member of the Board is from a minority ethnic background

We will continue to ensure that the Board is appropriately balanced in all respects and take into account the Listing Rules on Board diversity targets as part of our future succession plans for senior Board roles.

We also know that we can further improve diversity and inclusion across the Company and neither the Committee nor the Board is complacent about these issues. The Company is committed to eliminating discrimination and encouraging diversity and inclusivity to enable us to recruit and retain a diverse workforce.

Directors' report (continued)

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.

Attracting and retaining a diverse workforce to reflect our communities

Every organisation is only as good as its people, so we aim to recruit and retain the best talent. We want to have the widest possible appeal to talent in all its forms and this comes from being recognised externally as having an inclusive culture where people are valued for who and what they are. Our work on this culture continues to be supported by, among other things:

- Our workplace policies such as our Health, Safety & Wellbeing policy,
- Monitoring progress using qualitative and quantitative data to highlight where barriers exist and to show the effects of our interventions so we can make appropriate adjustments where needed.
- Using employee-led network groups and our Equality, Diversity and Inclusivity Forum as a platform for feedback and improvements.
- Appointing ambassadors for all protected characteristics.
- Encouraging staff to self-declare relevant characteristics to support a data-led and evidence-based approach.

We have also built on our relationships with organisations including Energy and Utility Skills, Business in the Community, Women in Science and Engineering, Fertility Matters, Inclusive Employers, Stonewall Cymru, Mahogany Inclusion Partners and Henpicked. Our successful partnership with the University of South Wales continues to deliver our network75 programme which combines work placement and part-time study as a route to a degree, which is often a more accessible means of achieving this qualification for young people in our communities.

Our progress in the year is demonstrated by:

- The proportion of staff who self-declared their personal characteristics was maintained at 80 % (FY 24: 80%) Our self-disclosure focus has moved to disability data, with significant gains achieved at 61% in FY 25 (FY 24: 52%).
- We appointed 72 apprentices and trainees this year, an increase of 56% over FY 24.
- 60% of our graduate applications were from those with an ethnic minority background.
- 33% of our graduate intake were from under-represented groups and we made 6% more job offers to those from under-represented groups for apprentices and trainees as a whole.
- We appointed 6 females to senior roles in FY 25 (FY 24: 6)
- The proportion of those in our Senior talent pipeline for potential heads of service and above who are female is 41% (FY 24: 40%).

For our gender pay gap data please see the Remuneration report from pages 127 [GCHC ARA](#).

Financial assistance

We work with over 300 organisations in providing financial assistance and priority services to our most vulnerable customers. This partnership network enables us to reach people who are reluctant to engage with us directly. Once again, we have provided training sessions to local authorities, social landlords, job centres and others to help them to identify and apply for financial assistance schemes on behalf of their clients or tenants, as well as offering in-person advice clinics to help individuals who have concerns about their bills or arrears.

Education

Our education programme helps us inspire the next generation of customers about the environment and sustainability. In delivering this programme, we work with Hereford Waterworks Museum, Eco-Schools, Cardiff Met School of Education, Groundwork Wales and Urdd Gobaith and, with the expertise of our seconded teachers, they enabled us to deliver free, high quality educational experiences to over 100,000 students in FY 25.

Working collaboratively

Our ability to work in close partnerships is a key enabler to delivering our sustainability objectives. There are many areas where we cannot achieve our environmental and social commitments working alone and where we have long established working relationships with regulators, governments, customers and other stakeholders. Outlined below are some examples of the work we have done this year:

Drinking water catchment management

We own less than 5% of the land within our catchments and therefore it is essential that we work with landowners to build resilience into the front end of our water supply systems so that we provide consistent, manageable and reliable supplies of raw water to our water treatment works. An example of this is the Bannau Brycheiniog Mega Catchment (BBMC) programme which includes a group of farmers (Beacons Water Group) that we work with to deliver mutually beneficial land management practices. Through this work we have restored over 160 hectares of peatland in the Bannau Brycheiniog area and this partnership approach is now a template for other water groups in our area.

Directors' report (continued)

River Teifi - demonstrator catchment

This is a Natural Resources Wales (NRW) project that is developing different ways of looking after and improving the River Teifi. We are providing funding for a dedicated project officer for this important initiative. As well as exploring improvements to our monitoring of river water quality, we have also been working with the local authority and Nutrient Management Board to produce a feasibility study for nutrient offsetting wetlands at Cenarth Waste Water Treatment Works.

Eastern Umbrella of Water and Sanitation (EUWS), Uganda

For the last 3 years, we have been working with EUWS to develop 3 water supply schemes into models for sustainable utility management. Through the delivery of training and sharing knowledge, our team has worked with Ugandan colleagues to increase capacity of its assets through improved network management and leakage, as well as sharing good practice in the areas of customer service and social inclusion.

Adapting our assets and services to mitigate climate change risks

Doing all we can to adapt to the challenges of climate change, so we can continue to provide affordable and resilient services, is one of our primary responsibilities and a growing priority for our customers. Wales was the first country in the world to declare a climate emergency. Adapting to and mitigating the impacts of climate change are both critical for us as a business.

Recent flooding and dry weather events both in Wales and globally have reminded us of the havoc our changing weather is already wreaking. Our experience shows that these events are increasing in frequency and intensity, and scientific studies suggest that this will continue as our world gets warmer. As the principal provider of water and wastewater services in Wales, we are driving our science and innovation agendas forward to support our net zero ambitions, and also to adapt our asset base to meet the challenges that are yet to come. The global climate outlook is grave, and we will not shy away from driving our emissions down to meet our net zero target at a pace our customers can afford, or to make our assets more climate resilient

by deploying the latest science and technology to ensure our services can continue uninterrupted. All the while, we must be conscious of the affordability of services to our customers, particularly in a period of significant financial hardship and uncertainty. But we cannot adapt to climate change without the support and action of others. We are impacted by how others manage their land in catchments we abstract water from and how others manage their surface water drainage which connects into our sewerage system. Working in partnership with our government, local authorities and landowners remains key for our plans to adapt affordably to climate change. One thing seems certain: preparing and meeting the impact of Climate Change will be very challenging and will need the support of our partners in Government, our Regulators and Local authorities. But by preparing well together, and then delivering the resilient new infrastructure we need, we are confident we can adapt and meet the demands placed on us at a price our customers can afford.

Our AMP8 (2025 to 2030) plans for adaptation to climate change are focused on 'no/low regrets' activities and investments. These include driving down leakage; increasing customer metering; helping customers reduce their water use; protecting water quality and improving biodiversity; investing in further sustainable urban drainage systems and nature-based solutions, and driving innovation and technology developments. We will also be undertaking extensive environmental monitoring and asset planning work, to improve the confidence in our two main planning tools for the longer term – our drainage and wastewater management plans and our water resource management plans.

Our plans for AMP8 also include considerable investment in areas where service is likely to be significantly impacted by a changing climate, including tackling storm overflows, improving wastewater treatment, and replacing mains that are bursting more frequently in hot, dry conditions. We have started on a journey to enhance our resilience, and we are proud of what we have achieved. There is much more to do, and to enable us to take an adaptive approach, we will monitor our progress including updating our Climate Change Adaptation Report at least every 5 years.

By the next iteration of our Climate Change Adaptation Report in 2027 we expect to be better placed to narrow down the likelihood of adaptive strategies being triggered. We will have better models to predict the future climate, and how our assets will respond to that, and we will have developed and implemented new technologies to assist us to find affordable solutions to this challenge for our customers and society.

River water quality in Wales

Improving river water quality, as with many of our investment programmes, is a long-term undertaking and benefits typically emerge over a period of years rather than months. 45% of our rivers in Wales achieved a "good" ecological status in 2021, compared with 27% in 2009. While the picture in Wales is better than in England we know it is not good enough and Wales has a long way to go before our rivers and seas meet the standards they should. The AMP8 investment programme will ensure that we continue to play our part by removing the elements of our operations which cause rivers to fail to achieve "good" ecological status. However, without intervention by other sectors to address their activities which impact upon Welsh rivers, they will remain below the required standard.

Directors' report (continued)

Adapting our assets and services to mitigate climate change risks (continued)

Climate change can also affect river water quality in many ways, either directly or indirectly. The greatest challenge for our rivers occurs in the summer when water levels are at their lowest, with reductions in these flows due to climate change. We will need to maintain our vigilance to ensure that storm overflow and WWTW discharges today do not become damaging in the future. This is where our investment in modelling and long-term planning is key to forecasting when this is likely to occur and when we need to take steps to prevent deterioration from occurring.

Biodiversity

Our Biodiversity strategy (<https://dwr.cymru.com/biodiversitystrategy>) sets out how we maintain and enhance biodiversity and ecological resilience across our operational assets and landholdings, while delivering water and wastewater services.

The strategy aims to deliver performance improvements in both the short and medium term through to 2030, and to ensure our plans remain aligned with the longer-term strategic responses set out in Welsh Water 2050. To achieve this, we established 5 biodiversity objectives, namely:

- 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 most recent triennial Biodiversity Action Plan supports the Biodiversity Strategy and was published in 2024. This is our third Action Plan and we have taken the opportunity to update and align with our Biodiversity Strategy so that our progress is transparent to regulators and stakeholders. We will issue a progress report against our Biodiversity Action Plan in 2025.

The delivery of our Biodiversity strategy will not only improve water quality, but will also improve the ecology of our rivers. This remains the main focus for our biodiversity enhancements. This focus will be maintained through AMP8 during which time we will deliver our largest ever environmental enhancement programme. This period will also see us continue our successful catchment work focused on water quality improvements in our upland drinking water catchments, introduce carbon sequestration improvements that will deliver landscape scale biodiversity improvements, and see the introduction of new planning requirements to enhance biodiversity and ecosystem resilience. By improving and restoring terrestrial and aquatic habitats we will make improvements to water quality, lock up carbon, mitigate flooding risks, demonstrate our response to the nature and climate emergencies and improve the wellbeing of our customers.

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 and Risk 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.

Sustainable Procurement Policy (SPP)

We have established our sustainable procurement policy through collaboration with key stakeholders, covering environmental, economic and social areas. Our aspirations have been mapped against our ESG Strategy Objectives and the Well-being of Future Generations (Wales) Act, and are included in our SPP. We have assessed the impact of these sustainable procurement aspirations in the key categories of goods and services we procure by undertaking risk and opportunity heatmapping of existing procurement contracts against the aspirations. We are now implementing our Sustainable Procurement Policy.

Supply Chain Compliance Standards

This year we have updated our Supplier Code of Conduct to reflect our economic, environmental and social sustainable procurement objectives, and rebranded it as our Sustainable Supplier Code (SSC), reinforcing our commitment to a resilient, viable and sustainable supply chain. In developing the SSC we have engaged extensively with businesses across our operating area, including small and medium sized enterprises (SMEs), which has helped us ensure that it is practical and effective in promoting sustainable procurement practices. Confirmation of compliance with the SSC acts as a pass/fail test at the Pre-Qualification Questionnaire stage of the tender process and compliance is required in our terms and conditions of engagement.

Directors' report (continued)

Modern Slavery Awareness

Our commitment to compliance with the Modern Slavery Act 2015 is reinforced across all procurement activity. It is a mandatory requirement for our suppliers to confirm that they do not tolerate modern slavery, child labour or human trafficking in their supply chains or any part of their business. Our Anti-slavery statement can be found at <https://dwrcymru.com/antislavery>.

The Procurement team retained the Chartered Institute of Procurement and Supply's (CIPS) Ethical Procurement kite 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 policies make it clear that we will not tolerate any acts of fraud, dishonesty, bribery, corruption, theft, or improper disclosure of confidential information. This is reinforced by our strict policy on hospitality and gifts from suppliers. No breaches of policy were notified to Internal Audit or the external whistleblowing hotline during FY 25.

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 role within the Company. Before appointment, Directors are 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.

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. See note 1 for further information on pages 34 to 35.

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. Part of our 2050 strategy is to become a world-class, resilient, and sustainable water company for future generations. Tackling climate-related challenges is crucial to our success. The full report is available at [TCFD Report](#), and further information is available as part of our [GCHC ARA](#).

This disclosure demonstrates the integration of climate-related considerations into our governance, strategy, and risk management processes, and how we monitor progress with appropriate metrics. As we navigate to Net Zero by 2050, we recognise the complex nature of climate change, including immediate to long-term risks and opportunities. To address these dynamics, our strategy for managing climate-related risks is continually refined to align with our goal of energy neutrality by 2050. Our progress in fulfilling our commitments from last year is illustrated in our reporting progress within the report.

Going concern

The financial statements for FY25 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 29 within accounting policies.

By order of the Board



N Foreman
Company Secretary

Registered office:
Linea
Fortran Road
St Mellons
Cardiff
CF3 0LT
6 June 2025

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 financial statements for each financial year. Under that law they have elected to prepare the 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 Company and of Company's assets, liabilities, financial position and the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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 Company 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 members of Dwr Cymru Cyfyngedig

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Dwr Cymru Cyfyngedig (the 'company') give a true and fair view of the state of the company's affairs as at 31st March 2025 and of its loss for the year then ended;
- the financial statements 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the 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 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 company's ability to continue to adopt the going concern basis of accounting included:

- reviewing the Glas Cymru Anghyfyngedig group's borrowing arrangements and associated maturity profiles;
- assessing the level and coupon of new debt issuance forecast by the directors and the feasibility of these assumptions;
- assessing the appropriateness of the length of the outlook period used by the directors in their assessment.
- assessing the assumptions used in the cash flow forecasts for consistency with Board approved budgets;
- testing the arithmetic accuracy of the cash flow forecast;
- assessing the appropriateness and impact of severe but plausible downside scenarios;
- evaluating covenant compliance and headroom on those covenants;
- evaluating the risks associated with credit rating metrics and the impact of any downgrades, should they arise; and
- assessing the appropriateness of the directors' 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 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.

Independent auditor's report to the members of Dwr Cymru Cyfyngedig (continued)

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

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 company's industry and its control environment, and reviewed the company'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 and Risk Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

Independent auditor's report to the members of Dwr Cymru Cyfyngedig (continued)

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

- had a direct effect on the determination of material amounts and disclosures in the 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 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, GDPR and Health & Safety.

We discussed among the audit engagement team and shared with 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.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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, reviewing correspondence with HMRC, Ofwat and other relevant 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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.

Independent auditor's report to the members of Dwr Cymru Cyfyngedig (continued)

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 June 2025

Income statement for the year ended 31 March 2025

		2025	2024
	Note	£m	£m
Continuing activities			
Revenue	2	915.7	924.4
Operating costs:			
- Operational expenditure	3	(398.2)	(368.4)
- Impairment of trade and other receivables	3	(21.2)	(28.3)
- Other operating income	3	5.4	5.2
- Infrastructure renewals expenditure	3	(120.7)	(101.3)
- Depreciation and amortisation	3	(390.0)	(385.6)
		<u>(924.7)</u>	<u>(878.4)</u>
Operating (loss)/profit		<u>(9.0)</u>	<u>46.0</u>
Profit on disposal of property, plant and equipment		-	0.3
(Loss)/profit before interest		<u>(9.0)</u>	<u>46.3</u>
Financial expenses:			
Financial income	4	28.1	20.4
Financial expenses	4	(234.6)	(359.4)
Fair value gains on derivative financial instruments		63.5	54.8
Settlements accruing in the year	4	39.7	37.4
Other movements on derivative financial instruments	4	23.8	17.4
Total financial expenses		<u>(143.0)</u>	<u>(284.2)</u>
Loss before taxation		<u>(152.0)</u>	<u>(237.9)</u>
Taxation	5	43.6	56.7
Loss for the year		<u>(108.4)</u>	<u>(181.2)</u>

The notes on pages 29 to 67 form part of these financial statements.

Statement of comprehensive income for the year ended 31 March 2025

	Note	2025 £m	2024 £m
Loss for the year		(108.4)	(181.2)
Items that will not be reclassified to profit or loss			
Actuarial gain recognised in the pension scheme	21	26.0	26.4
Related deferred tax	6	(6.5)	(6.6)
Revaluation of property, plant and equipment	7	(58.5)	141.8
Related deferred tax	6	14.6	(35.4)
		(24.4)	126.2
Total comprehensive (expense) for the year		(132.8)	(55.0)

Balance sheet as at 31 March 2025

	Note	2025 £m	2024 £m
Assets			
Non-current assets			
Property, plant and equipment	8	7,530.7	7,293.5
Intangible assets	9	195.6	201.0
Trade and other receivables	10	-	1.6
Other financial assets:			
- derivative financial instruments	14	0.7	-
- Employee benefits	21	52.5	31.6
		<u>7,779.5</u>	<u>7,527.7</u>
Current assets			
Inventories		8.5	7.9
Trade and other receivables	10	714.2	644.9
Cash and cash equivalents	11	619.5	147.3
Other financial assets:			
- derivative financial instruments	14	2.6	1.2
		<u>1,344.8</u>	<u>801.3</u>
Total assets		9,124.3	8,329.0
Liabilities			
Current liabilities			
Trade and other payables	12	(734.9)	(627.2)
Provisions	16	(1.4)	(5.4)
Other financial liabilities:			
- borrowings	13	(693.4)	(197.3)
		<u>(1,429.7)</u>	<u>(829.9)</u>
Net current (liabilities)		(84.9)	(28.6)
Non-current liabilities			
Trade and other payables	12	(886.1)	(740.4)
Employee benefits	21	(3.2)	(2.6)
Provisions	16	(4.6)	(5.2)
Other financial liabilities:			
- borrowings	13	(4,702.7)	(4,445.2)
- derivative financial instruments	14	(25.0)	(46.6)
Deferred tax - net	6	(715.0)	(768.3)
		<u>(6,336.6)</u>	<u>(6,008.3)</u>
Total liabilities		(7,766.3)	(6,838.2)
Net assets		1,358.0	1,490.8
Equity			
Share capital	17	309.9	309.9
Capital redemption reserve		166.2	166.2
Revaluation reserve	7	1,121.9	1,271.2
Retained earnings		(240.0)	(256.5)
Total equity		1,358.0	1,490.8

The financial statements on pages 24 to 67 were approved by the Board of Directors on 6 June 2025 and were signed on its behalf by:



Peter Perry
Chief Executive Officer

Registered № 2366777

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

	Share capital £m	Capital redemption reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2023	309.9	166.2	1,267.0	(197.3)	1,545.8
Loss for the year	-	-	-	(181.2)	(181.2)
Actuarial loss net of tax	-	-	-	19.8	19.8
Revaluation net of tax	-	-	106.4	-	106.4
Transfer to retained earnings	-	-	(102.2)	102.2	0.0
At 31 March 2024	309.9	166.2	1,271.2	(256.5)	1,490.8
Loss for the year	-	-	-	(108.4)	(108.4)
Actuarial gain net of tax	-	-	-	19.5	19.5
Revaluation net of tax	-	-	(43.9)	-	(43.9)
Transfer to retained earnings	-	-	(105.4)	105.4	-
At 31 March 2025	309.9	166.2	1,121.9	(240.0)	1,358.0

Cash flow statement for the year ended 31 March 2025

	Note	2025 £m	2024 £m
Cash flow from operating activities			
Cash generated from operations *	18a	411.3	378.5
Income tax received		0.2	0.4
Net cash inflow from operating activities		411.5	378.9
Cash flow from investing activities			
Interest received		22.2	20.4
Purchase of property, plant and equipment		(502.0)	(372.4)
Purchase of intangible assets		(39.5)	(39.3)
Grants and contributions received		33.3	32.2
Proceeds from sale of property, plant and equipment		-	0.3
Net cashflow from investing activities		(486.0)	(358.8)
Net cash flow before financing activities		(74.5)	20.1
Cash flow from financing activities			
Bond issue		743.3	-
Bond issue costs		(2.2)	-
Intercompany loan received		200.0	230.0
Long-term loans repaid		(73.5)	(45.4)
Loan repaid to group undertaking		(97.5)	(20.0)
Interest paid	18b	(188.6)	(193.2)
Settlement of intercompany indexation on termination of SWAP		(63.9)	-
Receipts on derivative financial instruments	18c	87.8	8.7
Payments on derivative financial instruments	18c	(7.6)	(11.8)
Payment of lease liabilities		(49.9)	(201.8)
Term loan issue costs		(1.2)	(1.9)
Net cashflow from financing activities		546.7	(235.4)
Increase/(decrease) in cash and cash equivalents	19b	472.2	(215.3)
Cash and cash equivalents at 1 April		147.3	362.6
Cash and cash equivalents at 31 March	11	619.5	147.3

Notes to the financial statements (continued)

1. Accounting policies for the year ended 31 March 2025

Dŵr Cymru Cyfyngedig ('the Company') is a private company incorporated, domiciled and registered in Wales in the UK. The registered number is 2366777 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 financial statements of Dŵr Cymru Cyfyngedig have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards ("UK-adopted IFRS") and applicable law. The 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 Company'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 35 to 39.

Going concern

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the 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. As set out in the strategic report on page 2, the majority of funding for the Company is provided by Dŵr Cymru (Financing) UK plc a fellow group Company and as a result the going concern assessment is primarily prepared at a Group (GCHC) level with specific Company level considerations where appropriate.

In assessing the appropriateness of the going concern basis of accounting, the Directors have reviewed the resources available to the Company in the form of cash and committed bank facilities headroom, which stands at £620 million at 31 March 2025. The Company presently has £650 million committed borrowing facilities available to use and should the Company deem beneficial, will be utilised in part to manage operational cash flows. £400 million of the committed borrowing facilities have a termination date of February 2028, and £250 million of February 2026. 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 Company has evaluated the present market environment and considered the AMP 8 refinancing requirement, where the Company will need to refinance over £3bn. This level of liquidity is considered adequate to meet operational needs in the short-term and means the Company would not require further funding beyond its existing committed borrowing facilities until September 2026.

The Company 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 Company's credit ratings being among the highest in the industry, the Directors are confident in the Company'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 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 Company's ability to operate within existing covenants and facilities. These scenarios consider: the potential impacts of increased totex costs; macroeconomic deterioration with a rise in inflation and sustained bank rate; 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, diversifying funding sources and a reduction in other discretionary totex spend. None of these factors pose a significant concern to disclose in relation to the Company's ability to continue as a going concern, with gearing and interest covers retaining headroom against the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken the Company's financial metrics, they remain within rating agencies' guidance for current ratings.

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

Notes to the financial statements (continued)

Changes in accounting policies and disclosures

The following new standards, amendments and interpretations have been adopted by the Company for the first time for the financial year beginning on 1 April 2024:

Amendments

- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)
- Fair Value Measurement (Amendments to IFRS 13)
- Materiality Practice Statement (Amendments to IAS 1 and IFRS Practice Statement 2)
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Going Concern (Amendments to IAS-1)

The adoption of these standards, amendments and interpretations has not had a material impact on the Company's financial statements.

Future changes to accounting standards

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 March 2025 reporting periods and have not been early adopted by the Company. These standards, amendments or interpretations are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

The Company is also aware of new standards and amendments under development including IFRS 18 and rate regulated activities, or which are not yet issued, which may have a material impact in future reporting periods, management are currently assessing the potential impact.

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 and other (non-regulated) revenue.

Regulated revenue relates to the provision of water, sewerage and related retail services, regulated by The Office of Water Trading (Ofwat). 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 Company recognise as income on delivery of that performance obligation.
- Infrastructure income and requisitions: third party contributions towards the Company's obligation to ensure future service provision to the connection or mains over its life; the Company estimate that an average connection lasts for 80 years and defer the release of charges over that period.
- 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 when that obligation has been delivered.

The Company also receives income from developers for new connections to the water and sewerage networks in the form of adopted infrastructure assets, which are recognised as a deferred income balance at the fair value of the assets adopted which is released to the income statement as an equivalent to the depreciation of the associated assets to which they relate.

Other (non-regulated) revenue relates to income streams which are not subject to Ofwat's price control.

Other operating income principally relates to sales of gas. Revenue from sales of gas is recognised upon delivery. Exports of renewable electricity is included with power costs as it is treated as a natural hedge to consumption. The Company'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. Exports of electricity is recognised upon delivery.

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 Company's performance.

Notes to the financial statements (continued)

Property, plant and equipment

The economic value of the Company's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during its price reviews every five years and accordingly is deemed an appropriate measure of the fair value of its assets. The Company 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 2025 the total value of tangible and intangible fixed assets has been revalued to the 'shadow RCV' of Dŵr Cymru Cyfyngedig, being the 31 March 2025 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);
- b. Operational structure assets (being over-ground operational structures and equipment); and
- c. Other assets (including properties, plant and equipment, computer hardware 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 Company 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.

Operational structure assets and other assets

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

Freehold buildings	30 – 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 to infrastructure assets or operational structures at fair value and depreciated on a straight-line basis over an estimated useful economic life of 80 years.

Intangible assets

Intangible assets comprise computer software and development costs. Intangible assets are initially included at cost less accumulated amortisation, which is amortised on a straight-line basis over their estimated useful economic lives. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs.

Notes to the financial statements (continued)

Internal expenditure is capitalised as internally generated intangibles only if it meets the criteria set out in IAS 38 'Intangible Assets', that the asset arises from the development phase of a project rather than the research phase, and only from the date that the following can be demonstrated.

- the asset will generate probable future economic benefits
- intention and ability to complete the asset
- ability to reliably measure the expenditure attributable to the asset development

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 Company expenses costs incurred in the implementation and ongoing operation of computing systems built and delivered on a 'software as a service' (SaaS) basis and hosted in an external cloud environment. These do not generally give rise to an identifiable intangible asset that the Company controls. In limited circumstances, costs incurred in association with the implementation and customisation of a SaaS system may enhance the Company's existing digital infrastructure and would be expected to generate broader future economic benefit. Where this results in an identifiable intangible asset that the Company controls, the costs are capitalised in accordance with IAS 38 and are subsequently amortised over a period of generally 7 to 10 years.

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, 7 years for development costs and ranging between 7 and 20 years for software. These asset lives are reviewed annually.

Leases

At inception of a contract the Company 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 Company's incremental rate of borrowing. Generally, the Company 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 Company applies the short-term lease recognition exemption available under IFRS 16. The Company 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 Company 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 Company's agreements with its construction partners involved in delivering capital expenditure programmes incorporate incentive bonuses which are paid after completion. The cost of property, plant and equipment additions includes an accrual for incentive bonuses earned to date, based on management's best estimate, 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.

Notes to the financial statements (continued)

Trade and other receivables

Trade 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.

Pension benefits

i) 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 present value of the defined benefit obligation at the year end, net of the deferred tax liability recognised in relation to the pension scheme surplus (note 6). 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.

ii) Defined contribution scheme

Obligations for contributions to this scheme are charged as employee costs and recognised as an expense in the income statement in the period in which they arise. The Company has no further payment obligations once the contributions have been paid.

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 amortised over the expected term of such instruments at a constant rate on the carrying amount and are recognised in the income statement under financial expenses.

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 Company are interest rate swaps, inflation swaps (RPI-linked) and power hedges. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the Company. Derivatives are recognised initially and subsequently re-measured at fair value. During the year to 31 March 2025, only one of the Company's derivatives qualified for hedge accounting (2024: one), but the Company elected not to apply hedge accounting. All 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 Company 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 (financing expenses excluding swap settlement) 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 comprise interest receivable on funds invested.

Notes to the financial statements (continued)

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.

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 Company plans to use until the end of their useful economic life. The Company 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 Company 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 uninsured claims, the likelihood that an outflow will be required is determined by considering the class of claims as a whole. These claims reflect for example, clean water leaks or bursts and repairing the damage this has caused to the surrounding area, such as property damage or damages to highways.

Financing risk management objectives and policies

Treasury activities are managed, at a Glas Cymru Anghyfyngedig (GCA) consolidated level, within a formal set of treasury policies and objectives, which are reviewed regularly and approved by the Board at least annually to ensure compliance with the Common Terms Agreement (CTA). 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. The risk is mitigated further by limiting the level of exposure to any one counterparty.

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

Credit risk

The Company'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 2025 the maximum cash investment with a single counterparty was £150 million (2024: £100 million).

Interest rate risk

The GCA 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 2025, the GCA group had hedges covering 100% of its total outstanding financial liabilities into either index-linked or fixed rate obligations, including free cash balances (2024: 98%). 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 Company to inflation risk. Therefore, subject to market constraints and Board approval, the Company may seek to raise new debt through index-linked instruments or enter into appropriate hedging transactions.

Notes to the financial statements (continued)

The Company 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 £5,417 million as at 31 March 2025 (2024: £4,643 million), £250 million related to floating rate debt (2024: £445 million). The Company therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2025, 95% (2024: 94%) of the GCA 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 specific requirements in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of the Company's derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £21.7 million in the Company's balance sheet at 31 March 2025 (2024: £6.1 million) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil as payments are made.

Power price hedges

The Company 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.

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 GCA 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 GCA group borrowings of £5,011 million (2024: £4,224 million) can fall due in any 24 month period.

Liquidity risk

The GCA 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 GCA group is required to have cash available to fund operations for 12 months.

As at 31 March 2025, the GCA group had committed borrowing facilities of £650 million, of which £650 million (2024: £320 million) remained undrawn, and cash and cash equivalents (excluding debt service payments account) of £620 million (2024: £147 million). There is also a £10 million overdraft facility renewable on an annual basis.

As at 31 March 2025 there was also a special liquidity facility of £175 million (2024: £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 GCA group's debt financing covenants. The facility has been provided by an insurance provider and is renewable on a rolling five-year evergreen basis.

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, capital is monitored on the basis of the gearing ratio. This is calculated as net debt (as defined in borrowing covenants) as a proportion of the Group's Regulatory Capital Value as determined by Ofwat and linked to the movements in the Consumer Prices Index (CPIH) and the Retail Prices Index (RPI). As at 31 March 2025 the measure of regulatory gearing was 62% (2024: 60%).

In respect of the risks detailed above, further quantitative disclosures are provided in note 15.

Critical accounting estimates and judgements

The preparation of financial statements under IFRS requires management to make judgements in applying accounting policies and to make estimates, based on assumptions about the future, 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. These estimates are based on management's best knowledge of the amount, event or actions, given the information available. Changes to these judgements and estimates could have a material effect on the financial statements, and where this is the case sensitivity analysis has been included.

On an ongoing basis, management evaluate the estimates using historical experience, consultation with experts and other methods considered reasonable. As estimates carry with them an inherent level of uncertainty, sensitivity analysis is performed where practicable and where, in management's opinion, it provides useful and meaningful information to understand a range of outcomes that could be considered reasonably possible. Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known.

Notes to the financial statements (continued)

The following paragraphs detail the critical accounting judgements and key sources of estimation uncertainty in the financial statements which management assess to be significant, following consideration of the extent to which the estimates give rise to a significant risk of resulting in a material adjustment to the carrying value of assets and liabilities within the next financial year.

1) Provision for impairment of trade receivables

Expected credit losses ('ECL') for trade receivables with similar credit risk are calculated using a statistical model and reasonable forecasts of the future impact of external economic factors on the Company's collection of trade receivables.

ACCOUNTING JUDGEMENT

The criteria determined by management to calculate the provision for expected credit losses is as follows:

- Standardised historic collection rates based on 3-year observable trend;
- Risk categorisation of customers, split by household and non-household customers, segregated by high, medium and low risk based on historic recoverability;
- Statistical model projected for 4 years, excluding charging order recoverability reflecting management's long-term collection strategy.

ACCOUNTING ESTIMATE

The probability of failing to recover a debt is based on ECL, determined by past experience as shown in the bullet points below, and expected future movements in collection rates, adjusted for changes in external factors. There are a variety of macroeconomic factors that might impact household disposable income and therefore the expected credit losses on trade receivables, such as inflation, interest rates and Government support. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

The Company has observed collection rates of over 98% for low and medium risk customers, with a small proportion of our customer base struggling to pay their debts on time and are therefore under debt management (high risk). Our recoverability of debts under this category principally contribute to our provision for impairment of trade receivables, with collection rates based on historical data below:

- 28% of debt less than a year old;
- 13% of debt between 1-2 years;
- 8% of debt between 2-3 years;
- 5% of debt between 3-4 years; and
- 90% of debt subject to a charging order reflecting management's long-term recoverability strategy.

Management consider a range of scenarios when forecasting future impacts to expected credit losses, taking into account cash collection rates in the current year compared to recent years, incorporating the current economic uncertainty and future price increases, all of which may impact recoverability of household receivables. This assessment resulted in the release of a £2 million management overlay, which had previously been recognised in light of the economic uncertainty arising initially from the onset of the COVID 19 pandemic, subsequently utilised to cover any deterioration from the impact of cost of living pressures, neither of which resulted in a deterioration of collection rates. The recoverability of household receivables, and the adequacy of our ECL allowance, will continue to be kept under review.

Sensitivities:

At 31 March 2025, an allowance for ECL of £87.0 million (2024: £84.2 million) was supported by a three-year cash collection projection. The key sensitivities established by management to assess the reasonableness of the bad debt provision are as follows:

- A 1% deterioration in collection rates for our high-risk cohort of customer would increase the provision by £6.5 million.
- A 10% deterioration to the recoverability of the Company's long-term debt collection strategies, from a 90% historical trend, would increase the provision by £1.2 million.

2) Pension benefits

ACCOUNTING ESTIMATE

The results of the latest triennial funding valuation at 31 March 2022 have been used to inform the Company's best estimate assumptions to use in calculating the defined benefit pension obligation reported at 31 March 2025, under IAS 19 (see also note 21). The results of the funding valuation have been adjusted to take account of experience over the period, changes in market conditions, and differences in the financial and demographic assumptions.

Notes to the financial statements (continued)

The present value of the pension obligations, which impacts on the Company's balance sheet, income statement and statement of comprehensive income, is dependent on the IAS 19 actuarial calculation. The key assumptions are the discount rate, price inflation and salary increases, and mortality rates. These assumptions are used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. More information on these assumptions and sensitivity analysis on each is provided in note 21.

ACCOUNTING ESTIMATE

Included within the defined benefit pension scheme's asset are assets with a fair value of £109.3 million (2024: £113.4 million) that are categorised as Level 3 financial assets within the IFRS 13 Fair value measurement hierarchy, meaning that their value is not observable at 31 March 2025. These assets comprise alternatives pooled funds and 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 asset by £5.5 million (2024: £5.7 million).

ACCOUNTING JUDGEMENT

The deferred tax liability associated with the pension surplus has been netted against the surplus as management judge that any tax arising on the surplus to not meet the definition of an income tax under IAS 12 and therefore follow the guidance of IFRIC 14 to recognise the surplus net of the 25% tax charge

3) Fair Value Estimation

In accordance with IFRS 13 Fair Value Measurement trading and treasury derivatives of the Company 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.

ACCOUNTING ESTIMATE

All of the Company'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 2025 the fair values of derivatives were as follows:

Level 2: Assets: Trading derivatives £3.3 million, Treasury derivatives £1.2 million (March 2024: Trading derivatives £1.2 million, Treasury derivatives £nil).

Liabilities: Trading derivatives £0.7 million, Treasury derivatives £25 million (March 2024: Trading derivatives £nil, Treasury derivatives £46.6 million).

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.

4) 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.

Notes to the financial statements (continued)

ACCOUNTING JUDGEMENT

The Company capitalise 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. Management review at least annually, at a department level, whether time spent is on capital or operational activities.

ACCOUNTING ESTIMATE

Management's estimate of time spent on capital projects is used to determine capitalisation rates. Were the capitalisation percentage to increase or decrease by 5% this would result in a financial impact of £10.8 million, 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.

5. Useful economic life impact on depreciation

ACCOUNTING ESTIMATE

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 Company, 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 £390 million. A 10 per cent increase in average asset lives would have resulted in a £35 million reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £43 million increase in this figure.

Due to the total value of tangible and intangible fixed assets being revalued to the 'shadow RCV' of Dŵr Cymru Cyfyngedig, as outlined in the Property Plan and Equipment accounting policy above, for any increase or reduction to the depreciation and amortisation expense there would be a corresponding reduction or increase to net revaluation gains recognised in the Statement of Comprehensive Income, and therefore there would be no impact on net assets or total reserves.

6. Climate change

The Company is continually reviewing the impact climate change has on our financial statements.

The Company is exposed, due to the nature of its operations, to the constantly changing natural environment, influencing our strategy to ensure how our water and wastewater services are delivered in the future. The Company has set out ambitious climate-related targets over the short and long term, obtaining investment to deliver these targets, introducing assets required to deliver such services.

The Company continuously evaluates its strategic planning activities that incorporate defined climate scenarios, mitigation pledges and long-term climate models, reducing its exposure to a material impact in the valuation of its assets and liabilities. This incorporates the impact of climate change, adaptation to improve asset resilience, minimisation and mitigation of contributory impacts to climate change and its transition to net zero and the investment or replacement of assets required.

The Company has considered both its contribution and the affect of the natural environment in the preparation of these financial statements and the value of its assets and liabilities across a number of areas, predominantly the valuation of property, plant and equipment. The main considerations are detailed below.

The present risk to our reported financials resulting from climate change, environmental legislation or the Company's net zero measures surrounds the useful economic life of our property, plant and equipment. This can result in the acceleration of depreciation or be an indication of potential impairment of assets that are deemed to be obsolete or for which no further use is planned, in part as a result of the Company's net zero strategy. No material accelerations were required in the current financial year, however this is subject to continuous assessment, particularly as environmental legislation continues to evolve.

Detailed in the Group's TCFD report on pages 40 to 50 of the Group Annual Report & Accounts, the Company is exposed to flood risk resulting from extreme weather events, the frequency of which are expected to increase as the effects of climate change become more apparent. The Company reviews operational assets following large-scale flooding, facilitated through identification of assets most at risk, and identifies items damaged beyond repair resulting in write downs through accelerated depreciation. The Company has and will continue to invest in flood defenses and other resilience measures at the most vulnerable facilities to protect its assets. No such charges were required in the current financial year.

The UK climate also presents challenges with more prolonged periods of hot and dry weather through the summer, and an increase in average rainfall through the winter. This could impact our water operations reliant on water intake from the natural environment or dam water levels, possibly affecting the viability of certain types of assets in future years or require

Notes to the financial statements (continued)

a strategic reconfiguration of assets to respond to such challenges. We expect any such material impacts would materialise in the medium to long term, and therefore no financial impact has been identified in the current year. Further information on our climate-change strategy is available on page 44 of [GCHC ARA](#).

7. Income from connections to the water and sewerage network

ACCOUNTING JUDGEMENT

The Company 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 as an equivalent to 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. During the year the Company received infrastructure assets with a fair value of £161.7 million (2024: £162.1 million).

8. Unbilled revenue recognition

ACCOUNTING ESTIMATE

The Company raises bills in line with the regulatory price review processes setting out its entitlement to receive revenue. Metered customers are billed based on consumption of use, with estimations required for the units supplied between the dates of the last water meter reading and the billing date. Meters are read on a cyclical basis and the Company recognises revenue for unbilled amounts based on estimated usage from the last two bills through to each reporting date. The estimated usage is based on historical data, judgement and assumptions; actual results could differ from these estimates, which would result in revenues being adjusted in future periods. Revenue recognised for unbilled amounts for these customers at 31 March 2025 was £97.9 million (2024: £98.5 million). Had actual consumption deviated by 5%, revenue for unbilled amounts would have moved by £3.6 million (2024: £3.6 million).

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 Company 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 Company's chief operating decision maker with reports provided to it on this basis.

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

	2025	2024
	£m	£m
Regulated revenue		
Water	340.8	374.2
Sewerage	503.2	495.6
Retail	62.8	46.8
Total regulated revenue	906.8	916.6
Other (non-regulated)	8.9	7.8
Total revenue	915.7	924.4

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).

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 Company's core water and sewerage business.

Notes to the financial statements (continued)

3. Operating (loss)/profit

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

	2025 £m	2024 £m
Operating expenditure		
Power	71.9	76.1
Chemicals	22.2	22.7
Materials and equipment	11.7	9.6
Vehicles and plant	6.8	5.9
Office expenses	7.0	6.7
Property costs	3.8	3.8
Insurance	8.2	7.5
Water and Sewerage contractors	15.4	12.3
Laboratories and analytical services	1.9	1.7
Collection commissions	1.0	1.5
IT contracts	20.4	17.3
Bought-in services and other costs	56.4	53.8
	<u>226.7</u>	<u>218.9</u>
Employee costs (note 20)	216.1	193.7
Staff costs capitalised or classified as infrastructure renewals expenditure	(98.4)	(88.0)
	<u>117.7</u>	<u>105.7</u>
Research and development credit	(0.2)	(0.5)
Rates	18.9	26.3
Natural Resources Wales/Environment Agency charges	18.8	17.2
Fees payable to auditors	1.1	0.8
Atypical Costs	15.2	0.0
Total operational expenditure	<u>398.2</u>	<u>368.4</u>
Impairment of trade and other receivables	21.2	28.3
Other operating income	(5.4)	(5.2)
Infrastructure renewals expenditure	120.7	101.3
Depreciation and amortisation		
- Depreciation of property, plant and equipment	355.5	328.4
- Release of deferred income	(11.8)	14.8
- Amortisation of intangible assets	46.3	42.4
Total depreciation and amortisation	<u>390.0</u>	<u>385.6</u>
Total operating costs	<u>924.7</u>	<u>878.4</u>

The Company incurred insignificant expenses relating to short-term leases, leases of low-value assets or variable lease payments in 2025 and 2024.

Staff costs in the year of £4.7 million (2024: £3.6) have been classified to infrastructure renewals expenditure.

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

Movement in deferred income relates to the income recognised on assets adopted by the Company 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.

Atypical costs reflect the one-off impacts from Storm Burt, Storm Darragh and the Bryn Cowlyd mains burst of £15.2m (FY24: nil).

Notes to the financial statements (continued)

3. Operating profit (continued)

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 £88.8 million (2024: £83.4 million) with exports of £11.3 million (2024: £8.4 million).

Services provided by the Company's auditors

During the year the Group headed by Glas Cymru Holdings obtained the following services from its auditors; £930k was paid by Dŵr Cymru Cyfyngedig, £90k by Dŵr Cymru (Financing) UK plc whilst the remainder were paid by the subsidiaries in the Welsh Water Holdings Limited group:

	2025 £000	2024 £000
Audit fees		
Audit of parent company and consolidated financial statements	64	61
Audit of subsidiary companies	738	516
Total audit fees	802	577
Audit-related assurance services	112	106
Other assurance services	156	141
Total cost of services provided by the Group's Auditors	1,070	824

Audit-related assurance services include audit work in respect of regulatory requirements: the Annual Performance Report. Other assurance services include review of interim financial statements, bond assurance procedures and other agreed upon procedures.

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.

Notes to the financial statements (continued)

4. Financing costs

	2025 £m	2024 £m
Interest on investments	26.1	19.7
Net interest income on pension scheme liabilities	2.0	0.7
Finance income	28.1	20.4
Financial expenses:		
Interest payable on loans (includes indexation)	(264.0)	(317.3)
Interest payable on leases (including swaps to RPI)	(12.0)	(29.0)
Modification gain on borrowings	51.5	
Other interest payable and finance costs	(28.9)	(31.7)
Capitalisation of borrowing costs under IAS 23 (2025: 5.4%; 2024: 5.5%)	18.8	18.6
Financial expenses before fair value gains/(losses) on derivative financial instruments	(234.6)	(359.4)
Settlements accruing on derivative financial instruments	39.7	37.4
Fair value gains on interest rate swaps	(6.7)	4.3
Fair value gains on index-linked swaps	29.0	21.8
Fair value gains/(losses) on trading derivatives	1.5	(8.7)
Fair value gains on derivative financial instruments	63.5	54.8
Net finance cost	(143.0)	(284.2)

Included within financial expenses are amounts payable to group undertakings of £219.3 million (2024: £270.5 million restated from £181.4m to include indexation).

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges. Consequently, the Company'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 14 in respect of derivative financial instruments recognised on the balance sheet.)

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

During the year an element of the intercompany loan was amended to convert £100m of principal balance from RPI linked to fixed rate. This corresponded to the termination of an external swap agreement in Dwr Cymru (Financing) UK Plc. The amendment was deemed substantial and so that element of the loan was derecognised and subsequently measured at fair value. A total gain of £51.5m has been recognised in the year being the difference between the amortised cost (£194.9m) of the loan at amendment date and the new fair value (£79.5m) net of settlement fee of £63.9m.

Notes to the financial statements (continued)

5. Taxation

Analysis of tax credit in the year:

	2025 £m	2024 £m
Current tax		
- Current tax on loss for the year	4.9	0.1
- Adjustment in respect of prior years	0.5	-
Total current tax	<u>5.4</u>	<u>0.1</u>
Deferred tax		
- Origination and reversal of timing differences	38.2	55.2
- Adjustment in respect of prior years	-	1.4
Total deferred tax credit (note 6)	<u>38.2</u>	<u>56.6</u>
Taxation credit	<u>43.6</u>	<u>56.7</u>

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 £0.5 million (2024: £0.1 million) relate to tax credits for R&D and the remediation of contaminated land.

Pillar Two legislation, reflecting the OECD's Base Erosion Profit Shifting framework is effective for periods beginning 1 January 2024. The Company 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. As the Company meets the requirements of the 'routine profits test' under the UK's transitional safe harbour, the new rules do not impact the company's tax charge for the current period.

Deferred taxes have been calculated at 25% (2024: 25%).

The effective rate of tax for the year is lower (2024: lower) than the standard rate of corporation tax in the UK of 25% (2024: 25%). The differences are explained below:

	2025 £m	2024 £m
Total tax reconciliation		
Loss before tax	(152.0)	(237.9)
Loss before tax multiplied by the corporation tax rate in the UK of 25% (2024: 25%)	38.1	59.5
Effect of:		
Adjustments in respect of prior years	0.5	1.4
Depreciation charged on non-qualifying assets	(2.8)	(3.3)
Expenses not deductible for tax purposes	(0.2)	(0.9)
Waiver/release of intercompany loan – not taxable	8.0	-
Taxation	<u>43.6</u>	<u>56.7</u>

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.

	2025	2024
	£m	£m
Loss before tax	(152.0)	(237.9)
Expected tax charge 25% (2024: 25%)	38.1	59.5
Depreciation in excess of capital allowances	(61.5)	(62.7)
Pension costs in excess of payments	0.5	0.2
Expenses not deductible for tax purposes	(0.2)	(0.2)
Environmental non-compliance fine – disallowed	-	(0.5)
Fair value movements in derivatives - non taxable	6.5	5.3
IFRIC 18 - release of income not taxable	2.9	(3.5)
Waiver of intercompany debt – not deductible	13.0	-
Movement in provisions deductible when paid	0.9	0.5
Capitalised interest - tax deductible when capitalised	4.7	4.7
Adjustments in respect of prior years	0.5	-
Tax losses carried forward	-	(3.2)
Total current taxation	5.4	0.1

The Company 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 Company 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 Company's profit forecasts and the capital allowances it is able to claim, the Company does not expect to pay corporation tax during AMP 8 (2026 – 2030).

The most significant factor impacting the Company'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 company 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 payments and receipts) 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.

The company has elected to be treated as a 'qualifying infrastructure company' 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 (2024: £nil).

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% (2024: 25%). The movement in the deferred tax provision is as shown below:

	2025	2024
	£m	£m
At 1 April	778.8	793.4
(Credit) to Income Statement	(38.2)	(56.6)
Charge to statement of comprehensive income in respect of the revaluation of fixed assets	(14.6)	35.4
Charge to statement of comprehensive income in respect of actuarial gains on pension benefits	6.5	6.6
At 31 March	<u>732.5</u>	<u>778.8</u>

Deferred tax liabilities at 31 March 2025 are disclosed on the balance sheet as £715.0 million deferred tax liabilities and £17.5 million set against the pension scheme surplus under non-current assets.

	2025	2024
	£m	£m
Effect of:		
Tax allowances in excess of depreciation	294.7	310.5
Deferred tax on revaluation of fixed assets	517.4	567.2
Capital gains rolled over	4.0	4.0
Deferred tax liability	816.1	881.7
Deferred tax on tax losses c/f	(99.5)	(100.5)
Deferred tax on losses on derivative financial instruments	(5.4)	(11.3)
Pensions	17.5	10.5
Other tax differences	3.8	(1.6)
Net deferred tax	<u>732.5</u>	<u>778.8</u>

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 2023	899.2	3.7	(90.7)	(18.8)	793.4
Charge/(credit) to income	(52.9)	0.2	(9.8)	5.9	(56.6)
Charge/(credit) to equity	35.4	6.6	-	-	42.0
At 1 April 2024	881.7	10.5	(100.5)	(12.9)	778.8
Charge/(credit) to income	(51.0)	0.5	0.9	11.4	(38.2)
Charge/(credit) to equity	(14.6)	6.5	-	-	(8.1)
At 31 March 2025	<u>816.1</u>	<u>17.5</u>	<u>(99.6)</u>	<u>(1.5)</u>	<u>732.5</u>

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 £294.7 million at the balance sheet date (2024: £310.5 million).

A deferred tax liability of £517.4 million (2024: £567.2 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.

A deferred tax liability of £17.5 million (2024: £10.5 million) has been recognised in relation to the surplus on the pension scheme – see note 21.

The company had tax losses of £398.0 million carried forward at 31 March 2025 (2024: £401.7 million).

Deferred tax assets have been recognised in respect of all tax losses and 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.

Notes to the financial statements (continued)

6. Deferred tax (continued)

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, for example 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 2025 would increase by £33.3 million (2024: £33.3 million) being the rolled over gain multiplied by the rate used to calculate deferred taxes of 25% (2024: 25%).

7. Revaluation reserve

The economic value of the Company's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during its five yearly price reviews. The Company 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 2025 the total value of tangible and intangible fixed assets for Dŵr Cymru Cyfyngedig has been revalued to the Company's 'shadow RCV', being the 31 March 2025 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	2025 £m	2024 £m
Revaluation reserve as at 1 April	1,271.2	1,267.0
Revaluation of assets to RCV	(58.5)	141.8
Depreciation charge on revalued assets	(140.6)	(136.3)
	<u>(199.1)</u>	<u>5.5</u>
Deferred tax on revaluation	14.6	(35.4)
Deferred tax on depreciation charge	35.2	34.1
	<u>49.8</u>	<u>(1.3)</u>
Revaluation reserve as at 31 March	<u>1,121.9</u>	<u>1,271.2</u>

Notes to the financial statements (continued)

8. Property, plant and equipment

2025	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 1 April 2024	42.0	3,692.4	5,377.9	284.0	9,396.3
Reclassification	36.0	-	(41.2)	5.2	-
Additions of net grants and contributions	-	311.5	335.3	4.4	651.2
Disposal	-	-	-	(0.7)	(0.7)
At 31 March 2025	78.0	4,003.9	5,672.0	292.9	10,046.8
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 1 April 2024	25.9	-	1,802.9	274.0	2,102.8
Reclassification	(3.0)	-	8.7	(5.7)	-
Revaluation	-	29.1	29.4	-	58.5
Charge for the year	1.4	74.8	276.0	3.3	355.5
Released on disposal	-	-	-	(0.7)	(0.7)
At 31 March 2025	24.3	103.9	2,117.0	270.9	2,516.1
Net book value					
At 31 March 2025	53.7	3,900.0	3,555.0	22.0	7,530.7
At 31 March 2024	16.1	3,692.4	3,575.0	-10.0	7,293.5
At 31 March 2025 (historic cost)	53.7	2,755.3	2,629.1	22.3	5,460.4
At 31 March 2024 (historic cost)	16.1	2,492.7	2,506.5	10.0	5,025.3

The net book value of Property, plant and equipment includes £318.0 million (2024: £292.8 million) in respect of assets in the course of construction, comprising £119.3 million in infrastructure assets and £198.7 million in operational structures.

The net book value of Property, Plant and equipment includes £126.7 million of borrowing costs capitalised in accordance with IAS 23 (2024: £113.2 million), of which £17.4 million were additions in the year (2024: £16.7 million).

The net book value of freehold land and buildings includes £15.9 million in respect of land, which is not depreciated (2024: £15.9 million).

During the year buildings assets (visitor centres) with a net book value of £33m were reclassified from Operational Structures to Freehold Land and Buildings.

Notes to the financial statements (continued)

Right-of-use assets

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

	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	(39.4)	-	(39.4)
Net book value at 1 April 2024	396.7	0.1	396.8
Disposal	(73.9)	-	(73.9)
Revaluation	(3.1)	-	(3.1)
Depreciation	(24.4)	-	(24.4)
Net book value at 31 March 2025	295.3	0.1	295.4
Net book value at 31 March 2024	396.7	0.1	396.8
Net book value at 31 March 2025 (historical cost basis)	208.6	0.1	208.7
Net book value at 31 March 2024 (historical cost basis)	265.1	0.1	265.2

The disposal of £73.9 million (2024: £269.3 million) represents the termination of a lease arrangement, with the Company retaining ownership of the underlying assets.

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

9. Intangible assets

	Computer software £m	Development costs £m	Total £m
Cost			
At 1 April 2023	454.3	83.8	538.1
Additions	23.1	18.1	41.2
At 31 March 2024	477.4	101.9	579.3
Additions	29.0	11.9	40.9
At 31 March 2025	506.4	113.8	620.2
Accumulated amortisation			
At 1 April 2023	294.9	41.0	335.9
Charge for the year	32.9	9.5	42.4
At 31 March 2024	327.8	50.5	378.3
Charge for the year	33.7	12.6	46.3
At 31 March 2025	361.5	63.1	424.6
Net book value at 31 March 2024	149.6	51.4	201.0
Net book value at 31 March 2025	144.9	50.7	195.6

Other intangible assets includes £13.5 million of borrowing costs capitalised in accordance with IAS 23 (2024: £13.3 million), of which £1.4 million were additions in the year (2024: £1.9 million).

The net book value of intangible assets includes £26.5 million in respect of assets in the course of construction (2024: £42.1 million).

Computer software includes one individual asset (2024: one) with a material net book value, being the customer billing system, which has a net book value of £17.0 million (2024: £18.9 million) and a remaining amortisation period of 10 years. There are no other intangible assets with an individually material net book value (2024: none).

Notes to the financial statements (continued)

10. Trade and other receivables

	2025 £m	2024 £m
Current		
Trade receivables	637.3	559.2
Less provision for impairment of receivables	(87.0)	(84.2)
Trade receivables - net	<u>550.3</u>	<u>475.0</u>
Amounts receivable from group undertakings	-	1.3
Prepayments	12.4	13.5
Accrued income	120.8	98.7
Other receivables	<u>30.7</u>	<u>56.4</u>
	<u>714.2</u>	<u>644.9</u>
Non-current		
Other receivables	-	1.6
Total trade and other receivables	<u>714.2</u>	<u>646.5</u>

As at 31 March 2025, based on a review of historical collection rates it was considered that £87.0 million (2024: £84.2 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:

	Total £m	Provided for £m	Net £m
Current year			
Trade receivables			
Billings in advance	453.1	-	453.1
Under one month	20.1	(5.8)	14.3
Between one and six months	39.1	(10.9)	28.2
Between six months and one year	35.4	(8.5)	26.9
Between one and two years	35.3	(20.8)	14.5
Between two and three years	27.2	(19.3)	7.9
Over three years	27.1	(21.7)	5.4
	<u>637.3</u>	<u>(87.0)</u>	<u>550.3</u>

	Total £m	Provided for £m	Net £m
Prior year			
Trade receivables			
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	30.4	(21.1)	9.3
	<u>559.2</u>	<u>(84.2)</u>	<u>475.0</u>

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

	2025 £m	2024 £m
At 1 April	84.2	80.7
Charge to income statement	21.2	27.6
Receivables written off during the year as uncollectable	(18.4)	(24.1)
At 31 March	<u>87.0</u>	<u>84.2</u>

Notes to the financial statements (continued)

10. Trade and other receivables (continued)

During the year the Company has written off £18.4 million of debt which had been provided for in full (2024: £24.1 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.

Debtors includes £11.9 million in other receivables (2024: £39.4m) and £18.6 million in accrued income (2024: £nil) due from one quasi-governmental body.

Accrued income represents contract assets in respect of timing differences between customer bills and Company'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.

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.

2025	Historical default rates %	Forward- looking adjustment %	Adjustment total %	Historical impairment £m	Forward- looking adjustment £m	Total impairment £m
Billed in advance	-	-	-	-	-	-
< 1 month	28.8%	-	28.8%	5.8	-	5.8
1 > 6 months	28.0%	-	28.0%	10.9	-	10.9
6 months > 1 year	24.0%	-	24.0%	8.5	-	8.5
1 > 2 years	58.9%	-	58.9%	20.8	-	20.8
2 > 3 years	70.9%	-	70.9%	19.3	-	19.3
> 3 years	79.8%	-	79.8%	21.7	-	21.7
				87.0	-	87.0

2024	Historical default rates %	Forward- looking adjustment %	Adjustment total %	Historical impairment £m	Forward- looking adjustment £m	Total impairment £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

The Company holds around 7,700 charging orders as collateral against £12.7 million of debt (2024: 7,550 orders against £12.5 million of debt).

The Company'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 2025 is £4.9 million, being a revenue provision of 5% against a gross balance of £97.9 million (2024: £4.7 million and 5%).

Notes to the financial statements (continued)

11. Cash and cash equivalents

	2025 £m	2024 £m
Cash at bank and in hand	46.3	8.6
Short-term deposits	573.2	138.7
	<u>619.5</u>	<u>147.3</u>

The effective interest rate on short-term deposits as at 31 March 2025 was 4.5% (2024: 5.2%) and these deposits had an average maturity of 47 days (2024: 1 days). All cash and cash equivalents were held in sterling.

12. Trade and other payables

	2025 £m	2024 £m
Current		
Trade payables	64.2	60.6
Capital payables	26.9	58.0
Amounts due to group undertakings	2.5	-
Social security and other taxes	4.3	4.0
Accruals	151.5	97.3
Deferred income	485.5	407.3
	<u>734.9</u>	<u>627.2</u>
	2025 £m	2024 £m
Non-current		
Accruals	14.9	26.0
Deferred income	871.2	714.4
	<u>886.1</u>	<u>740.4</u>

The prior year comparatives have been restated to reclassify £30 million of deferred income as accruals. There is no impact on overall current trade and other payables.

13. Other financial liabilities – borrowings

	2025 £m	2024 £m
Current		
Interest accruals	12.1	18.5
Loans due to group undertakings	575.9	56.1
Term loans	74.8	72.6
Other unsecured loans	0.2	0.2
Lease liabilities	30.4	49.9
	<u>693.4</u>	<u>197.3</u>
	2025 £m	2024 £m
Non-current		
Interest accruals	-	4.1
Loans due to group undertakings	4,251.3	3,890.7
Term loan	355.5	424.0
Lease liabilities	95.9	126.4
	<u>4,702.7</u>	<u>4,445.2</u>

A security package was granted by Dŵr Cymru Cyfyngedig (DCC), as part of the Company'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 Company, Glas Cymru (Securities) Cyfyngedig and Dŵr Cymru (Holdings) Limited. The main elements of the security package are:

Notes to the financial statements (continued)

13. Other financial liabilities – borrowings (continued)

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. All of the Group's bonds are on-lent from Dŵr Cymru (Financing) UK Plc (DCF) to Dŵr Cymru Cyfyngedig (DCC).

The Group's Class A Bonds of £1,223 million (2024: £1,197 million) benefit from a guarantee from Assured Guaranty UK Ltd. Assured Guaranty's credit rating is graded as A1/AA by Moody's and Standard & Poor's respectively 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 (Baa1/BBB+/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 £2,362 million (2024: £1,576 million).

The Group's Class C bonds of £500 million (2024: £500 million) were rated Baa3/BBB-/BBB by Moody's, Standard & Poor's and Fitch respectively.

All of the Group's bonds are on-lent from Dŵr Cymru (Financing) UK Plc (DCF) to Dŵr Cymru Cyfyngedig (DCC).

Term loans of £430 million (2024: £497 million) comprise loans from European Investment Bank and KfW:

Term Loans	Type	Rate	Maturity	Outstanding balance 31 March 2025 £m
European Investment Bank loans (amortising):				
88379 tranches 1 & 2	Index-linked	0.01bp + RPI	15 January 2030	121.9
88379 tranche 3	Index-linked	0.01bp + RPI	15 May 2031	68.4
85397	Floating	O/N SONIA paid monthly + 80 bps	15 December 2033	225.0
				415.3
KfW (2017 facility)	Floating	O/N SONIA paid monthly + 0.03%	15 November 2025	15.1
Total term loans				430.3

Notes to the financial statements (continued)

14. 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).

2025	Fair values	
	Assets £m	Liabilities £m
Current		
Power hedging swaps	2.6	-
	<u>2.6</u>	<u>-</u>
Non-current		
Index-linked swaps	-	(8.7)
Interest rate swaps (intercompany)	-	(15.6)
Power hedging swaps	0.7	(0.7)
	<u>0.7</u>	<u>(25.0)</u>
Total	<u>3.3</u>	<u>(25.0)</u>
 2024		
	Fair values	
	Assets £m	Liabilities £m
Current		
Power hedging swaps	1.2	-
	<u>1.2</u>	<u>-</u>
Non-current		
Index-linked swaps	-	(24.7)
Interest rate swaps (intercompany)	-	(21.9)
	<u>-</u>	<u>(46.6)</u>
Total	<u>1.2</u>	<u>(46.6)</u>

The Company 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 Company has no such embedded derivatives.

Interest rate swaps

At 31 March 2025 an interest rate swap fixes the interest rate on £192 million (2024: £192 million) of floating liabilities held by Dŵr Cymru (Financing) Limited and on-lent to the company. The maturity date of the swap is 31 March 2031 and the annual fixed interest rate is 5.67%, payable quarterly.

Index-linked swaps

The index-linked swaps have the effect of index-linking the interest rate on £126 million (2024: £176 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 2025 was £126 million (2024: £176 million), representing the average balance on the leases subject to floating interest rates for the year to 31 March 2025. 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: £282 million amortising (2024: £300 million amortising)
- Average swap maturity: 13 years (2024: 13 years)
- Average interest rate: 1.50% fixed plus RPI (2024: 1.50% fixed plus RPI)

Notes to the financial statements (continued)

15. Financial risk management

The policies of the Company in respect of financial risk management are included in the accounting policies note on pages 34 and 35. 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:

	2025	2024
Assets:		
Cash and cash equivalents	4.5%	5.1%
Liabilities:		
Intercompany loans	5.2%	4.9%
Term loans	4.5%	3.8%
Other unsecured loans	4.6%	4.6%
Lease obligations	4.7%	6.6%

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

At 31 March 2025 an interest rate swap fixes the interest rate on £192 million (2024: £192 million) of floating liabilities held by Dwr Cymru (Financing) UK PLC and on-lent to the Company. The maturity date of the swap is 31 March 2031 and the quarterly fixed interest rate is 5.67%.

The effective interest rates ignore the effect of the interest rate and index-linked swaps set out in note 14. They also exclude the indexation charge applicable to certain portions of the intercompany loan.

b) Liquidity risk

2025	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	619.5	-	-	-	619.5
Trade and other receivables	714.2	-	-	-	714.2
	<u>1,333.7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,333.7</u>
Liabilities:					
Intercompany loan	575.9	164.0	1,203.6	2,883.7	4,827.2
Term loans	74.8	59.6	178.9	117.0	430.3
Other unsecured loans	0.2	-	-	-	0.2
Finance lease obligations	30.4	1.2	4.5	90.2	126.3
Trade and other payables	734.9	11.8	35.8	838.5	1,621.0
Derivative financial instruments	2.1	1.0	1.6	3.2	7.9
Future interest payable	182.2	170.1	400.7	1,224.2	1,977.2
	<u>1,600.5</u>	<u>407.7</u>	<u>1,825.1</u>	<u>5,156.8</u>	<u>8,990.1</u>
2024	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	147.3	-	-	-	147.3
Trade and other receivables	644.9	1.6	-	-	646.5
	<u>792.2</u>	<u>1.6</u>	<u>-</u>	<u>-</u>	<u>793.8</u>
Liabilities:					
Intercompany loan	56.1	560.2	624.5	2,706.0	3,946.8
Term loans	72.6	73.6	175.5	174.9	496.6
Other unsecured loans	0.2	-	-	-	0.2
Finance lease obligations	49.9	30.4	4.0	92.0	176.3
Trade and other payables	627.2	15.6	46.8	678.0	1,367.6
Derivative financial instruments	1.8	(0.2)	3.8	4.9	10.3
Future interest payable	146.2	136.2	304.6	662.1	1,249.1
	<u>954.0</u>	<u>815.8</u>	<u>1,159.2</u>	<u>4,317.9</u>	<u>7,246.9</u>

Notes to the financial statements (continued)

15. Financing risk management (continued)

The minimum lease payments fall due as follows:

	2025 £m	2024 £m
Gross lease liabilities		
Within one year	36.4	61.5
Between two and five years	21.8	54.6
After five years	118.4	128.5
	<u>176.6</u>	<u>244.6</u>
Future interest	(50.3)	(68.3)
Net lease liabilities	<u>126.3</u>	<u>176.3</u>
Net lease liabilities are repayable as follows:		
Within one year (note 13)	<u>30.4</u>	<u>49.9</u>
Between two and five years	5.7	34.4
After five years	90.2	92.0
Total over one year (note 13)	<u>95.9</u>	<u>126.4</u>

c) Fair values

The fair values of the Company's derivative financial instruments are set out in note 14. The fair value of the intercompany loan is £3,918.3 million (2024: £3,232.9 million). The fair values of the Company's other non-derivative financial instruments are equal to the book values.

d) Borrowing facilities

As at 31 March 2025 the Group had available committed borrowing facilities of £650 million, of which £650 million remains undrawn, in respect of which all conditions precedents have been met (2024: £400 million, of which £320 million remained undrawn).

	2025 £m	2024 £m
Expiring in more than 1 year	<u>650</u>	<u>400.0</u>

£400 million of the facilities are available for three years, and £250 million for 18 months to September 2026.

At 31 March 2025 Dŵr Cymru (Financing) UK PLC had a special liquidity facility of £175 million (2024: £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 Company, in the event of a standstill being declared by the Security Trustee. A standstill would arise in the event that Dŵr 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.

Notes to the financial statements (continued)

15. Financing risk management (continued)

e) Capital risk management

Gearing ratio (GCA Group level)

	2025 £m	2024 £m
Total borrowings	(5,023.2)	(4,246.4)
Less: cash and cash equivalents	621.0	148.4
Net debt before CTA required adjustments	(4,402.2)	(4,098.0)
Unamortised issue costs and discounts	(22.1)	(12.7)
Swap indexation	(394.0)	(434.0)
Post year end settlements (note 18)	-	40.5
Accrued interest receivable	2.8	-
Net debt	(4,815.5)	(4,504.2)
Regulatory capital value (RCV)	7,723.1	7,475.7
Total capital	2,907.6	2,971.5
Gearing ratio	62%	60%

The Group monitors its capital structure based on a regulatory gearing ratio which compares its adjusted 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). This is managed at the GCA level to ensure compliance with the terms of the CTA.

16. Provisions

	Restructuring provision £m	Claims loss provision £m	Other provisions £m	Provision for loss on swap closure £m	Total £m
2025					
At 1 April 2024	1.0	6.8	2.4	0.4	10.6
Charged to Income Statement		1.6	(0.6)	(0.4)	0.6
Insured losses		(2.4)	-	-	(2.4)
Unused amounts reversed	(0.6)	-	(0.1)	-	(0.7)
Utilised in year	(0.4)	(1.7)	-	-	(2.1)
At 31 March 2025	-	4.3	1.7	-	6.0
Split as amounts to be utilised:					
Within one year	-	1.4	-	-	1.4
After more than one year	-	2.9	1.7	-	4.6
At 31 March 2025	-	4.3	1.7	-	6.0

Notes to the financial statements (continued)

16. Provisions (continued)

	Restructuring provision £m	Claims loss provision £m	Other provision £m	Provision for loss on swap closure £m	Total £m
2024					
At 1 April 2023	3.1	4.6	15.5	0.5	23.7
Charged to income statement	-	1.0	2.1	(0.1)	3.0
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	0.4	10.6
Split as amounts to be utilised:					
Within one year	1.0	2.3	2.1	-	5.4
After more than one year	-	4.5	0.3	0.4	5.2
At 31 March 2024	1.0	6.8	2.4	0.4	10.6

Restructuring provision

This originally 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 2025, £0.6 million restructuring cost was not deemed necessary due to natural attrition in the Group and redeployment of staff and was subsequently released back to the income statement in operating expenses. This provision is now closed.

Claims loss provision

This provision is in respect of claims against the Company, 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 £nil (2024: £2.4 million) is £4.3 million (2024: £4.4 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 Company's business.

Other provisions at 31 March 2025 included £1.5 million (2024: £2.1 million) being management's estimate of expected fines related to known regulatory prosecutions

17. Share capital

	2025 £m	2024 £m
Authorised		
501,050,000 (2024: 501,050,000) ordinary shares of £1 each	501.1	501.1
Allotted and fully paid		
309,876,374 (2024: 309,876,374) ordinary shares of £1 each	309.9	309.9

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 Company.

Notes to the financial statements (continued)

18. Net cash flow from operating activities

a) Cash generated from operations

	2025	2024
	£m	£m
Reconciliation of operating profit/(loss) to cash generated from operations:		
Operating (Loss)/profit	(9.0)	46.0
Adjustments for:		
Depreciation and amortisation	390.0	385.6
Changes in working capital:		
(Increase)/decrease in trade and other receivables	(69.6)	0.2
Increase/(decrease) in trade and other payables	104.4	(37.3)
(Increase) in inventories	(0.6)	(2.6)
Pension contributions above service cost	0.7	(0.3)
(Decrease) in provisions	(4.6)	(13.1)
	<u>30.3</u>	<u>(53.1)</u>
Cash generated from operations	<u>411.3</u>	<u>378.5</u>

b) Interest paid

	2025	2024
	£m	£m
Interest payable per Income Statement	234.6	359.4
Less non-cash items:		
Indexation on index-linked bonds	(117.2)	(204.4)
Indexation on index-linked debt	(7.2)	(11.7)
Amortisation of bond issue costs	(1.6)	(1.5)
Amortisation of bond issue premium	0.8	0.8
Gain on modification of intercompany loan	51.5	-
Effect of capitalisation under IAS 23	18.8	18.6
Decrease/(increase) in accruals	8.9	32.0
	<u>(46.0)</u>	<u>(166.2)</u>
Interest paid	<u>188.6</u>	<u>193.2</u>

c) Derivative financial instruments settlements in the year

	2025	2024
	£m	£m
Settlements accruing on derivative financial instruments	39.7	37.4
Less non-cash items:		
Receipts settled post year end	40.5	(40.5)
	<u>40.5</u>	<u>(40.5)</u>
Net receipts/(payments) on derivative financial instruments	<u>80.2</u>	<u>(3.1)</u>

Notes to the financial statements (continued)

19. Analysis and reconciliation of net debt

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

a) Net debt at the balance sheet date may be analysed as:	2025 £m	2024 £m
Cash and cash equivalents	619.5	147.3
	<u>619.5</u>	<u>147.3</u>
Debt due after one year	(4,606.8)	(4,314.7)
Debt due within one year	(650.9)	(128.9)
Lease liabilities	(126.3)	(176.3)
Accrued interest	(12.1)	(22.6)
	<u>(5,396.1)</u>	<u>(4,642.5)</u>
Net debt	(4,776.6)	(4,495.2)

b) The movement in net debt during the year may be summarised as:	2025 £m	2024 £m
Net debt at start of year	(4,495.2)	(4,170.5)
Movement in net cash	472.2	(215.3)
Movement in debt	(655.1)	39.1
Movement in net debt arising from cash flow	(182.9)	(176.2)
Movement in accrued interest	10.5	27.7
Settlement received post year end	(40.5)	40.5
Indexation of index-linked debt	(124.4)	(216.1)
Gain on modification of intercompany loan	51.5	-
Other non-cash movements	4.4	(0.6)
Movement in net debt during the year	(281.4)	(324.7)
Net debt at end of year	(4,776.6)	(4,495.2)

Non-cash movements relate to the recognition of lease liabilities under IFRS 16.

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:

	2025 £000	2024 £000
Salary (including benefits in kind)	901	878
Fees	706	677
	<u>1,607</u>	<u>1,555</u>

Highest paid Director: P Perry (2024: P Perry)

Aggregate emoluments ¹	501	489
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¹ excluding pension accrual

Retirement benefits are accruing for none of the Directors (2024: none) under defined benefit schemes. None of the Directors are a member of the defined contribution scheme (2024: none).

Notes to the financial statements (continued)

20. Employees and Directors (continued)

With respect to remuneration payable to the Executive Directors:

- A recalibration of the salaries of the CEO and CFO is proposed. This will be offset by reductions to variable pay potential as described. When combined with the reductions to variable pay, there will be no change to Total Target Remuneration positioning for the current Executive Directors for the remainder of their tenure, other than the 3.5% increase applied to the workforce. As a result, for FY 26, for the rest of their tenure, the salaries of the Executive Directors will be:
 - CEO: £460,000
 - CFO: £327,000
- As noted above, for the current Executive Directors we are increasing Total Target Remuneration by an inflationary adjustment of 3.5% for FY 26, the same average increase as for the rest of the workforce. Variable pay potential is expressed as a percentage of salary, and with the proposed increases to base salary we will ensure that our overall remuneration positioning remains appropriate and not excessive. More specifically, the Policy proposes to reduce overall variable pay potential to 135% of salary annually, from the current 200% (CEO) and 160% (CFO). This will be broken down as follows
 - reduce the Annual Variable Pay (AVP) potential to 75% of salary for the CEO and CFO, from 100%. The on-target payout will remain at 60% of maximum (i.e. 45% of salary under the new regime).
 - annualised Long-Term Variable Pay (LTVP) potential at 60% of salary for both Executive Directors (currently it is 100% for the CEO, and it will remain unchanged for the CFO, enabling us to align for a historical disparity between the CEO and CFO which is unusual compared to other companies in the sector and wider market).
- Under the AVP, For FY 25, the formula-based scorecard outcome resulted in payouts to the Executive Directors of 39.6% of maximum. Payouts against our Customer, Operational and Strategic goals were 13.5% out of 50%, 11.8% out of 30%, and 14.3% out of 20% respectively. Remuneration Committee review of out-turn: Having reviewed the formulaic outcome of the scheme, the Committee also considered the wider business performance and stakeholder experience. The Committee determined that, despite the individual achievements under the measures set at the start of FY 25, it would not be appropriate to pay this level of bonus for the year. Accordingly, the Committee applied discretion to reduce the bonus from 39.58% to 22.1% of the maximum, which is the same level at which the annual award paid out elsewhere in the organisation. Furthermore, payment will be withheld given that this is the first year since the Water (Special Measures) Act 2025 (the Act) came into force. We will consult with Ofwat to ensure that this payment is in line with their interpretation of implementation of the Act before releasing this to the Executive Directors.
- Under the LTVPs for the period 2020 to 2025, overall performance achieved was below the threshold levels for both elements and therefore no amounts are payable to the Executive Directors in respect of FY 25.

(Further details are provided in the 2025 Remuneration Report which forms part of GCHC's 2025 annual report and consolidated financial statements.)

b) Staff costs during the year

	2025 £m	2024 £m
Wages and salaries	181.0	163.3
Social security costs	18.9	16.9
Other pension costs	16.2	13.5
	<u>216.1</u>	<u>193.7</u>

Of the above, £100.1 million (2024: £88.0 million) has been capitalised or classified within infrastructure renewals expenditure, being the investment cost of employees' work on the capital programme.

	2025 Number	2024 Number
Average monthly number of people (including executive directors) employed by the Company		
Regulated water and sewerage activities	<u>4,047</u>	<u>3,790</u>

Notes to the financial statements (continued)

20. Employees and Directors (continued)

The Board delegates certain of the Company'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:

	2025	2024
	£m	£m
Executive Directors	0.9	0.9
Other key personnel	3.7	3.8
	<u>4.6</u>	<u>4.7</u>

21. Pension commitments

The Company operates a funded defined benefit pension scheme for current employees (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. There were no plan amendments, curtailments or settlement during the year.

The DCWW Pension Scheme was closed to new members from 31 December 2005. A new defined contribution scheme, the DCWW Group Personal Pension Plan, was introduced from 1 January 2006. During the year, the Company made £16.0 million (2024: £13.4 million) of contributions to the defined contribution scheme, which are included in employee costs in the income statement (note 3).

During 2011, the Company 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 2025, there were two remaining Executive Members with entitlements under this arrangement; one of whom is in receipt of his benefits.

DEFINED BENEFIT SCHEME

Assets and liabilities recognised on the balance sheet are as follows:

	2025	2024
	£m	£m
Present value of funded obligations	(341.0)	(377.9)
Fair value of plan assets	411.0	420.0
	<u>70.0</u>	<u>42.1</u>
Deferred tax liability allocated to pension scheme (note 6)	(17.5)	(10.5)
Defined benefit asset (non-current assets)	52.5	31.6
EFRBS unfunded liability (non-current liabilities)	(3.2)	(2.6)
Net defined benefit asset	49.3	29.0

The difference between the pension assets and liabilities 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)

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

	2025 £m	2024 £m
Income statement:		
Service costs (included in employee costs)	0.2	0.1
Net interest expense/(income) (included in financing income)	(2.0)	(0.7)
Total (credited) to the income statement	(1.8)	(0.6)
Other comprehensive income:		
Return on plan assets, excluding interest income	(10.5)	5.3
Actuarial gain on defined benefit obligation	36.5	21.1
Total credit to the statement of comprehensive income	26.0	26.4

Regulatory Framework

The Scheme is funded and governed in line with the requirements of the Pensions Regulator. No allowance has been made for any minimum funding requirements under IFRIC14.

The Scheme operates under Trust law and the corporate trustee (Welsh Water Pension Trustee Limited) is required by law to act in the interests of all relevant beneficiaries and is responsible for day-to-day governance and administration of the benefits. The Trustee is assisted in the management of the Scheme by experienced professionals such as actuaries, administrators, and investment consultants.

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

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.

- **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.

Notes to the financial statements (continued)

21. Pension commitments (continued)

Actuarial valuations

Under UK legislation there is a requirement that pension schemes are funded prudently, and that funding plans are agreed by pension scheme trustees. Defined benefit schemes are subject to funding valuations carried out by independent qualified actuaries, in conjunction with the schemes' trustees, on a triennial basis. These valuations inform the level of future contributions to be made by the group in order to ensure that the schemes are appropriately funded and therefore that benefits can be paid. The most recent 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.

The basis on which scheme liabilities are valued for funding purposes differs from the basis required under IAS 19 'Employee Benefits' for financial reporting, with liabilities on a funding basis being subject to assumptions at the valuation date that are not updated between revaluations. Under IAS 19 scheme assets and liabilities are valued on a consistent basis between companies with required disclosures regarding assumptions and sensitivities, so that the relative positions of companies are comparable.

Assumptions and sensitivity analysis

For the purposes of the IAS 19 valuation for these financial statements the 31 March 2022 full actuarial valuation has been updated by an independent actuary as at 31 March 2025. The principal assumptions made were:

	2025	2024
Discount rate	5.55%	4.7%
RPI Inflation assumption	3.07%	3.1%
Rate of uncapped pension increases	3.07%	3.1%
Rate of capped pension increases	3.00%	3.0%
Post retirement mortality (life expectancy)		
– Current pensioners aged 65 – males	86.2 years	86.3 years
– Current pensioners aged 65 – females	88.6 years	88.5 years
– Future pensioners aged 65 (currently aged 45) – males	87.2 years	87.2 years
– Future pensioners aged 65 (currently aged 45) – females	89.7 years	89.6 years

The mortality disclosures at 31 March 2025 use the CMI 2023 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%.

	Change in assumption	Increase/(decrease) in Liabilities £m
Discount rate	+0.25%/-0.25%	(9.8)/10.3
Discount rate	+1.00%/-1.00%	(36.7)/44.5
Price inflation	+0.25%/-0.25%	9.6/(9.6)
Price inflation	+1.00%/-1.00%	42.3/(36.1)
RPI 0.4% Inflation Risk Premium	Removal	16.1
Mortality long term improvement rate	+0.25%	1.7
Life expectancy	1 year	7.2

The above sensitivity analysis is based on isolated changes in each assumption while holding all other assumption constant. This approach does not take into account that there is likely to be some level of correlation between the movements in different assumptions, however it demonstrates how reasonably possible changes could impact on the measurement of the defined benefit surplus.

Notes to the financial statements (continued)

21. Pension commitments (continued)

Discount rate assumption - 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 0.25%, the carrying value of the pension obligations as at 31 March 2025 would increase by £10.3 million or reduce by £9.8 million (2024: reducing or increasing the discount rate by 0.1% would have resulted in an increase or decrease of £5.0 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. Additionally, as long as credit spreads remain stable, the increase/decrease to the value of pension obligation resulting from discount rate changes will largely be offset by an increase/decrease in the value of the scheme's assets through changes to bond holdings and other instruments designed to hedge this exposure.

Price inflation assumption - a 0.25% movement in the inflation assumption would have resulted in a £9.6 million movement to the scheme's total liabilities (2024: a 0.1% movement would have resulted in a £4.8 million movement.). A significant proportion of the schemes' benefit obligations are linked to inflation. The sensitivity to price inflation allows for the impact of changes to pensionable salary growth and pension increases, which are both assumed to be linked to price inflation. While inflation has been volatile in the near term, the value of the schemes' liabilities is based on inflation assumptions that reflect the full profile of the liabilities, in particular the long-term nature. Consistent with market practice, in deriving a best estimate of future RPI, the Group have applied an inflation risk premium of 0.4% (2024: 0.4%) reflecting the volatility of inflation predictions in the market. Removing this inflation risk premium would increase the defined benefit obligation by £16.1 million. There is no allowance for any further change in the inflation risk premium post-2030 as a result of RPI reform. A reduction in expected RPI will result in a reduction to the value of pension scheme liabilities; however, as our pension schemes are hedged for RPI inflation movements, this will result in a comparable reduction to the value of pension scheme assets.

Mortality assumption - this is broken down into current mortality rates (base table) and 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 2024 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. An increase in the life expectancy assumption of one year would have resulted in a £7.2 million increase to the scheme's total liabilities (2024: £9.0 million). An increase in the mortality long-term improvement rate of 0.25% would have resulted in a £1.7 million increase in the scheme's total liabilities. The majority of the scheme's obligations are to provide benefits for the life of the member and, as such, the scheme's liabilities are sensitive to these assumptions.

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2025 £m	2024 £m
At 1 April	377.9	397.4
Current service cost	0.2	0.1
Interest expense	17.4	17.9
Actuarial (gains) arising from changes in financial assumptions	(37.8)	(16.5)
Actuarial (gains) arising from changes in demographic assumptions	(0.5)	(7.1)
Actuarial losses arising from experience	1.8	2.5
Benefits paid	(18.0)	(16.4)
At 31 March	341.0	377.9

Effect on future cashflows

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 2026, and future service contributions (consisting of amounts payable by members and the Group) will be in the region of £0.1 million. The next triennial valuation (as at 31 March 2025), is expected to be finalised towards the end of the year ending 31 March 2026. At this point, a detailed re-evaluation of the level of annual contributions, and the basis on which these are made, will take place.

The duration of the Scheme's liabilities is approximately 12 years, and is an indicator of the weighted-average time until benefit payments are settled, taking account of the split of the defined benefit obligation between current employees, deferred members and the current pensioners of the schemes.

Notes to the financial statements (continued)

21. Pension commitments (continued)

Scheme assets

Changes in the fair value plan assets are as follows:

	2025 £m	2024 £m
At 1 April	420.0	412.1
Interest income	19.4	18.6
Return on plan assets (excluding interest income)	(10.5)	5.3
Employer contributions	0.1	0.4
Benefits paid	(18.0)	(16.4)
At 31 March	411.0	420.0

At 31 March 2025	Underlying assets £m	Fair value of derivatives £m	Total assets £m	Scheme Assets %
Cash	49.6	-	49.6	12%
Equity and Bonds	266.0	(13.9)	252.1	61%
Alternatives pooled funds	109.3	-	109.3	27%
Total fair value of Scheme assets	424.9	(13.9)	411.0	100%

At 31 March 2024	Underlying assets £m	Fair value of derivatives £m	Total assets £m	Scheme Assets %
Cash	39.9	0.1	40.0	10%
Equity and Bonds	277.6	(11.0)	266.6	63%
Alternatives pooled funds	113.4	-	113.4	27%
Total fair value of Scheme assets	430.9	(10.9)	420.0	100%

The Scheme has entered into a variety of derivative transactions to change the return characteristics of the assets held to help manage risks. As such, the above breakdown separates the assets of the schemes to illustrate the underlying risk characteristics of the assets held.

With the exception of cash, assets consist of pooled investment funds, which are not quoted on an active market. Total assets include £109.3 million of Level 3 financial assets (2024: £113.4 million), comprising the alternatives pooled funds, which are diversified funds holding investments not bought or sold frequently and not homogenous, for example infrastructure projects, private companies and property. These are therefore considered to be the assets least liquid and hardest to value and are therefore subject to a higher degree of estimation, as detailed under the critical accounting estimates in Note 1.

Virgin Media Ltd v NTL Pension Trustees II Ltd & ORS

The Group is aware of the High Court ruling, upheld by the Court of Appeal in July 2024, in the case of Virgin Media Ltd v NTL Pension Trustees II Ltd & Ors, concerning the validity of certain changes made to pension schemes which were contracted-out on a salary related basis from 6 April 1997 to 5 April 2016, and in particular the actuarial certification formalities which applied at the relevant time, as required by section 37 of the Pension Schemes Act 1993. The Group's defined benefit scheme was contracted out during the period in question. The Group has taken legal advice on whether the Scheme is exposed, and based on this advice does not consider there to be any material issues. Therefore no provision for any liabilities resulting from this ruling has been made.

Notes to the financial statements (continued)

22. Lessor

	2025	2024
	£m	£m
Operating lease		
Lease income- waste facility sites to Welsh Water Organic Waste Limited	0.1	0.1

The Company leases land to Cardiff Council, currently the site of a composting facility which is operated by a fellow Group company, Welsh Water Organic Energy Limited, providing food and green waste services. The Company has classified this lease as an operating lease because it does not transfer substantially all the risks and rewards incidental to the ownership of the land. The lease payments are index-linked to RPI.

The remaining term of the lease is 8 years, with the total undiscounted current minimum lease receipts amounting to £0.8m.

23. Capital and other financial commitments

The Company's business plan at 31 March 2025 shows net capital expenditure and infrastructure renewals expenditure of £693 million (2024: £511 million) during the next financial year. While only a portion of this amount has been formally contracted for, the Company is effectively committed to a majority of the total as part of the capital investment programme approved by its regulator, Ofwat.

24. Related party transactions

Remuneration to key management personnel has been disclosed in note 20.

Intercompany interest payable to Dŵr Cymru (Financing) UK plc (DCF), another member of the GCHC group, was £219,332,155 during the year (2024: £270,497,477 restated from £181,419,455 to include indexation). As at 31 March 2025 the balance outstanding on the intercompany loan and accrued interest from DCF stood at £4,435,383,486 (2024: £3,514,537,286). All borrowings raised by DCF are immediately on-lent to the company on an arms-length basis. The intercompany loan is subject to the terms and conditions of the whole business securitisation structure of Glas Cymru Anghyfyngedig and its subsidiaries. DCC, in its capacity as debtor, repays such principal and interest as is due on each borrowing on the due date plus 0.01%. Intercompany loans from Glas Cymru Anghyfyngedig of £1,970,694 (2024: £1,970,694) and from Dŵr Cymru Holdings Limited of £2,692,458 (2024: £2,812,458) remain outstanding as at 31 March 2025. Interest payable on these loans has been waived.

As at 31 March 2025 intercompany trading balances owing to the Company were: Welsh Water Infrastructure Limited £0 (2024: £nil), Welsh Water Organic Energy (Cardiff) Limited £233,598 (2024: £3,647,719), Welsh Water Organic Energy Limited £0 (2024: £36,000), Cambrian Limited £25,419 (2024: £25,419) and Glas Cymru Anghyfyngedig £8,481 (2024: £8,481). Intercompany trading balances owed by the Company were Glas Cymru Holdings Limited £156,524 (2024: owed to the Company £33,063) and Welsh Water Organic Waste £66,471 (2024: owed to the Company £123,397).

During the year no dividends were paid or received (2024: £nil). There were no other transactions with companies that are part of the GCHC Group.

Notes to the financial statements (continued)

25. 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.

On 16 July 2024 Ofwat announced an enforcement case against the Company, into potential non-compliance with conditions of environmental permits and sewer overflows. The Company has provided all information requested to support the investigation; at this stage it is not deemed probable that formal action will result in any financial outflow, with the mechanism for resolution of this investigation, based on other Water and Sewerage Companies (WASCs) enforcement actions and historic experience, resulting in future capital commitments which does not meet the criteria for a provision under IAS 37 on the basis it does not represent a financial outflow. Under the terms of the Water Industry Act 1991, financial penalties of up to 10% of the relevant annual turnover could be imposed, (sewerage turnover of c.£500m), i.e. £50m maximum exposure. The Environment Agency investigation is ongoing, and the Company is co-operating fully with requests for information as they are received.

In February 2025, Dwr Cymru Cyfyngedig were notified of intended legal proceedings against the Company in respect of potential pollution of the River Wye allegedly caused by sewer overflows, combined sewer overflows or other pollution events. At this stage the potential outcome of this case is unknown, and the level potential financial outflow is also unknown.

The Company is subject to other ongoing investigations (pollution, water quality and compliance) by environmental regulators which could result in a financial outflow, however the likelihood of financial outflow is not deemed probable at this stage and any potential exposure cannot be reliably estimated.

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 2025 the market value of the trust fund was £88 million (2024: £89.0 million). Interest receivable includes £4.0 million (2024: £3.8 million) in respect of distributions from the Elan Valley Trust Fund.

27. Immediate and ultimate holding company

The immediate parent Company is Dŵr Cymru (Holdings) Limited and the ultimate holding Company and controlling party is Glas Cymru Holdings Cyfyngedig a company limited by guarantee, both of which are registered in England and Wales. The largest and smallest group within which the results of the Company are consolidated is that headed by Glas Cymru Holdings Cyfyngedig and Glas Cymru Anghyfyngedig (subsidiary of Glas Cymru Holdings Cyfyngedig and parent company of the entities governed by the Common Terms Agreement (CTA)) 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.
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 88 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 2025, which will culminate in a Determination in December 2025, 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.
RainScope	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.

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

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 for 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 1,000 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 (Ml/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 a 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 in 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).
BI2	Vulnerable customers on social tariffs	The number of residential customers receiving financial support via our social tariffs.
BI3	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.