



Dŵr Cymru
Welsh Water

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2025

COMPANY NUMBER: 09917809



WELCOME TO OUR 2025 ANNUAL REPORT AND ACCOUNTS

Note to Readers: Throughout this report we refer to our financial year ended on 31 March 202N in the format FY 2N. Technical terms, abbreviations, initialisms and acronyms are described in the Appendices, the page references for which are provided in the contents table below, together with Appendix titles indicating the content of each Appendix.

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CHAIR OF THE BOARD'S STATEMENT

“THIS HAS BEEN A YEAR OF LAYING ESSENTIAL FOUNDATIONS AND BUILDING MOMENTUM FOR THE MONTHS AND YEARS AHEAD. WE FULLY RECOGNISE THE SCALE OF THE CHANGE IN PERFORMANCE IMPROVEMENTS WE NEED TO MAKE TO MEET THE EXPECTATIONS OF OUR CUSTOMERS, REGULATORS AND STAKEHOLDERS – AND WE ARE ACTING WITH URGENCY AND FOCUS. AS WE ENTER THE NEW REGULATORY INVESTMENT PERIOD AND FINANCIAL YEAR, WE DO SO WITH CLARITY OF PURPOSE, A STRONG SENSE OF ACCOUNTABILITY, AND DETERMINATION TO MAKE MEANINGFUL PROGRESS.”

Jane Hanson CBE
 Chair of the Board



Introduction

This has been a challenging year for the business, and for the water sector, as we continue to navigate the combined pressures of ageing infrastructure, increasingly frequent extreme weather events, and heightened public and regulatory scrutiny. Across all of this, our Board, including four highly experienced new non-executive directors who joined the Board at the start of 2025, remains firmly focused on delivering a step change in performance and reducing environmental harm, in line with the values that underpin our role as a not-for-profit water company serving the people across Wales and Herefordshire.

We are operating in a context of increasing expectations from customers, regulators and governments, reflecting heightened concern about the health of our rivers, coastlines and environment. We welcome this scrutiny – it rightly highlights the urgency of the improvements we must make and underlines the need for greater transparency, accountability, and a renewed focus on earning and maintaining public trust. As Chair, I am determined that we will listen closely to customers and communities, acting swiftly where we fall short.

Our Members have been immensely supportive throughout the year, continuing to play a vital role in helping us navigate a period of significant

challenge and change. Their continued commitment, insight, and guidance are invaluable in shaping our direction and reinforcing our core values. By constructively challenging our approach and championing the needs of our customers and communities, they have strengthened our ability to interact effectively and with integrity. We are deeply grateful for their dedication and the positive impact they continue to have on our organisation.

This year saw some of the most difficult events we have experienced, including the failure of a strategic main beneath the Afon Ddu in Conwy County. I have had the privilege of 'shadowing' some of our teams in the field over recent months and have witnessed first-hand the commitment and dedication of our people, who continue to work tirelessly, often in hazardous conditions, and who have a genuine passion to deliver a high quality of service, maintain supplies, and minimise disruption to customers and the environment.

Despite the challenges, I am proud that we continue to be among the top performing companies in the sector for customer trust and satisfaction. This is a testament to the dedication and public service ethos of our colleagues across Wales and Herefordshire.

Our AMP8 plan is the most ambitious that we have ever embarked upon. It is shaped by the priorities of our customers and reflects our deep

commitment to supporting the long-term wellbeing of future generations – in line with the goals of the Well-being of Future Generations (Wales) Act. It sets the context for how we will invest the money we receive from our customers in the resilience of our services, improve environmental outcomes, and continue to support those who need help with their bills.

We know there is still much to do, and we have taken important steps this year to build the foundations for lasting change. Having accepted the Final Determination from Ofwat in December, our focus now is not only on performance improvement but also on ensuring the long-term financial resilience and efficiency of our business. To support this, we have launched an ambitious transformation programme—Project Trawsnewid—which will drive fundamental change across the organisation. This programme will help us ensure that Welsh Water is as well positioned as possible, both for the challenges of this AMP and well into the future.

I was honoured to assume the role of Chair of Dŵr Cymru Welsh Water at the beginning of 2025. Having served on the Board as Audit Committee Chair since 2021, I have developed a deep appreciation of the company's vital and wide-ranging responsibilities as an independently regulated water company. Our not-for-shareholder structure remains unique within the water sector in England and Wales,

¹ We use PR24 throughout this report to refer to Ofwat's Price Review (PR24) which covers the period from 1 April 2025 to 31 March 2030 (AMP8). The previous Price Review (PR19) covered the period from 1 April 2020 to 31 March 2025 (AMP7). AMP refers to Asset Management Period.

The cover image shows our newest visitor centre at Llanishan and Lisvane reservoirs in Cardiff. Since opening in July 2023, the site has welcomed over 780,000 visitors to enjoy its 110 acres, two reservoirs offering an extensive programme of land and water-based activities, 5 km of pathways to explore and a rich habitat for fungi and wildlife. An army of 335 Friends and volunteers have contributed around 5,000 hours helping us care for the site. We are delighted that the site has won multiple awards for environmental sustainability, and that it has become so popular.

CHAIR OF THE BOARD'S STATEMENT

CONTINUED

reinforcing our clear purpose to operate solely for the benefit of our customers and the communities we serve.

I fully recognise the serious challenges of population growth, an aging infrastructure and the scale of improvements needed to meet customers' expectations of us. Over the past year, we have strengthened leadership, enhanced governance, and sharpened our strategic and operational focus. These changes are already starting to deliver greater clarity, accountability, and momentum – providing a strong platform for the step change in performance we are committed to achieving

Operational Performance

Over the past 12 months, we have experienced heightened public and political interest in our sector, accompanied by increasing expectations from both customers and regulators. As Chair, I remain fully committed to driving the required and expected improvements in our operational performance that are both required and expected.

Despite the considerable challenges we continue to face, we have upheld high standards of customer service and made encouraging progress during FY 25. Notably, we have improved our performance across several of the 12 metrics used by Ofwat to assess our status as a 'lagging' company in 2024. However, we fully acknowledge that significant improvement is still required to meet the expectations of our customers, regulators and wider stakeholders. In October 2024, Ofwat imposed a £24.1m underperformance penalty for failing to meet key targets related to pollution, leakage and supply interruptions. We expect to incur a penalty of c.£46 million for FY 25 performance, which will be returned to customers through future bill reductions.

We must maintain our resilience and agility as we respond to these challenges, ensuring operational efficiency, while managing the ongoing impacts of climate change and extreme weather events. FY 25 saw several major incidents, including the introduction of a temporary boil water notice, the first in over a decade, following storm-related damage to our Tynywaun Water Treatment Works in the Rhondda Valley. Additionally, a burst of

a strategic water main under the Afon Ddu river caused a supply interruption affecting 40,000 properties in the Conwy area.

We sincerely regret the impact these major incidents have had on our customers and are grateful for the support and constructive feedback received during and after these events. While lessons need to be, and are, being learned, I would like to extend my heartfelt thanks to the teams, volunteers, and partner organisations who worked tirelessly to minimise customer disruption and support those affected.

Long-Term Challenges and Investments

Some challenges, particularly in environmental protection, require sustained long-term investment. For example, safeguarding river water quality and eliminating untreated sewage discharges into watercourses are complex issues that will take several investment cycles to address. The Board is acutely aware of the public concern surrounding pollution and remains focused on driving significant improvements in this area, reducing environmental harm where possible. While such outcomes cannot be achieved overnight and require collective effort, we are acting with the urgency and pace the situation demands and putting in place the solid foundations required to enable these improvements.

Transparency and Scrutiny

Transparency is a cornerstone of our approach. While we recognise that some challenges require sustained, long-term effort and resources, we remain fully committed to openness, honesty, and accountability in communicating our position and setting our clear priorities. In areas where regulatory performance targets have not yet been met, we have implemented robust improvement strategies and are maintaining constructive, ongoing dialogue with our regulators at all levels to ensure meaningful progress. The views and feedback of our regulators are considered at every Board meeting as part of our commitment to continuous improvement and regulatory alignment.

As we work towards sustained improvements in performance, we

are also seeing a rise in regulatory investigations relating to past operations. In some instances, this has included enforcement action, highlighting the critical importance of strengthening both operational performance and regulatory compliance. These steps are essential to rebuilding customer trust and ensuring the protection of the environment. During the year, I have reconstituted the Performance and Safety Committee to enable it to provide more rigorous and focused challenge and targeted oversight of our operational performance, regulatory compliance and the required improvements of both of these areas. This Board Committee's role is critical in driving accountability and accelerating the delivery of our transformation plans. This renewed emphasis reflects the urgency with which we are addressing performance issues.

The Chief Executive Officer outlines our progress and priorities in his review of the final year of our 2020–2025 Business Plan on page 20 of this report.

Business Plan 2025 to 2030

A major focus over the past year has been the preparation for implementing our PR24 Business Plan for 2025 to 2030, which is now underway. The Board has played an integral role in shaping the strategy, customer and stakeholder engagement processes, and assurance mechanisms. Our AMP8 Business Plan is our most ambitious to date, with total expenditure of £6 billion – a £2.2 billion (58%) increase over the 2020–2025 period – including £4.2 billion in capital investment, £1.7 billion more than the previous period. Despite the ambitious targets, we believe Ofwat's Final Determination strikes a balanced approach, considering risk and return, customer affordability, regulatory requirements, and the sustainability of our operations.

This level of investment presents challenges, but also additional opportunities to enable the step change needed in critical areas such as leakage, pollution control, and supply interruptions. It will also create around 2,000 new jobs within our contractors and supply chain, contributing to the

Welsh Government's "Future Wales – The National Plan 2040."

Although any price increase is unwelcome, we have worked to keep these increases as limited as possible while still allowing us to fund the investment programme to maintain and improve our services. Over the past 15 years, bill increases have not kept pace with inflation, and while Ofwat challenged our plans and efficiency measures, we could not finance the necessary investments sustainably without higher bills. Consequently, bills will increase above inflation for the next five years. However, we are committed to continuing to provide financial support for customers struggling with payments. We also understand that these bill increases are significant for all customers and therefore we will ensure we explain clearly how their contributions are helping to improve performance, safeguard the environment, and maintain services.

Board Changes

I would like to express my sincere gratitude to Alastair Lyons, who retired as Chair of the Board on 31 December 2024. Alastair's leadership since 2016 has been instrumental in guiding the company through two regulatory price reviews (PR19 and PR24) and the Covid-19 pandemic. Barbara Moorhouse also stepped down from the Board at the end of 2024, having provided strong input, challenge and guidance to the business during a demanding time for the sector.

We have enhanced the Board's capabilities with the appointment of four new Non-Executive Directors to Glas Cymru: Darren James, Darren Pope and Alison Wilcox joined the Board on 1 January 2025 and Sir James Bevan joined on 11 February 2025. Each has already played an active role in shaping Board discussions and decisions, bringing valuable skills, insight and expertise that are helping to support, challenge, and guide the company through the current investment cycle and in preparing for the future.

I am deeply grateful to all of my fellow Board members for their active support and commitment during this pivotal period for the company. Their continued dedication provides vital leadership and thoughtful support both

at the Board and also to the Executive as we look to the future.

In April 2025, we announced that Mike Davis will retire from his role as Chief Financial Officer and Executive Director after more than 20 years with the company. I would like to extend my heartfelt thanks to Mike for his decisive leadership, steadfast professionalism, and the significant contributions he has made during his tenure. We wish him all the very best for the future.

In spring 2026, Peter Perry will also retire from the company as Chief Executive. Peter's story is truly inspirational – having joined the company over 45 years ago as an apprentice to taking on the top job as Chief Executive, his journey embodies everything that Welsh Water stands for in terms of values. His leadership has been defined by a deep understanding of the business, a genuine care for our people and customers, and a commitment to doing the right thing now and for the long term. On behalf of the Board and everyone at Welsh Water, I want to sincerely thank Peter for his exceptional service and wish him every happiness in his retirement.

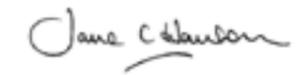
Future Focus

Looking ahead, the next 12 months are pivotal as we continue to secure the foundations for the step change in performance that is essential for our long-term success. There is no quick fix. Achieving the transformation required will take time, but we are making meaningful progress. We are strengthening our leadership, sharpening our focus on performance, investing in critical infrastructure, deepening our relationships with our stakeholders and embedding a culture of accountability and service excellence. Our programme of transformation – Project Trawsnewid – is a key strategic priority of the Board as we enter the new financial year. With the continued commitment, dedication and passion of our people, combined with strong collaboration across the organisation and a clear sense of purpose, I am confident we will achieve the improvements that our customers, communities and the environment rightly expect.

The next twelve months are set to bring further significant change for the sector. We anticipate substantial reform proposals following the publication of

Sir Jon Cunliffe's Independent Water Commission Report, which is expected to inform new legislation in both Westminster and Wales after the 2026 Senedd Elections. While such reform undoubtedly brings challenges, this is a once-in-a-generation opportunity to reshape the sector, rebuild trust, and refocus our efforts on the things that matter most to our customers and bring the biggest improvement to our environment, and I welcome this debate and the consequent changes.

I would like to extend my sincere thanks to our people, our members, our partners and contractors for their continued dedication, professionalism and hard work throughout what has been a particularly demanding year. I am equally grateful to our customers, regulators and wider stakeholders for their engagement and support as we work to rebuild trust and deliver the improvements we are committed to achieving. Your ongoing commitment and collaboration are deeply valued and will remain fundamental to our shared success in the years ahead.



Jane Hanson CBE
Chair of the Board

6 June 2025

OUR YEAR AT A GLANCE

Group performance highlights

Credit ratings
Moody's/ S&P/Fitch

Perf v PY: ✗
Perf v tgt: ✗

| | |
|-------|--------------|
| FY 25 | Baa1/BBB+/A- |
| FY 24 | A3/A-/A |
| FY 23 | A3/A-/A |

Leakage
Megalitres per day, 3-year average

Perf v PY: ✓
Perf v tgt: ✗

| | |
|-------|-------|
| FY 25 | 249.7 |
| FY 24 | 251.7 |
| FY 23 | 242.0 |

Water quality compliance
Compliance risk index (CRI)

Perf v PY: ✓
Perf v tgt: ✗

| | |
|-------|-----|
| FY 25 | 4.2 |
| FY 24 | 7.7 |
| FY 23 | 5.4 |

Treatment works compliance
%

Perf v PY: ✓
Perf v tgt: ✗

| | |
|-------|-------|
| FY 25 | 98.71 |
| FY 24 | 98.01 |
| FY 23 | 98.5 |

Customer satisfaction
C-MeX ranking among water companies

Perf v PY: ✓
Perf v tgt: ✓

| | |
|-------|---|
| FY 25 | 3 |
| FY 24 | 5 |
| FY 23 | 4 |

Internal sewer flooding
Incidents per 10,000 connections

Perf v PY: ✓
Perf v tgt: ✓

| | |
|-------|------|
| FY 25 | 1.26 |
| FY 24 | 1.35 |
| FY 23 | 1.14 |

Pollution
No of incidents

Perf v PY: ✗
Perf v tgt: ✗

| | |
|-------|-----|
| FY 25 | 132 |
| FY 24 | 107 |
| FY 23 | 89 |

Customer Trust
CCW ranking

Perf v PY: ✗
Perf v tgt: n/a

| | |
|-------|---|
| FY 25 | 3 |
| FY 24 | 1 |
| FY 23 | 2 |

¹ Key to RAG ratings

Perf v PY indicates FY 25 performance v prior year:

✓ indicates performance improved or was maintained. ✗ indicates performance declined in the year.

Perf v tgt indicates FY 25 performance v regulatory target:

✓ indicates regulatory target was achieved. ✗ indicates regulatory target was missed.

n/a indicates there is no formal regulatory target for the performance metric, or that the FY 25 outcome is not yet available.

For outcomes on a broader range of performance measures see pages 18 to 19.

Major events and developments in the year

Assessed by Ofwat as "Lagging behind" on performance for FY 24

We continued to face challenges in meeting regulatory targets on performance, principally on customer acceptability of drinking water, supply interruptions, external flooding and pollution incidents. We have plans in place to improve these and other aspects of our performance.

Our performance in FY 25 shows improvement on a majority of the measures used by Ofwat in its 2024 performance assessment. Nevertheless, we are forecasting a net ODI performance penalty of £46 million in respect of FY 25, which will be offset against allowed regulatory revenue for FY 26.

See The challenges we face on page 06.

See the CEO's review on page 20.

Regulatory Wastewater Investigations

Ofwat and the Environment Agency added us to the scope of their investigation (the Wastewater Investigation) into all companies' sewage treatment works and sewer networks and their environmental impacts. We continue to cooperate fully.

See the CEO's review on page 20.

Robust response to extreme weather

Storm Bert flooded our Tynywaun treatment works (among others), resulting in our first significant precautionary boil water notice in a decade. Storm Darraigh caused widespread power outages and its high winds and travel restrictions hampered our response.

See the CEO's review on page 20.

PR24 finalised

Ofwat's PR24 Final Determination allows for a major step up in investment, including over £2 billion for environmental improvements in our most ambitious AMP yet.

See the CEO's review on page 20.

Strategic mains burst in Conwy

Ground movement caused a strategic mains burst 2.5 metres under a river bed, disrupting supply while we worked hard in dangerous conditions to restore service as soon as possible.

See the CEO's review on page 20.

Successful financing: liquidity up

In the second half of 2024 we successfully raised £750 million through class B Sustainability Senior bonds, and £200 million in bank loans over 5 to 7 years. Total liquidity at year end was £1.3 billion, up by £0.8 billion.

See the Financial review on page 24.

Improving water quality compliance

We recently met the DWI's deadline for our Annex 1 tank cleaning notice by completing a challenging 12-month programme of inspection, cleaning and refurbishment covering 55 tanks, while avoiding any major impact on customer supplies.

See Board of Directors on page 88.

Overflow/water quality maps and data sharing

Our online map coverage has grown since its launch in February 2024 giving near real-time information on spillages and water quality. We will continue to increase our monitoring capability.

Board strengthened

Jane Hanson replaced Alastair Lyons as Chair of the Board on his retirement in January 2025. Barbara Moorhouse stepped down from the Board in 2024 to pursue other interests. Four new NEDs joined the Board. Mike Davis will retire in June 2025. Peter Perry will retire in spring 2026.

See Board of Directors on page 88.

OUR CHALLENGES

Challenge

Our response



Lagging

Recent performance has been unacceptable – we have been assessed as “lagging behind” other companies in each of the past two years. We were informed by DWI in March 2024 that we were being placed on a formal transformation plan which requires additional reporting to and oversight by DWI.



We have improvement plans in place to address the most significant areas of poor performance. Our AMP8 plans include our biggest ever investment programme and many capital projects are being made “spade-ready”.

Leakage – we have increased our monitoring and response capabilities to detect and resolve leakages at an earlier stage, and will continue this work through AMP8.

Acceptability of drinking water – our storage tank cleaning programme and treatment protocols have been revised to ensure fewer colouration, taste and odour failures. AMP8 includes £168 million to improve drinking water quality.



EPA

Natural Resources Wales Environmental Performance Assessment (EPA) remains at 2 stars and we must improve.

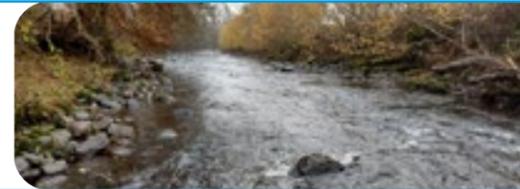


We have plans in place to improve performance on the relevant measures and achieve a higher rating, as we have done in the past.



Storm overflows (SO)

These contribute to pollution and are a major concern for our customers and other stakeholders. The contributory effects of climate change and a growing built environment to serve an expanding population are likely to amplify this issue.



Our monitoring capability has been expanded and we have made more spillage data available online in near real time. Our AMP8 plans include over £1 billion to improve overflows through a number of approaches including storage tanks and nature-based solutions.



Supply chain

Readiness for AMP8 investment plans: the sector as a whole has ambitious investment plans which will put pressure on limited contractor resources and equipment availability to deliver these planned improvements to services and infrastructure.



We maintain close relationships with our major suppliers and began planning with them for the delivery of our ambitious plans over 2 years ago.



Cost pressures

Although UK inflation has recently moved closer to the government target we anticipate increasing pressure on operating costs over the coming AMP.



Our long-term viability testing includes both low- and high-inflation scenarios. Potential mitigating actions include reviewing and reducing discretionary costs while minimising the impact on stakeholders, particularly on customers. We have recently commenced a transformation programme aimed at fundamentally changing the way we work and making us sustainable for the long term – this is also expected to help address cost pressures.



Investability

Concerns over sector investability may hamper the availability of funding to support necessary investment and may drive up borrowing costs.



During the year we raised £950 million in new funding, including £750 million in sustainability bonds and £200 million in bank lending. Despite the recent downgrade, our credit ratings remain among the strongest in the sector.



Regulation

Expectations of environmental performance have increased, and the application of existing regulations tightened, all against a background of climate change which is exacerbating the challenges. New legislation and governmental reviews of the sector may increase regulatory risk and uncertainty, while also offering the opportunity to address some of the problems with the regulatory framework.



We continue to engage closely with our environmental and economic regulators. We will make our views clear at every opportunity and will seek to ensure that any reforms to the regulatory framework reflect our particular operational and political circumstances in Wales.

WE ARE WELSH WATER

Since the inception of Glas Cymru our aim has been to own, finance and manage Welsh Water for the benefit of its customers.

This has consistently defined our Purpose from the very beginning, and in 2018 a new, more formal statement of our Purpose (below) was incorporated in the Company's articles of association. As a company limited by guarantee without shareholders Glas Cymru exists for one purpose only – to enable Dŵr Cymru Welsh Water (DCWW), its wholly-owned regulated subsidiary, to deliver the best service possible to its customers. We provide essential public services to our customers by supplying their drinking water and carrying away and dealing with their wastewater in a sustainable manner, one which protects our environment and the biodiversity it supports. As a long-term Welsh infrastructure business, we align our plans and our own wellbeing commitments (published in 2020) to the Well-being of Future Generations (Wales) Act, and are proud to support Welsh culture and language provision.



Read more about us online at: corporate.dwrwymru.com/en

Our Purpose

Our company purpose is to provide high-quality and better-value water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.

We consider our Purpose, Vision and Values to be mutually reinforcing elements of how we operate and of our corporate culture.

Our Vision

Our vision is to earn the trust of our customers every day.

Our Values

Our values set out how we behave and act in all our dealings both internally and externally.



Our culture

We take great pride in the work we do and the customer services we provide.

Our culture is driven by our Vision and is underpinned by our Values. Our single clear Purpose helps us focus on delivering the best outcomes for our customers and the environment. We are always striving to do a better job, and we do it through learning, innovating, embracing change and sharing best practice internally and with other organisations.

To help achieve this, we have clearly defined plans, driven by measurable targets. To deliver these plans we rely on our people, who have the highest levels of motivation and engagement, and a strong desire to 'do the right thing.'

We aim to always be clear when something has not gone right, to recognise where we are not achieving as we should, and to develop clear plans to do better.

We recognise the value of diversity of thinking within our organisation. It is why we do all we can to promote and encourage a more diverse workforce, attracting the best people and reflecting the communities we serve. We aim to foster an inclusive culture where everyone can be themselves, reach their full potential, contribute to the Company's success and enjoy a healthy and rewarding career.

Our latest annual employee engagement survey again showed continued strong engagement, with overall engagement within the top quartile of a global benchmark. It is inherent in our culture to listen to customers and other stakeholders to understand their evolving needs, modify our strategy and plans as appropriate and apply our culture and Values to meet those needs, now and in the future.

WHO WE SERVE

Household customers

75%

OF REVENUE

We provide essential services to more than 3 million people, including supplying drinking water to most of Wales and Herefordshire and parts of Deeside. We also provide wastewater services to most of Wales and Herefordshire.

Business customers

20%

OF REVENUE

We have around 110,000 non-household customers. They include everything from large industrial sites to small high-street shops and offices, agricultural businesses, local authorities, charities, and educational and health facilities.

Developer customers

5%

OF REVENUE

We work with new entrants and on variations to existing suppliers, self-lay providers and developers ranging from large housing and commercial building developers to individual housebuilders. We provide new water and sewerage connections and support on-site 'self-lay' providers in line with the standards and legislation in our operating areas.

It is important that all our services meet the highest standards. Working with developers in this way helps us to play our part in supporting economic development and growth in the communities we serve.

Our stakeholders

Our stakeholders play an important role in shaping our plans and ambitions. The value we create for each stakeholder group is summarised as part of our business process on page 11. We undertake extensive engagement activity with these groups, taking account of their interests and our own objectives. These activities, which are closely monitored by our ESG Committee, are set out on page 79. Engagement by the Board and the effect it has on Board decision making is set out in our S172 statement on pages 76 to 78.

Our scale in providing essential services

OVER

800

MEGALITRES OF FRESH WATER PROVIDED DAILY



1.4 million

HOUSEHOLDS SERVED



ALMOST

10,000

JOBS SUPPORTED



£1 billion

EXPENDITURE GENERATED: OUR ACTIVITY REPRESENTS >1% OF WELSH ECONOMY



Our assets include

27,600km

OF WATER MAINS

92

RESERVOIRS MANAGED

36,600km

OF SEWERS

834

WASTEWATER TREATMENT WORKS MANAGED

WHAT WE DO

Our Purpose, Vision and Values all point towards a relentless focus on applying all our available resources to meeting the needs of our customers, providing the best possible outcomes. Our current priorities, which are reflected in our plans for AMP8, are:

Improving delivery of our services to customers and communities

Improving our environmental performance

Ensuring resilience and sustainability to support our activity over the long term, and the delivery of our Welsh Water 2050 strategy and ESG objectives

We also create social value for the customers and communities we serve by:

- supporting customers in vulnerable circumstances, whether financial or otherwise;
- Making a major contribution to the Welsh economy, directly providing jobs and potentially long and rewarding careers for our workforce of c. 4,000 people (at March 2025) and indirectly supporting another c. 5,000 jobs within our suppliers' and contractors' businesses;
- providing funding for community projects;
- collaborating with others on research and innovation to create more effective and efficient ways of operating;
- running programmes to educate the younger generation in good practice in using water and disposing of wastewater; and
- operating visitor centres for recreational and wellbeing purposes.

While delivering all these things we focus heavily on:

- protecting the natural environment from harm (including pollution);
- improving the resilience and sustainability of our operations, assets and services;
- adapting to be ready and able to cope with current and future challenges such as:
 - climate change;
 - a growing and ageing population;
 - an ageing asset base, large parts of which were designed for very different requirements and conditions to those we see today and expect in coming decades;
- improving the quality of the water in our rivers and at our beaches;
- protecting and improving biodiversity;
- reducing our greenhouse gas emissions; and
- improving our energy efficiency and moving to net zero carbon.

It is our job to look after water in our operating area, supporting public health and the functioning of people's daily lives.

To do this we

- collect rainwater and groundwater and take water from rivers under permits, and hold it in reservoirs;
- clean it at one of our water treatment works to make sure it is safe to drink; and
- pipe it to our customers for them to use whenever they need it.

We then

- take away wastewater; and
- treat it so it can be returned to our rivers and seas.

As part of all of this we

- work with landowners to prevent contamination of the water that runs off the hills and other surfaces into reservoirs;
- build and maintain a huge asset base including dams, treatment works for both raw and wastewater; and an extensive network of pipes and pumping stations to move water around.

Sometimes our assets will fail or will be affected by extreme rainfall or cold weather, disrupting the supply of clean water or the removal and treatment of wastewater. When this happens, we work hard to fix things as soon as possible to reduce any harm to the environment and inconvenience to our customers.

OUR BUSINESS PROCESS

Inputs, outputs and value creation for stakeholders

Our inputs

Our people

Our c. 4,000 people at March 2025 are committed to providing excellence in everything they do.

Regulators

We welcome close and open relationships with all regulatory and government bodies and recognise that working together produces better outcomes for our customers and the communities we serve.

Customer feedback

We run extensive customer feedback programmes to inform our plans, to improve our operations and to provide the best possible services.

Suppliers

We work closely with our suppliers and contractors to ensure they work safely and efficiently to deliver good value for money to support the affordability of our own services.

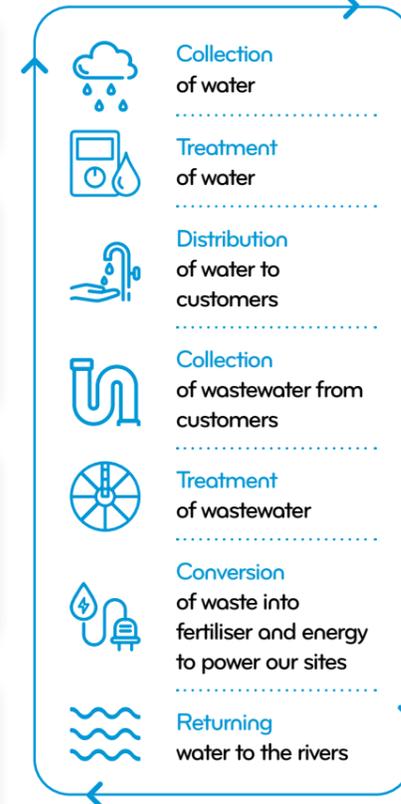
Infrastructure and investors

We develop, maintain and operate an extensive infrastructure to deliver our services efficiently now and for decades to come. Financing is provided by investors in our bonds.

Natural resources

The oceanic climate in Wales provides rainfall of over 3,000mm per annum in some parts of our operating area, notably Snowdonia. Rainfall in the extreme north-east and parts of the south-east is markedly lower.

Process – Our operations



Our desired outputs

Excellent customer service for Wales¹

Safe, high quality and reliable drinking water for Wales

Supporting the future of communities for Wales

Safeguarding the environment for Wales

¹ We use Wales here as a proxy for our operating area which is described on page 12.

Value created for stakeholders

Our people

We provide jobs and potentially long, rewarding and fulfilling careers in a supportive and inclusive working environment.

Customers, communities and society

We help maintain public health by providing safe drinking water and waste treatment services. We provide additional societal benefits with our social tariffs, education programmes and visitor centres.

Suppliers and contractors

Our activities indirectly support c. 5,000 jobs in our supply chain and make a major contribution to the Welsh and UK economies partly due to our need to engage suppliers and contractors to support our operations.

Future generations and environment

We plan for the long term, building resilience and sustainability into our services and reducing harm to the environment caused by human activity.

Industry and business groups

Through our engagement with a wide range of suppliers and other groups we share and learn from best practice, contributing to a Team Wales approach to drive better outcomes for all.

Financial and investors

We have strong credit ratings and provide fair and low-risk returns to our bond investors.

Regulators and government

We help fulfil regulatory and government policy objectives in an open and transparent manner.

OUR OPERATING AREA

Our drinking water supply area covers most of Wales and Herefordshire and parts of Deeside.

Our wastewater network covers most of Wales and Herefordshire.

Features of and challenges in our operating area include the following:

Demographic and socio-economic factors

Much of our customer population is widely dispersed in rural areas, meaning more kilometres of pipes and more treatment works per customer. Our water network includes many upland reservoirs and gravity-fed systems, which means pipelines have to work under very high pressure, exacerbating the challenges of mains bursts and general network maintenance.

Between 2021 and 2023 around 21% of people in Wales were living in relative income poverty (source: Welsh Government) and recent economic conditions mean this situation is likely to have worsened. Economic output (Gross Value Added) and household incomes are generally lower in Wales than in the UK as a whole. This backdrop presents us with additional challenges in ensuring affordability of bills and in balancing affordability with investment needs.

Natural environmental factors

The characteristics of our operating area pose a unique set of challenges for us as a water company. While the high rainfall levels compared to eastern parts of the UK are a positive in terms of water resources, they also increase the risk of flooding and put pressure on our management of surface water and our wastewater networks. Our mix of coastal lowlands and mountain uplands with a generally dispersed population creates challenges as our network has to operate under high pressure; and access for maintenance and repairs can be difficult. We also have a long coastline and many small and ecologically sensitive rivers compared to other WASCs (Water and Sewerage Companies).

Climate adaptation

The extreme weather in recent years, ranging from the long drought of 2022, through the severe freeze/thaw events in late 2022 to early 2023, to the intensity and frequency of Met Office-named storms in 2024 and 2025, have reinforced the need to adapt our asset base and services to cope with the threats of climate change. Specific responses include creating better flood protection around some of our more susceptible treatment works, improving our monitoring capability to identify problems earlier, and building additional storage capacity to cope with extreme rainfall. We have also reorganised some of our emergency response operations to be able to act more quickly and effectively to fix operational problems, and are linking up parts of our network to enable us to maintain supply during times of drought or otherwise restricted water availability¹.



--- Wales boundary
 - - - Water region boundary
 - - - Sewerage region boundary

Regulatory and performance measurement frameworks

Our economic regulator, Ofwat, sets the planning and performance framework for us and other water companies.

Price Reviews every 5 years set limits on customer bills, taking into account expenditure needs and financial factors such as interest rates. The latest, PR24, covers the period 2025 to 2030 and started on 1 April 2025. This period is referred to as Asset Management Period 8 (AMP8). AMP7 covered the period from 2020 to 2025. Ofwat determines performance targets – annual and for the period as a whole – for certain performance commitments (PC), and specifies the measurement basis to ensure consistency and comparability across the sector. The PC targets are used for periodic reporting to Ofwat, and for setting financial rewards and penalties for our performance on some measures. Management prepares annual business plans in this context and, following Board approval of these plans, the Board uses them to monitor the Group's performance.

Our long-term strategy – Welsh Water 2050 (WW 2050) – first published in 2018 and last fully updated in 2022, sets out our long-term ambitions and goals.

Sustainability is a cornerstone of WW 2050, which is further supplemented by our 10 ESG objectives and our 7 Wellbeing Goals, which are closely aligned to the Well-being of Future Generations (Wales) Act (The Act), the UN sustainable development goals (SDG) and the 10 principles of the UN Global Compact.

This and the surrounding pages are intended to provide a brief but broad introduction to our business and the context in which we operate. We set out our recent performance and position in more detail in the Chief Executive's review on page 20, the Performance outcomes on pages 18 to 19 and the Financial review on pages 24 to 29.

Further detail on our climate-related risks and opportunities – including time horizons, scenario analysis and risk scores – is set out in the TCFD section on pages 40 to 55.

STRATEGIC THEMES AND ENABLERS

Our strategic themes

In this report we group our activities and plans into 2 strategic themes and 3 enablers as set out and explained below.

Service delivery to our customers and communities

This strategic theme includes our water supply and wastewater services and activities which provide social value as outlined on page 10. For convenience and simplicity, we refer to this theme throughout the rest of this report as 'Service Delivery'.

Protecting the environment

This strategic theme includes our activity to protect and support the environment and to adapt to future environmental challenges such as climate change, protecting biodiversity and reducing environmental harm created by our operations. For convenience, we refer to this theme throughout the rest of this report as 'Environment'.

Sustainability

Sustainability is a key enabler for both of our strategic themes and so it is a constant consideration in all we do to deliver our services and to protect the environment. We develop and implement policies that allow the business to sustain its delivery and environmental goals into the long term and, therefore, achieve our 2050 goals. Having a sustainable approach to our business is essential in delivering against WW 2050.



Our other enablers

Our activity in all these categories is supported by the way we work, as described here:

Financing

As a not-for-shareholder business we are more able to focus on the needs of our customers and communities and to offer a sufficiently attractive investment proposition to bond investors when we need to raise money to pay for our investment plans. Despite the recent downgrade we have some of the strongest credit ratings in the water sector, keeping our financing costs low and helping to maintain affordable services.

For more information on our Financial resilience and outlook see the Financial review on pages 24 to 29.

Governance

The Glas Cymru Board is absolutely clear that the strongest governance framework is central to the whole business and the way in which we operate. This ensures we focus on the right things; allocate our resources effectively across a wide range of needs of different stakeholder groups; balance our investments between the short and longer terms; manage risks effectively; meet statutory and other regulations; make every effort to pay our suppliers on time; treat with respect, openness, honesty and fairness all those with whom we deal; and act responsibly with regard for local, national and global matters.

STRATEGIC THEMES AND ENABLERS

CONTINUED

Governance continued

A hallmark of our governance is the embedded level of independent scrutiny, which we believe makes us stronger by bringing more diverse experience, ideas and expertise to bear, and ensures we are constantly challenged in our thinking and approaches. This independent scrutiny is illustrated by:

- The majority of our Board comprises independent Non-Executive Directors (NEDs): 82% – see Board biographical details on pages 88 to 91.
- Our 62 independently appointed Glas Members hold the Board to account for the stewardship of our assets and for providing an essential public service. See more on page 99. A key role of the Members of Glas Cymru is to ensure that the business remains focused on its primary purpose of providing high quality water and sewerage services to the communities served by Welsh Water. In doing this, Members carry out an important corporate governance role, and for this reason Membership is personal and Members are not appointed to represent any particular group or stakeholder interest. Members do not receive a fee. We welcome applications from a diverse and full range of backgrounds in terms of gender, ethnicity, age, sexual

orientation and differently abled. In undertaking this role Members question and challenge the Board and Executive Team to ensure that due consideration and attention is given to key operational and strategic decisions. A full list of Members can be found at Appendix F (see page 211). Notes of our Annual General Meetings and Members meetings can also be found at <https://corporate.dwrcymru.com/en/about-us/governance>, and detail the level of independent challenge and scrutiny that Glas Cymru Members provide.

- Our Independent Challenge Group (ICG), Chaired by Owain Derbyshire, who succeeded Peter Davies during FY 25 following the expiry of his 9-year term, comprises independently appointed members with relevant experience. It meets at least 4 times a year and provides independent challenge and scrutiny on behalf of customers and citizens served by the Group, scrutiny and advice through the Chair to the Glas Cymru Board. To read more on the ICG see page 76.
- The Group continues to host the Independent Environmental Advisory Panel (IEAP) which comprises over 20 key environmental stakeholders, including representatives of the Welsh Government, regulators, environmental non-governmental organisations (eNGO) such as the

Royal Society for the Protection of Birds (RSPB), regional and national environmental bodies, a variety of environmental trusts, and of key industries, including agriculture and mining.

The IEAP meets 6 times a year, is independently chaired, and is attended by the Special Advisor to the Board on Environmental matters who also attends the Board's Performance and Safety Committee (for further information on this Committee see page 105), and occasionally our Non-Executive Directors. The advice received by the Board is discussed as necessary at the Performance and Safety Committee.

The Panel also supports the development of the Group's biodiversity and research agendas, and will contribute to the development of the Group's ESG Strategy during FY 26. The Panel also enables its members to share and discuss with other Panel attendees their own key initiatives and proposals, and in so doing fosters a 'Team Wales' approach, sharing expert resources and collaborating to ensure we deliver maximum value for our customers.

HOW WE PLAN

Long term

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 latest 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 Well-being of Future Generations (Wales) Act.

Our Environmental Social and Governance (ESG) Strategy was reviewed and approved by the Board's ESG Committee in February 2022 (and is available to view at dwrcymru.com/esg). It includes 10 key objectives to support the focus on ESG issues in the context of Welsh Water 2050.

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

For WW2050 strategic responses see Appendix D on page 208. For our ESG objectives see page 61 and Appendix E on page 210.

Medium term

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.

Short term

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.



WELSH WATER 2050

Long-term plans: Welsh Water 2050

Welsh Water 2050 identifies the trends, challenges and opportunities that we expect to be foremost in the years to 2050, and 18 'Strategic Responses we are pursuing over that period in order to achieve our long-term mission of being "a truly world-class, resilient and sustainable water service for the benefit of future generations".

For convenience the 18 Strategic Responses are set out in Appendix D of this report – see page 208.

Planning over such a long time horizon is inherently subject to a high degree of uncertainty. While we broadly expect the core themes and trends to endure, we also monitor and update them through 5-yearly reviews broadly aligned to the regulatory Price Review cycle. The last published update is available at <https://corporate.dwrcymru.com/en/about-us/our-plans>.

Our 5-year PR24 Business Plan is underpinned by Welsh Water 2050. See pages 16 to 17 for a summary of PR24/AMP8 plans.

PR24 AND AMP8

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. Read more about affordability on page 70.

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.

THE INCREASED INVESTMENT IN AMP8 IS NOT A PANACEA – SUSTAINED INCREASED INVESTMENT WILL BE REQUIRED IN FUTURE REVIEWS TO DELIVER OUR OBJECTIVES

Enhancement expenditure includes:

£1.1bn
TO IMPROVE STORM OVERFLOWS

£184m
TO REDUCE NUTRIENT DISCHARGES INTO RIVERS

£70m
FOR DAM INFRASTRUCTURE, NOTABLY SPILLWAYS

PR24 – Performance targets for 2025 to 2030

| | Performance targets | Supporting expenditure/action plans |
|--|--|--|
| Improving the environment | 30% reduction in storm overflow spills. 65% of overflows to be causing no/low harm by 2030. | £1.1 billion funding for improvements, including nature-based solutions and storm storage at wastewater treatment works. |
| | Reduce phosphorous discharges by 16% overall, focused on SAC rivers. | £161 million for the necessary upgrades to wastewater treatment works. |
| | Reduce pollution incidents by 30%. | Included in overall environment improvement programme. |
| | Improve biodiversity in line with industry-wide target and supporting Welsh Government ambition. | Included in overall environment improvement programme. |
| Protecting our water supply | Reduce leakage by 24%. | £120 million metering investment, with smart meters on unmeasured properties to support network management and leakage detection. |
| | Reduce household water usage by 7%. | Metering programme as above. |
| Improving service to customers | Reduce customer contacts related to tap water quality by 57%. | £168 million to improve drinking water quality, including preventing raw water deterioration and replacing customer lead pipes. |
| | Reduce duration of water supply interruptions by 79%. | £10 million to accelerate mains renewals/ replacement. |
| | Reduce internal sewer flooding by 24%. | Covered by base expenditure allowance. |
| | Reduce external sewer flooding by 22%. | Covered by base expenditure allowance. |
| | Increase support to customers who struggle to pay. | We have committed to contribute £73 million to social tariffs. |
| | Reduce number of sewer collapses by 6% | Covered by base expenditure allowance. |
| Maintaining asset health and resilience | Reduce mains bursts by 9% v FY 24. | Covered by base expenditure allowance. |
| | | £188 million to increase asset resilience, protecting against power failures, preventing works flooding, improving security and cyber security resilience. |



Read more about us online at: corporate.dwrcymru.com/en

PERFORMANCE OUTCOMES



The measures presented on this page and page 19 are broadly consistent with those used to report our performance in our FY 24 annual report and accounts. The Directors believe these measures provide a reasonable, fair and balanced representation of our overall performance against the prior year and against regulatory targets, and will therefore help users of this report to understand our performance. The measurement basis is consistent with our internal management reporting and our external reporting to regulators. Definitions of these measures are included in Appendix C on page 206.

KEY to performance outcomes

- Service Delivery
- Environment
- Sustainability
- Financial

| | | | | | |
|---|--|--|--|--|---|
| Water quality compliance Perf v PY: ✓ Compliance risk index (CRI) Perf v tgt: ✗ FY 25: 4.2 FY 24: 7.7 FY 23: 5.4 ODI R/(P) = (1.0) Used to determine variable pay: A | Acceptability of drinking water Perf v PY: ✗ Customer contacts/'000 population re water quality Perf v tgt: ✗ FY 25: 2.70 FY 24: 2.48 FY 23: 2.35 ODI R/(P) = (2.7) Used to determine variable pay: A L | Interruptions to supply Perf v PY: ✗ minutes:seconds Perf v tgt: ✗ FY 25: 137:44 FY 24: 23:16 FY 23: 44:31 ODI R/(P) = (10.8) Used to determine variable pay: A | Treatment works compliance Perf v PY: ✓ % Perf v tgt: ✗ FY 25: 98.71 FY 24: 98.01 FY 23: 98.5 ODI R/(P) = (0.2) Used to determine variable pay: A | Sewer collapses Perf v PY: ✗ Number of incidents Perf v tgt: ✓ FY 25: 233 FY 24: 223 FY 23: 248 ODI R/(P) = n/a Used to determine variable pay: L | River improvement Perf v PY: ✓ Kilometres improved over the AMP Perf v tgt: ✓ FY 25: 576 FY 24: 345 FY 23: 122 ODI R/(P) = 7.8 Used to determine variable pay: A L |
| External sewer flooding Perf v PY: ✓ Incidents per 10,000 connections Perf v tgt: ✗ FY 25: 22.56 FY 24: 23.70 FY 23: 24.42 ODI R/(P) = (1.3) | Internal sewer flooding Perf v PY: ✓ Incidents per 10,000 connections Perf v tgt: ✓ FY 25: 1.26 FY 24: 1.35 FY 23: 1.14 ODI R/(P) = 0.3 Used to determine variable pay: A | Unplanned outages Perf v PY: ✓ % Perf v tgt: ✓ FY 25: 0.34 FY 24: 0.35 FY 23: 1.07 ODI R/(P) = n/a | Sustainable Fitch rating Perf v PY: ✓ Perf v tgt: n/a FY 25: 2 FY 24: 2 FY 23: 2 ODI R/(P) = n/a | Greenhouse gas emissions Perf v PY: ✗ Kilotonnes of CO ₂ equivalent Perf v tgt: n/a FY 25: 204 FY 24: 201 FY 23: 169 ODI R/(P) = n/a | Energy self-sufficiency Perf v PY: ✗ % Perf v tgt: ✗ FY 25: 23 FY 24: 24 FY 23: 22 ODI R/(P) = n/a |
| Customer satisfaction Perf v PY: ✓ C-MeX rank among water companies Perf v tgt: ✓ FY 25: 3 FY 24: 5 FY 23: 4 ODI R/(P) = 2.0 Used to determine variable pay: A | Business customer satisfaction Perf v PY: ✓ Survey score out of 5 Perf v tgt: ✗ FY 25: 4.3 FY 24: 4.3 FY 23: 4.4 ODI R/(P) = (0.3) Used to determine variable pay: A | Developer customer satisfaction Perf v PY: ✗ D-MeX rank among water companies Perf v tgt: ✗ FY 25: 13 FY 24: 11 FY 23: 13 ODI R/(P) = tba Used to determine variable pay: A | Customer Trust Perf v PY: ✗ CCW ranking Perf v tgt: n/a FY 25: 3 FY 24: 1 FY 23: 2 ODI R/(P) = n/a | Gender pay gap Perf v PY: ✗ Median gap % Perf v tgt: n/a FY 25: 7.6 FY 24: 4.8 FY 23: 3.6 ODI R/(P) = n/a | EDI Perf v PY: ✓ % self-declaring characteristics Perf v tgt: n/a FY 25: 80 FY 24: 80 FY 23: 74 ODI R/(P) = n/a |
| Vulnerable customers Perf v PY: ✓ Thousands of customers on social tariffs Perf v tgt: ✓ FY 25: 137 FY 24: 130 FY 23: 129 ODI R/(P) = n/a | Priority Services Perf v PY: ✓ Reach % Perf v tgt: ✓ FY 25: 16.6 FY 24: 11.5 FY 23: 10.4 ODI R/(P) = n/a | Community education Perf v PY: ✓ Thousands of attendees Perf v tgt: ✓ FY 25: 101 FY 24: 88 FY 23: 80 ODI R/(P) = 0.1 Used to determine variable pay: L | Reportable injuries Perf v PY: ✗ Number of RIDDORs Perf v tgt: ✗ FY 25: 8 FY 24: 5 FY 23: 5 ODI R/(P) = n/a | H&S accreditation Perf v PY: n/a RoSPA gold award Perf v tgt: n/a FY 25: n/a FY 24: Y FY 23: Y ODI R/(P) = n/a | Prompt payment code Perf v PY: ✓ % Perf v tgt: n/a FY 25: 98 FY 24: 98 FY 23: 98 ODI R/(P) = n/a |
| Recreational facility visitors Perf v PY: ✓ Thousands of visitors Perf v tgt: ✓ FY 25: 1,218 FY 24: 1,034 FY 23: 739 ODI R/(P) = 0.4 Used to determine variable pay: L | Mains repairs Perf v PY: ✗ Number per 1,000km of mains length. Perf v tgt: ✗ FY 25: 163.8 FY 24: 146.2 FY 23: 156.2 ODI R/(P) = (3.3) Used to determine variable pay: A | NRW EPA Perf v PY: n/a Number of stars Perf v tgt: n/a FY 25: n/a FY 24: 2 FY 23: 2 ODI R/(P) = n/a | Fair tax accreditation Perf v PY: ✓ Fair tax standard Perf v tgt: n/a FY 25: Y FY 24: Y FY 23: Y ODI R/(P) = n/a | Credit ratings Perf v PY: ✗ Moody's/S&P/Fitch Perf v tgt: ✗ FY 25: Baa1/BBB+/A- FY 24: A3/A-/A FY 23: A3/A-/A ODI R/(P) = n/a Used to determine variable pay: A | Gearing Perf v PY: ✗ % Perf v tgt: n/a FY 25: 62 FY 24: 60 FY 23: 58 ODI R/(P) = n/a |
| Pollution Perf v PY: ✗ Number of incidents Perf v tgt: ✗ FY 25: 132 FY 24: 107 FY 23: 89 ODI R/(P) = (3.6) Used to determine variable pay: A | Leakage Perf v PY: ✓ Megalitres per day (3-year average) Perf v tgt: ✗ FY 25: 249.7 FY 24: 251.7 FY 23: 242.0 ODI R/(P) = (6.7) Used to determine variable pay: A L | Per Capita Consumption (PCC) Perf v PY: ✓ Litres per head per day (3-year average) Perf v tgt: ✗ FY 25: 148.8 FY 24: 150.7 FY 23: 154.8 ODI R/(P) = (7.5) Used to determine variable pay: A | Adjusted Interest cover ratio Perf v PY: ✗ x Perf v tgt: n/a FY 25: 0.4 FY 24: 0.7 FY 23: 0.4 ODI R/(P) = n/a | Post-maintenance ICR Perf v PY: ✗ x Perf v tgt: n/a FY 25: 2.9 FY 24: 3.0 FY 23: 1.7 ODI R/(P) = n/a | FFO/net debt Perf v PY: ✓ % Perf v tgt: n/a FY 25: 3.6 FY 24: 0.7 FY 23: (3.8) ODI R/(P) = n/a |

1 Performance indicators on this page follow the same key as for the highlights metrics on page 04.
2 ODI R/(P) indicates the Reward or (Penalty) we expect to receive or pay for measures within Ofwat's Outcome Delivery Incentive scheme. The figures shown are in £ million and are subject to confirmation by Ofwat in due course. We are forecasting a net ODI penalty of around £46 million (FY 24: £24.1 million), which will be offset against allowed regulatory revenues for FY 26.

3 A indicates this measure is used to determine pay under our Annual variable pay scheme. L indicates this measure is used to determine pay under our Long-term variable pay scheme. Both schemes are explained in the Remuneration Committee report – see page 120.

CHIEF EXECUTIVE'S REVIEW

WE KNOW WE NEED TO GO FURTHER AND FASTER TO MAKE THE STEP CHANGE IN PERFORMANCE TO MEET THE NEEDS OF OUR CUSTOMERS, COMMUNITIES AND STAKEHOLDERS.

Peter Perry
Chief Executive Officer



Introduction

Having now concluded the 2020 to 2025 investment period, we have made good strides in enhancing our infrastructure, maintaining a good level of customer service while continuing to improve some key performance measures and accelerating investment. This is helping us address some key environmental challenges in line with customer, stakeholder and regulatory expectations. We successfully navigated some of the biggest challenges of our time (Covid-19 pandemic, cost of living crisis and significant weather events such as storms and drought) while also dealing with some of the most intense scrutiny of the company and the sector since the formation of Glas Cymru in 2001.

As we embark on the new investment period for 2025 to 2030, we know that we need to go further and faster if we are to make the step change in performance needed to meet the evolving needs of our customers, communities and stakeholders. We are expending every effort to improve areas of performance which will enable us to exit the Ofwat 'Lagging' category and Natural Resources Wales 2-star EPA category as soon as we can. We have established a business-wide transformation programme (Trawsnewid) to drive improvements in performance and efficiency. Through this programme we will ensure that we continue to drive long-term, sustainable benefits through our not-for-shareholder model. This is being enabled through clear action plans aimed to maximising the capability of our people, technology and the additional investment that we are making over the next 5 years. Ultimately

the transformation programme will allow us to do more with the money we receive from customers.

FY 25 performance

The last 12 months included some extreme weather events as evidenced by our operational response to Storm Bert (November) and Storm Darragh (December) with our Gold Command and major incident team running 24/7 from 23 November to 12 December to maintain services and mitigate the impact of the weather. This was our largest scale response since the freeze/thaw in December 2022.

Storm Bert caused extensive flooding at many of our water treatment works, and power supply interruptions at 50 of our 64 water treatment works. Landslips and localised flooding made conditions dangerous, and it was almost impossible to transport plant and equipment to sites to help alleviate the situation. This weather event led us to issue a precautionary Boil Water Notice to over 12,000 households in the Rhondda Fawr after we noticed elevated turbidity following extensive flooding on site at Tynywaun Water Treatment Works in Treherbert, with water ingress to the final tank after a month's worth of rain fell here in less than 48 hours. This required us to undertake 24/7 working on site to expedite the recommissioning of a second final water tank that was not being used at the time as it was part of the inspection and cleaning programme.

The precautionary Boil Water Notice was in place for three weeks and I would like to thank the local

communities for working with us during this period. By taking speedy proactive measures we protected water quality, and no deterioration in quality impacted our customers. We set up three bottled water stations to support customers and delivered over 500,000 bottles to schools, care homes and vulnerable customers on our Priority Services Register. As well as keeping stakeholders informed and addressing issues being raised by their constituents, we swiftly provided compensation to individuals and goodwill payments to community groups. As always, we have implemented learnings from the incident to reduce the impact of similar events in the future. We deeply regret when our customers are affected by issues in our networks, and we continue to do all we can to avoid such disruption in the future.

Storm Darragh brought a different challenge with the high winds and rain which again hit areas that had been impacted by Storm Bert but also brought extensive power interruptions with over 100 water pumping stations offline, a third of our water treatment works running on generators and access restrictions to sites with many rivers in spate. Much of Wales was subject to a Met Office Red Warning for wind, and the associated travel restrictions hindered our response.

Power restoration was slow, with large parts of west Wales in particular not receiving reliable power supply for two weeks following the storm, which resulted in substantial loss of pumping and pressure control across the rural networks in west Wales. Despite these challenges we responded robustly to

limit the customer impact to around 4,000 properties throughout the storm: we diverted resources to incident response duties and, to alleviate supply interruptions, we deployed our tanker fleet to maintain storage impacted through pumping restrictions caused by power loss.

In January 2025, we identified a burst trunk water main near the Bryn Cowlyd Water Treatment Works (WTW), Dolgarrog, Conwy. It was caused by ground movement with a large boulder puncturing the high pressure pipe which was 2.5m beneath a river bed. Bryn Cowlyd's network is nearly 900km long, includes 13 underground storage tanks and serves more than 40,000 households. Given the damaged pipe's location and the need to divert the river to gain access to the pipe during extremely inclement weather, while also keeping colleagues safe, the repair took several days which eventually affected the supplies of 40,000 households as the network drained over several days. While we tankered water to hospitals and prioritised the provision of bottled water to more than 7,600 customers on our Priority Services Register and 60 local care homes, our efforts to set up bottled water stations were initially hampered by the lack of bottled water among other water companies given the impact of the freeze/thaw conditions over preceding weeks which had caused bursts. Through mutual aid arrangements, we secured enough bottled water to set up 4 bottled water stations within 48 hours, with 150 volunteers giving over 1.5 million litres to customers. We have reviewed how this incident was managed and identified lessons that will help us improve how we manage future incidents. This incident lasted 5 days and was one of the most significant we have managed for several years.

We never regard extreme weather as an excuse for poor performance, though it can clearly be a cause of disruption to our operations. The examples above illustrate the challenges we face to mitigate the impact of these extreme events. Climate change is something we must all adapt to, and it is our job to protect our customers and the environment from its impact on our operations. The unprecedented weather this year has highlighted that we need to go further, move quicker, and find more creative and innovative solutions to meet the expectations of customers and stakeholders.

Protecting the environment

Our overall environmental performance has meant that we were assessed by Natural Resources Wales at a 2-star rating in our Environmental Performance Assessment (EPA) for the 2024 calendar year. We are disappointed by this and are doing all we can to recover to 3 stars in AMP8. We know this will be challenging, as the performance standards to do this are tightening over the period.

As we approach the start of the new regulatory period, in FY 25 we have seen improvements in performance on some key measures that will provide a solid foundation to improve our EPA score. Through improved targeting of maintenance and deployment of technology, we are reporting fewer sewage works at risk of failing compliance, fewer blockages and fewer collapses of sewers.

We know there is much more to do, so we will continue to apply the learning from the 'green shoots' we are beginning to see to regain better performance in this critical measure.

Wider investment in river health

We are committed to improving river water quality as the health of Wales' rivers is a major and legitimate concern. Although water companies are not the only contributors affecting river water quality, we clearly have a major part to play in solving the problem and delivered an additional discretionary capital investment of £100 million in AMP7 targeted to address river water quality, in particular phosphate removal from rivers in special areas of conservation (SAC).

We cannot achieve this alone and so we continue to play a part in the multi-stakeholder Better River Quality Taskforce (BRQTF), being led by the Welsh Government, with the aim of facilitating collaboration to address with urgency the challenges to river water quality in Wales. We remain open and eager to work with others and are encouraged that our investment in river water quality was acknowledged during the Restoring Welsh Rivers Summit in Cardiff in November 2024. This was chaired by the Archbishop of Wales and brought together more than 90 stakeholders, including scientists, farmers, environmentalists and water

industry representatives to work together on ways to improve water quality.

Bathing waters

In 2024, 108 (98%) of the 110 designated bathing waters measured in Wales met at least the minimum standard of the Bathing Water Regulations (compared to 92% in England), and 75 (68%) were of an 'Excellent' standard (compared to 64% in England). These assessments by Natural Resources Wales show that the overall water quality has remained fairly consistent with the classifications at the end of the 2023 season. Unfortunately, two of the designated bathing waters in Wales have been ranked as poor. Our operations are only one of a number of potential causes of poor bathing water quality, and we are working closely with partners to investigate the root cause of poor status and to understand what we can collectively do to resolve the situation.

We appreciate the health and wellbeing benefits derived from swimming and this is why we applied for Llanishen Reservoir to become a designated inland bathing water venue. The designation was confirmed in May 2025. See page 75 for more on this exciting new development.



CHIEF EXECUTIVE'S REVIEW

CONTINUED

TO ASSIST WITH AFFORDABILITY AS BILLS RISE, WE WILL MAINTAIN AND INCREASE WHERE POSSIBLE THE SUPPORT WE PROVIDE THROUGH SOCIAL TARIFFS.

Capital investment

In FY 25, we have invested £629 million in capital projects, a 31% increase on the previous year, which meant that we were in a good position to start the new investment cycle for 2025 to 2030. Our Business Plan for the next five years is set to be the biggest investment period in our history, with over £4 billion allocated to our capital investment programme. 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.

Customer bills and support

Since Welsh Water came under the ownership of Glas Cymru in 2001 the company has been able to keep bill increases below the rate of inflation each year up to 2020, while delivering over £6 billion of investment and significantly improving levels of service. Our bills have increased by significantly less than most other water and sewerage companies since 2001. Over the last decade we have delivered falling bills in real terms.

However, we announced in February that the average annual household bill for FY 26 would increase by 27% from £503 to £639. While this increase is similar to the industry average of 26%, we know that this is a significant real terms increase: but it reflects the cost of improvements to our infrastructure to address harm caused by storm overflows, deal with the impacts of climate change, meet current regulatory and societal expectations, and secure long-term resilience.

To assist with affordability concerns, we will maintain and increase where possible the level of support we provide through social tariffs. The level of the company contribution to social tariffs (and other affordability support) in our plans for 2025 to 2030 is £73 million, which is consistent with the level of support in 2020 to 2025 in real terms despite recent periods of high inflation. This funding is made possible by our not-for-shareholder model.

Health, safety and wellbeing

The health, safety and wellbeing of colleagues continue to be key priorities and we continue to strive for a culture where everyone works to the highest standards of safety, feels safe to give and receive constructive challenge, and to either stop an unsafe working practice or recommend a better, safer way to complete a task. This is reinforced in our new Health, Safety and Wellbeing strategy for 2025 to 2030.

We strive to create an environment where it is second nature for us all to consider the health and safety implications of our actions, continually improving safety standards and reducing the risk of accidents. A key performance metric is RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) and while we have one of the lowest injury rates when compared to other water UK companies, we experienced 8 RIDDORs in FY 25 (FY 24: 5), of which 7 occurred within our supply chain, and we are continuing to work with contractors to review areas for improvement including, how we control access to our sites and improving the health and safety learning among and management of sub-contractors.

Final reflections on the year

Reflecting on the past year, it has been one of considerable challenge, as we felt the impact of climate change on our operations and continued to face heightened scrutiny of our sector. However, we are committed to improving key areas of performance. This will be supported by the delivery of our biggest ever capital programme and our securing of regulatory approval for a Business Plan that has the potential to transform our business.

This will need leadership, hard work and determination, meaning our people are absolutely critical to our success. I take this opportunity therefore to thank my colleagues who inspire me every day with their tireless commitment to taking care of one of life's essentials. We achieved a 76% employee engagement score in our 2024 annual colleague survey, (75% in 2023), and our commitment to sustaining high levels of open, transparent communication will be essential as we enter AMP8 in readiness for the step up in performance we are striving for.

Thank you

I am grateful to my leadership team for their relentless passion, drive and determination, and their ability to continue stepping up to every challenge that comes our way. I would like to thank Alastair Lyons for his enormous contribution to the company over eight years as Chair of the Board. We will miss his contribution in

supporting and effectively challenging the management team during a period of significant scrutiny for the company and wider sector. I am delighted with the appointment of our new Chair, Jane Hanson, and look forward to working with her, along with the wider Glas Cymru Board including our new Non-Executive Directors.

I also wish to take this opportunity to mark the passing of a highly valued colleague, Tony Harrington, at the end of 2024. Tony was a long-standing and highly respected Environment Director at Welsh Water, and honorary Professor at Cardiff University. Tony made a huge contribution to improving the water environment, in particular disposal of items into sewers. Tony provided unwavering support to UK Water Industry Research and Water UK's Environment Committee and will be greatly missed by those who worked with him.

My colleague and fellow Executive Director, Mike Davis, announced his retirement in recent months. Mike provided great guidance and support throughout his time with us and I am very grateful for his contribution.

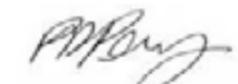
Looking forward

Our customer-led Business Plan, with its cost efficiency challenges and record levels of investment, presents us with a major challenge for the next five years. Our plans are set out in detail on our microsite here:

<https://www.dwrcymruplans.com/link>. Our Trawsnewid transformation programme underpins these plans and will fundamentally change the way we work and make us sustainable for the long term.

With no shareholder distractions, we are uniquely placed to ensure that our Plan is driven entirely by the needs and preferences of our customers and other stakeholders and will deliver for our customers and communities. Next year, Welsh Water will celebrate its 25th anniversary since becoming the first, and still the only, not-for-profit utility company in Wales and England. The next 12 months are therefore critical in terms of driving service improvements, along with effectively communicating the benefits of our non-shareholder model, as this will help ensure that we play our part in setting the strong foundations needed for the next 25 years of Glas Cymru.

I will be retiring in early 2026 after more than 40 years in the company. I am very proud of what Welsh Water has achieved, its ethos and the people who work here. I wish the business, and my successor, every success in the years ahead.



Peter Perry
Chief Executive Officer
6 June 2025

FINANCIAL REVIEW

AMP8 PRESENTS OPPORTUNITIES TO IMPROVE SERVICE, BUT ALSO GREATER UNCERTAINTY. IT IS VITAL THAT WE DELIVER STRONG FINANCIAL PERFORMANCE AND MAINTAIN THE CONFIDENCE OF OUR INVESTORS.

AMP7 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.

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.

Financial resilience and outlook

Over the course of AMP7 we have maintained a gearing ratio of 58% to 62%. Increased capital investment the main driver 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 has 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 group 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 page 56.

Financing

Over the past year, we 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 require refinancing of £2.5 billion.

£508m*

CAPITAL INVESTMENT

£46m

CUSTOMER RETURN OF VALUE

£383m*

OPERATING PROFIT

62%

GEARING

5.1%

AVERAGE COST OF DEBT

£1,288m

LIQUIDITY

Performance in FY 25

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 £383 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%, being higher than our effective cost of interest at 5.1% (FY 24: 4.7%).

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 £50 million to £383 million. Our operating cash flow of £409 million was used to invest in our capital assets (£508 million), an increase of £128 million from last year. Further commentary can be found on the immediately following pages.

Our balance sheet remains strong with total available liquidity of £1,288 million and reserves £1,386 million. At 31 March 2025 net debt on a CTA basis grew to £4,815 million.

A summary of our financial performance for the year is set out below:

| | 2025 £m | 2024 £m | % change |
|---|--------------|------------|----------|
| Year ended 31 March | | | |
| Revenue | 920 | 928 | 1% |
| Operating expenses | (416) | (394) | 6% |
| Infrastructure renewal expenditure (IRE) | (121) | (101) | 20% |
| Operating profit (before depreciation and amortisation) | 383 | 433 | 12% |
| Depreciation and amortisation | (391) | (387) | 1% |
| Net finance expenses | (202) | (211) | 4% |
| Net gain/(loss) on financial instruments | 65 | (7) | |
| Loss before tax | (145) | (172) | 16% |
| Capital expenditure including intangibles | (508) | (380) | 34% |
| Cash (outflow)/inflow in year | 471 | (212) | |
| Liquidity | 1,288 | 487 | |
| Net debt | 4,815 | 4,503 | 7% |
| Gearing (%) | 62% | 60% | 2% |
| Credit rating (Moody's/S&P/Fitch) | Baa1/BBB+/A- | A3/A-/A | n/a |

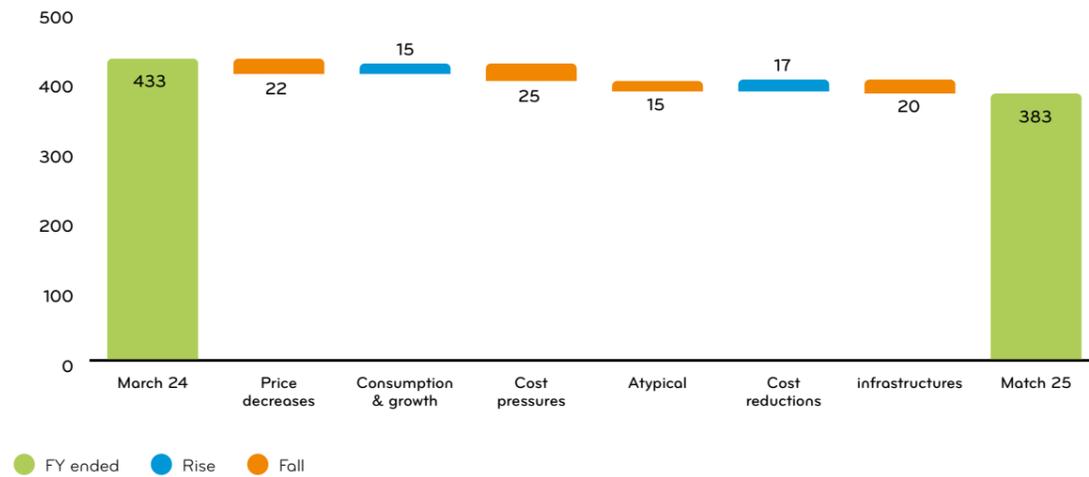
* Operating profit is reported before depreciation and amortisation, page 158.

* Capital investment represents purchase of property, plant and equipment and intangibles, net of grants and contributions, page 161.

FINANCIAL REVIEW

CONTINUED

Year-on-year operating profit, inclusive of IRE (£m)



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 (see also page 29).

Operating profit

Our operating profit, which excludes depreciation and amortisation, for the year reduced by £50 million to £383 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 £25 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, excluding infrastructure renewals expenditure, 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.

Net finance costs

Net finance expense was £47 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 £58 million. The combined impact of debt issuances (£950 million) and rising interest rates resulted in higher net interest payable of £22 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 Group continues to secure efficient funding 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 £202 million in the income statement (page 158) is higher than the £149 million net

cash interest paid per the statement of cash flows (page 161). The difference is largely due to non-cash indexation charges of £69 million, partially offset by £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 £65 million, consisting of cash settlements from derivatives of £40 million (FY 24: £37 million), non-cash gain on an early settlement of a long-term swap of £17 million, and a non-cash gain of £8 million (FY 24: loss of £7 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.

Cash flow

Overall, cash and cash equivalents increased in FY 25 by £471 million (2024: £212 million decrease) and details of the principal movements in the cash flow are provided in the table below:

| Cash movements | Year ended 31 March | | | Explanation |
|--|---------------------|--------------|------------|--|
| | 2025 | 2024 | Change | |
| New debt | 950 | 150 | 800 | In the second half of 2024 we successfully raised £750 million through class B Sustainability Senior bonds at a fixed rate of 5.75%, and £200 million in banks loans over 5 to 7 year terms. |
| Repayment of borrowings | (231) | (189) | (42) | Debt payments increased with the settlement of a finance lease contract during the year of £50 million and repayment of £80 million to the Group's RCF facility. |
| Net interest paid including derivative settlements | (149) | (175) | 26 | Reduction in cash outflows resulting from easing of inflation reducing our interest costs. |
| Capex investment | (508) | (380) | (128) | Refer to capital investment on page 26. |
| Operational cash flow movements | 409 | 381 | 28 | Positive working capital movements of £73 million offset by reduction in operating profit of £50 million. |
| Other | - | 1 | (1) | |
| Cash (outflow)/ inflow in year | 471 | (212) | 683 | |



FINANCIAL REVIEW

CONTINUED

Liquidity

At 31 March 2025, total liquidity stood at £1,288 million, comprising unrestricted cash and cash equivalents of £638 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 16(d)). During the year, the Group successfully raised £950 million, comprising Sustainability Senior bonds and new bank loans. Over the next five years, the 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%.

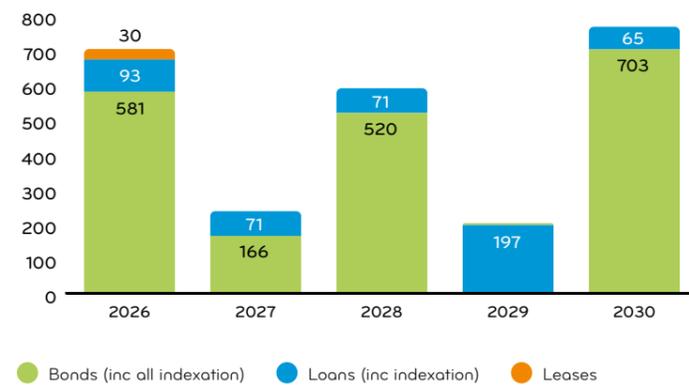
Net debt

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 common terms agreement basis at 31 March 2025 amounted to £4,815 million, an increase of £312 million on the prior year. Funding

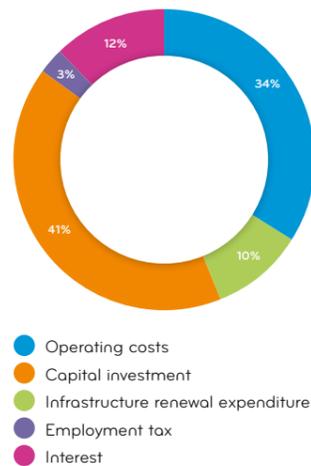
our capital investment programme and the servicing and accretion of debt are the main contributors to the rise in net debt.

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.

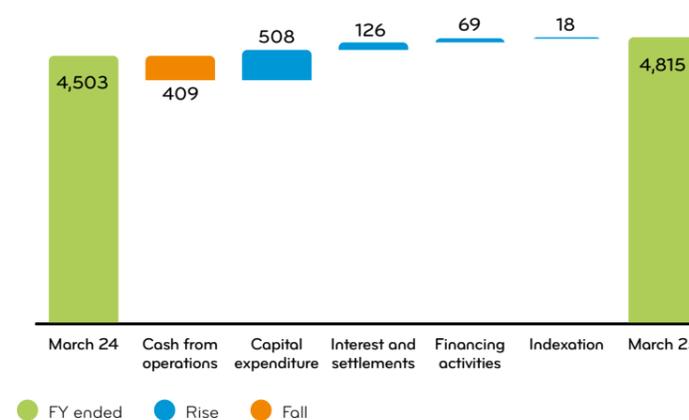
Debt maturity in 5 years (£m)



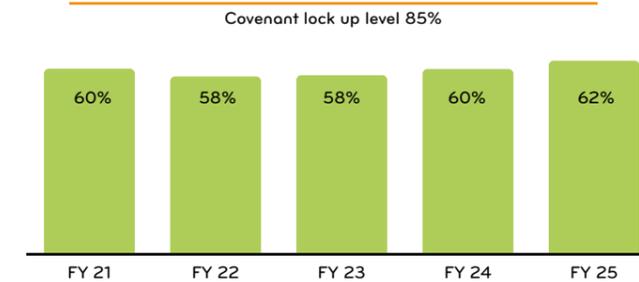
What we spent in FY 25



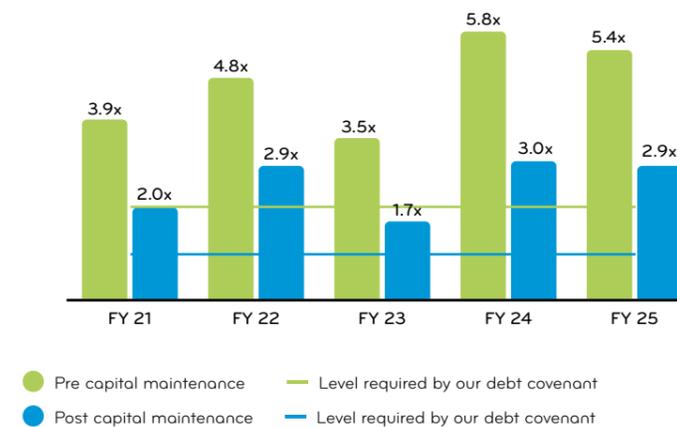
Year-on-year net debt movement (£m)



Net Debt/RCV



Senior interest cover ratio



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.

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.

| | Moody's | S&P | Fitch |
|----------------|---------|------|-------|
| Class A | A1 | AA | A- |
| Class B | Baa1 | BBB+ | A- |
| Class C | Baa3 | BBB- | BBB |

Dividends

As a company limited by guarantee we do not pay dividends to shareholders – no dividends were paid during the year (FY 24: none). No intra-group dividends have been declared. Any surpluses realised from our regulated business are retained for the benefit of our customers. See our dividend policy on page 141.

Taxation

No corporation tax will be payable for FY 25. As in previous years, taxable profits are more than offset by capital allowances on our investment programme.

Return of value

The Group's corporate structure, with no shareholders and therefore no dividends to be paid, enables surpluses to be applied for the benefit of Welsh Water's customers. The Board seeks to return value to customers while maintaining gearing below 65% and preserving strong credit ratings and financial resilience for the longer-term benefit of customers. During AMP7 our non-shareholder model has enabled us to invest additional funds of £160 million for the benefit of our customers through accelerated investment in service delivery and social tariffs to support our most vulnerable customers. This includes an additional discretionary capital investment commitment of £100m to address river water quality, in particular phosphate removal at special area of conservation (SAC) rivers, of which £32 million was spent in FY 25.

RISK MANAGEMENT

Enterprise Risk Management process:

Our Enterprise Risk Management (ERM) Framework provides the structure for us to anticipate and report threats to meeting our customer commitments and to respond effectively when risks materialise. This framework includes:

- A Group-wide risk management process
- An established governance structure providing Board oversight of risks, supported by oversight of the risk management process by the Audit and Risk Committee and a 'Three Lines of Defence' model that establishes ownership of risk management processes.
- A Board-led approach to risk appetite – last reviewed in October 2024 – based on our customer commitments and strategy.

Our Enterprise Risk Management framework

The ERM framework establishes an ERM process which defines how risks are managed and reported across Welsh Water, illustrated below.

The Group operates the ERM using a 'Three Lines of Defence' model which ensures accountability and ownership for risk identification, assessment, mitigation and monitoring at an asset, project, function and strategic level. The Board oversees the system ensuring it aligns with our risk appetite and strategic risk objectives. The Board also oversees policies, which define risk, conduct and control requirements for the Group.

Managing risk to meet our customer commitments

We carefully manage risks in line with our strategy and our primary purpose of providing essential services to 3.1 million people.

The three lines of defence

Welsh Water operates the three lines of defence model. Under this model:

Informing Reporting

First line

Operational management has ownership, responsibility, and accountability for directly assessing, managing and mitigating risks.

Second line

Specialist control functions and internal governance bodies monitor and support effective risk management by the first line. They also ensure the flow of risk information up and down the organisation, including risk escalation protocols.

Third line

Independent assurance over the adequacy of design, effectiveness of operation and sustainability of the systems of internal control.

| First Line | Second Line | Third Line |
|----------------------------------|----------------------------------|----------------|
| All employees | Risk team | Internal Audit |
| Business area and asset managers | Dŵr Cymru Executive | |
| Project managers | Governance groups and committees | |

The Board and Audit and Risk Committee sit outside, and regularly receive reports and assurance from, the three lines of defence.

Risk appetite

Our risk appetite is defined in the Group strategic risk objectives which are reviewed and approved by the Board, and align to our strategic themes – Service Delivery and Environment (see page 13) – and are used to support risk-aware decision making.

1.1 Overarching risk objective

We deliver essential public health services and protect the environment via our drinking water and wastewater critical national infrastructure. This is a key focus for risk management in the business.

Our overall appetite for risk is **averse**¹ to **cautious**² and centres on our assessment of the factors that have the potential to adversely affect delivery of those services, our regulatory and statutory obligations, the communities we serve, our employees and ultimately our reputation.

Managing these risks to within appetite means that appropriate mitigation measures are in place, with clear ownership and subject to regular review. This enables more effective provision of water and sewerage services, builds trust with our stakeholders and allows us access to lower-cost financing for long-term investment in our vital infrastructure.

1.2 Strategic risk objectives

i. **Strategy and change:** The Group's appetite for strategic and change risks is **open**³, prioritising the protection of its reputation and relationships with customers and stakeholders. Nonetheless, the Group values innovation and is receptive to implementing innovative solutions that provide enduring benefits for customers and the broader community.

ii. **Environmental:** The Group's appetite for environmental risks is **averse** with it being committed to minimising its impact on the environment through sustainable practices, reducing its carbon footprint, setting measurable targets, monitoring progress, and engaging with stakeholders to demonstrate transparency and accountability.

iii. **Governance, regulation and relationships:** The Group's appetite for governance, regulation and relationships risks is **averse**: maintaining stakeholder confidence is a key priority. The Group has no appetite for risk taking that would result in reputational damage or adverse health and safety conditions for any internal or external stakeholders.

iv. **Operational** (including people, health and safety): The Group's appetite for operational risk is **averse**. We prioritise maintaining safe and secure operations, protecting employee wellbeing, and safeguarding assets. To minimise exposure, we implement rigorous controls, invest in training, and continually improve our processes. Our focus is on proactive identification, mitigation, and management of risks to ensure the safety, security, and resilience of our operations, people and assets.

v. **Financial:** The Group's appetite for financial risk is **cautious** with a focus on stable and efficient access to funding and liquidity. Our goal is to ensure that we can meet both planned and unexpected cash outflow requirements as they arise. To achieve this, we conduct stress testing for unexpected events prior to plan approval. This approach reflects our commitment to maintaining a prudent and responsible approach to managing financial risk.

vi. **Information, technology and security:** The Group's appetite for information, technology & security risk is **averse**, recognising the importance of safeguarding information, maintaining robust systems, and ensuring secure operations. We minimise exposure through proactive risk identification and mitigation, and continual improvement of our infrastructure's resilience and integrity, protecting our assets, maintaining business continuity, and upholding stakeholder trust.

Developments during the year – climate change-related risks

We continue to integrate understanding of the impacts of climate change into our ERM processes, alongside the embedding of climate scenarios within strategic planning. Risks of failing to adapt to climate change or meet carbon targets are regularly reviewed by the Board. A more detailed suite of ESG and climate change-related risks receives further focus at the ESG Committee of the Board (see page 116).

¹ An averse risk appetite indicates a reluctance to take risks. Priority is given to preserving stability through low-risk strategies that minimize exposure to uncertainty. Predictable outcomes are preferred, avoiding even moderate levels of risk.

² Cautious – A willingness to accept some risk in a controlled manner. A balance is sought between risk and reward, being mindful of potential downsides while open to opportunities.

³ An open risk appetite indicates receptiveness to calculated risks for innovation. Risk owners are comfortable with uncertainty and understand risk-taking is inherent in achieving goals. New ventures or innovative solutions may be explored with prudence through risk assessments to ensure risks are managed effectively and aligned with objectives. A balance is sought between embracing opportunities and managing risks responsibly.

PRINCIPAL RISKS & UNCERTAINTIES

CONTINUED

| Principal risk | Potential impact | Mitigation | Changes over the period | Risk trend FY 25 |
|--|---|--|--|---|
| <p>1</p> <p>Environmental performance and reputation</p> | <p>There is a risk that we may not effectively manage our impact on the environment, meet environmental standards, and we may not adequately address the concerns of stakeholders regarding environmental issues. This could result in a loss of trust from our stakeholders and lead to significantly increased costs, potential damage to reputation/customer trust, and/or significant fines/prosecutions.</p> | <p>Key operational activities are controlled using management systems certified to ISO 14001.</p> <p>We continue to work in partnership with community groups, the IEAP, government and regulators to understand environmental concerns and agree priorities for current and future investment.</p> <p>On river water quality, and SOs specifically, we work with the Welsh Government River Water Taskforce, Nutrient Management Boards and other similar groups to develop our plans. A key example is Our Manifesto for rivers in Wales (see online at https://dwcymru.com/rivermanifesto)</p> | <p>Our customers' interest in the environment has continued to increase, reflecting concerns about the global environmental emergency, alongside more local issues such as river water quality.</p> <p>We do not shy away from the fact our operations can impact the environment and we have not met all our performance targets. Our focus is to be transparent, to use data to drive improvements and target our investments for the greatest benefit. In particular, we are focussed on recovering the EPA 3-star rating through continued management focus, and via AMP8 investments in drainage infrastructure and treatment processes.</p> <p>We have released our Storm Overflow Map, which provides near real-time information on our storm overflow activity near to waters in which our customers swim, supporting our action from the Better River Quality Taskforce, to provide more information to our customers. In addition to our investment of over £800 million in wastewater assets in AMP7.</p> | <p>↔</p> <p>see page 33 principal risks graphic for key to risk trend symbols</p> |
| <p>2</p> <p>Business continuity</p> | <p>The failure of strategic assets, workforce, corporate systems, supply chain provision or external events leading to the inability to deliver essential service provision of clean and safe drinking water, wastewater services, environmental protection or cash collection.</p> | <p>Our business continuity plans are regularly tested, and we conduct exercises to prepare for key disruption risks.</p> <p>Our Incident Response Manual and Incident Command Structure enable us to effectively respond to events that may disrupt our services.</p> <p>Additionally, we have the support of the wider industry through the Water UK Platinum Incident Management, which facilitates mutual aid across businesses.</p> | <p>During FY 25, our operational teams experienced significant pressure, including from an unprecedented number of named storms that overloaded some drainage networks. Our operational and business continuity teams managed these events well, averting widespread service interruptions.</p> <p>In addition, we have continued to focus on reducing interruptions to supply, through both developing our procedures and increasing asset resilience. We have continued to modify and refine our water network response procedures, and further key resilience improvements included in our AMP8 planned investments.</p> <p>We have maintained a focus on the development and testing of contingency plans including national fuel and power outages and a pandemic.</p> <p>We recognise that international conflicts (Ukraine, Israel) may continue to generate risks to fuel and chemical supply chains and have put a focus on these in planning and testing activities.</p> | <p>↓</p> |
| <p>3</p> <p>Climate change impacts and transition risks</p> | <p>The risk of failing to mitigate/adapt to accelerated climate change, leading to our infrastructure being overwhelmed by weather events in a part of our operating area; or significantly damaging multiple assets, impacting materially on the environment, service provision, customers and our reputation.</p> | <p>Our business planning processes consider climate change scenarios to ensure we invest appropriately to build resilience.</p> <p>Governance has been enhanced with the formation of a DCE Climate Change Committee to oversee adaptation progress.</p> <p>We are committed to climate change mitigation: during 2021 we launched our 'Journey to Net Zero' strategy to achieve net zero carbon by 2040 (for further information please see page 64).</p> | <p>We continue to experience extreme weather events with growing evidence that climate change is leading to more intense events over time.</p> <p>We have reviewed our adaptation risks through to 2100, reflected accordingly in our TCFD disclosure (see page 40) and in our Climate Adaptation Report published in 2023.</p> <p>We have developed adaptive plans to 2050 as part of AMP8 planning in accordance with guidance from Ofwat, to ensure our plans are adaptable, given the uncertainty in the scale and timing of climate change impacts.</p> <p>During FY 25, Storms Bert and Darragh caused widespread flooding, power outages and major service disruption, representing our largest operational response since the freeze/thaw of 2022. These events highlight the increasing frequency and severity of extreme weather, reinforcing the long-term risks posed by climate change to asset resilience and service continuity.</p> | <p>↔</p> |
| <p>4</p> <p>Health and safety major incident</p> | <p>There is a risk of an employee, contractor, visitor or member of the public suffering a serious injury, ill health or fatality arising out of, or in connection with, our work activities. Although we do everything in our power to avoid personal injuries of any sort, their occurrence raises the risk of prosecution, potential for fines and criminal prosecutions against individual Directors, and loss of reputation. This could occur as a result of failure to establish and/or implement safe assets, safe working practices or suitable contractor management arrangements in line with legal requirements and best practice.</p> | <p>The Chief Executive Officer is the Board director responsible, and the Board reviews monthly updates and half-yearly reports on health, safety and wellbeing issues and performance. The Health and Safety Executive (HSE) and Institute of Directors' (IOD) 'Leading H&S' guidance is used as a 'directing' framework. We use leading and lagging indicators to closely manage risk and performance.</p> <p>There are also frequent and regular communications, training and events across the business. Our operational procedures and policies are aligned with ISO 45001.</p> | <p>We keep health, safety and wellbeing issues under close review, with a weekly update to the DCE's Executive Check-In.</p> <p>We expect confirmation in July 2025 that we have achieved a RoSPA Gold Medal Award (for 8 consecutive years of Gold Awards) for our health and safety arrangements and performance.</p> <p>We conducted our 4th HSE Climate survey in July 2024. It was completed by 66% of our employees. We scored higher than in previous years and also above the HSE industry benchmarks in all 8 aspects.</p> <p>We have reviewed our contractor management arrangements and are updating our Health Safety and Wellbeing strategy and improvement plans for AMP8.</p> | <p>↔</p> |

PRINCIPAL RISKS & UNCERTAINTIES

CONTINUED

| Principal risk | Potential impact | Mitigation | Changes over the period | Risk trend FY 25 |
|--|--|---|--|---|
| <p>5</p> <p>Cyber, information and operational technology (IT and OT)</p> | <p>A major loss or disruption to an IT or OT system, or significant breach of sensitive information, such as from a cyber attack, could lead to significant disruption to operational and customer services, significant reputational loss and potential regulatory censure and fines.</p> | <p>We have an ongoing Cyber Security Programme to deliver security improvements in both our IT and OT environments. Over the past 12 months, we have made significant enhancements to many aspects of our security posture, using the CIS 18 controls as a benchmark. For AMP8, we have now pivoted to the National Institute of Standards and Technology's Cyber Assessment Framework (NIST CAF). Key mitigations currently are:</p> <ul style="list-style-type: none"> A strong cyber culture capability improving the human element of security. Secure remote access for IT and OT systems as well as ensuring all access to OT environments from corporate IT is managed and monitored. Continued enhancement with our Hybrid Security Operations Centre partner, Bridewell, to improve 24x7x365 monitoring of IT and OT environments. Approximately 300 suppliers are managed via Risk Ledger, our third-party security management platform. A robust vulnerability management framework, tailoring reporting and responding to support multiple technology operational teams across IT and OT systems. Continued use of an enterprise-class cyber threat intelligence (CTI) platform, giving us real-time, actionable threat information. Our cyber team, comprising Security Architecture, Security Consultancy, Cyber Culture and Security Operations, supports the wider organisation in implementing controls to prevent, detect and respond to threats, running cyber exercises from tactical to executive level. We participate in industry and government forums and have been embedded in wider exercises such as NATO's Defence Cyber Marvel and Defra's Exercise Crimson Kraken. | <p>Global threats continue to be a concern which means that we continue to operate at the highest alert level. We expect this to continue throughout 2025 and beyond.</p> <p>The implementation of Abnormal Security has seen a reduction of over 80% in phishing emails reaching inboxes. This is somewhat offset by increased sophistication of phishing emails using generative AI.</p> <p>The Cyber Warriors network of security ambassadors was launched in 2024 and will be fully implemented over 2025.</p> <p>We continue to deploy endpoint protection and alerting capability into OT environments improving our ability to quickly detect and respond to cyber incidents.</p> | <p></p> <p>see page 33 principal risks graphic for key to risk trend symbols</p> |
| <p>6</p> <p>Operational performance and costs</p> | <p>Performance below agreed AMP efficiency targets risks restricting delivery of customer outcomes, attracting material Outcome Delivery Incentives (ODI) financial penalties and eroding customer trust and regulator confidence in the Company.</p> | <p>The Board approves operational strategies and improvement plans to meet AMP performance commitments.</p> <p>Cost performance reporting and discussion is undertaken monthly by the DCE. The Board also reviews performance against the cost plan at each meeting. Financial plans are reviewed and approved by the Board annually.</p> <p>The DCE tracks change projects throughout the Company to improve performance and meet cost efficiency targets. These are reported to DCE meetings each month.</p> <p>We continue to work with our Data Science team to use innovation such as smart technology to deliver our services more efficiently and to measure our performance.</p> | <p>While we have achieved good performance this year on some important measures, such as C-MeX, Ofwat's key customer service measure, we recognise our performance in some other areas has been disappointing, falling behind our targets on water supply interruptions, water compliance, the EPA rating, waste treatment works compliance and leakage. See pages 18 to 19 for our Performance outcomes in FY 25.</p> | <p></p> |
| <p>7</p> <p>Loss of trust, particularly by our customers</p> | <p>Failing to earn the trust and confidence of our customers risks a loss in customer confidence in our services.</p> <p>As a monopoly supplier of essential public services, we are subject to a high level of scrutiny by, and direction from, government and regulators.</p> | <p>We continue to focus on strengthening customer involvement and engagement in our activities and maintain good stakeholder relations. We regularly meet representatives of key stakeholder groups and seek to optimise the effectiveness of our communications activities.</p> | <p>Levels of customer trust in the water sector have fallen over recent years and a similar pattern has been witnessed in the past 12 months. CCW's annual Water Matters report, showed a year-on-year reduction in trust for all companies. Dŵr Cymru's trust level fell but remained high, with a top-3 ranking. Our own customer research has shown increasing volatility in the score over the course of the year. The cumulative impact of increasing customer and stakeholder expectations, media and political scrutiny of the sector, and poorer-than-expected operational performance have all impacted levels of trust and satisfaction. We continue to engage with customers and stakeholders proactively about service failure where needed as well as the improvements we are making through increased investment and performance improvement strategies.</p> | <p></p> |

PRINCIPAL RISKS & UNCERTAINTIES

CONTINUED

| Principal risk | Potential impact | Mitigation | Changes over the period | Risk trend FY 25 |
|-----------------------------------|--|--|--|------------------|
| 8 People, talent and diversity | The risk that we will fail to attract or retain talent to support all areas of our business; and/or we fail to improve the diversity of our workforce in order to better represent the communities that we serve, resulting in poor business performance. | A 5-year Human Resources (HR) Strategy (launched in 2021) aims for us to be acknowledged as the best employer in Wales. Central to that is supporting colleague development and ensuring our recruitment supports a diverse and inclusive workforce. We report on our Gender Pay Gap in the Board's Remuneration Committee report (see page 120). For information about our work to improve diversity and inclusion in our workforce please see page 72. | Our not-for-shareholder status, being a real living wage employer, and our hybrid working model for office-based colleagues remain attractive to external applicants. This year we have received 1,600 additional applications from under-represented groups, within the rise in overall applications by 5,000. Colleague turnover for 2024 remained comparatively low at 8.65%. | ↔ |
| 9 Finance (funding) risk | The risk of the cost of raising new debt becoming more expensive than the current price control allows or becoming more difficult to obtain. This could be caused by the wider economic environment or a decrease in the credit rating of Glas. Lenders may also be unable to offer additional finance for a few months in the event of financial markets disruption leading to an impact on cashflows. | We closely monitor the funding environment in various debt markets, particularly with regard to widening macroeconomic volatility, geopolitical uncertainty and the impacts of global events. We closely monitor our credit ratios and funding requirements, and our business plans target the maintenance of a strong credit rating. We prepare to raise new debt well in advance of when it is required so that we can take advantage of periods when market liquidity is strong. We manage our exposure to inflation and interest rates via our hedging policy. We manage energy input prices through self-generation, financial derivatives and long term PPAs. | We have increased our liquidity headroom to £1,288 million ahead of the funding requirements in AMP8. This consists of cash and cash equivalents of £638 million and an undrawn revolving credit facility of £650 million. We raised new debt of £950 million in the year through a combination of bond issues and bank loans. We also adjusted our hedging portfolio to reduce the proportion of debt exposed to RPI. The year was characterised by uncertainty over the outcome of the Price Determination and events at other companies in the UK water and waste sector. These events drove credit spreads higher by around 30 basis points for much of the year. However, once the Final Determination was released in December much of the uncertainty over the financial outlook was resolved and funding spreads recovered to their previous levels. Welsh Water bonds continue to be priced at the tighter end of the sector and the appetite for its bonds remains healthy. Recent geopolitical events, including future trade tariffs, have led to significant macroeconomic and market volatility. This includes rising bond yields, increased inflationary pressure, and volatility in global financial markets – all of which could impact funding costs and availability. These risks may also affect customer affordability and payment behaviours. | ↑ |

Emerging risks faced by the Group

Emerging risks are discussed in depth by the Board twice each year.

| Principal risk | Potential impact | Mitigation | Changes over the period | Risk trend FY 25 |
|---|---|---|---|------------------|
| 1 Substances of emerging concern (Wastewater & Drinking Water) | Emerging contaminants creating scientific, social and political interest leading to possible onward impacts on water and wastewater treatment processes that may affect our carbon targets and/or create public health concerns. (Current examples are micropollutants such as microplastics, man-made chemicals such as PFAS and pharmaceuticals.) | We are following developments in environmental and drinking water regulation and supporting research by the UK Water Industry Research body (UKWIR) and others into the potential (treatment and public health) risk. Meanwhile we follow regulatory guidance. | Significant media interest and a growing research focus on 'forever chemicals'. A European media consortium led by Le Monde published a 'Forever Pollution Project 2.0' report in Jan 2025 which has raised public awareness of the extent and cost of removal of PFAS from the water cycle. Drinking Water Inspectorate (DWI), to analyse all drinking water sources for the presence of PFAS (perfluoroalkyl and polyfluoroalkyl substances) and have risk assessments in place to mitigate risk. This is now formalised for all water companies as a Legal Undertaking in AMP8. To date, our monitoring programme has not identified significant levels of PFAS in our water sources, which we use to provide drinking water. European Chemicals Agency (ECHA) has approached the EU Commission to impose a ban on non-essential PFAS. This has received significant support although it is unlikely to become law until 2027/28. PFAS (monitoring and standards) is included in the Drinking Water Directive (DWD) recast and limits for PFAS are expected to tighten. England and Wales have not adopted the DWD. In the future, Urban Wastewater Treatment Plants (UWWTPs) may be required to remove PFAS from wastewater. This would be part of the effort to manage risks of exceeding Environmental Quality Standards (EQS) values or impacting drinking water resources, as per Article 18 of the revised UWWTD. United States Environmental Protection Agency (US EPA) enforced (first ever) national drinking water standard for PFAS (first time in 26 years that US EPA has set a legal limit for a contaminant in drinking water) | ↔ |
| 2 Legislative divergence | This is a risk of increased costs from compliance with water and environmental obligations that may diverge between England and Wales and/or increased costs arising from diverging interpretations by the environmental regulator. | We recognise some areas of potential divergence, particularly covering waste treatment and SO spill requirements. Our approach in these areas is to work with our stakeholders to develop solutions that best serve our customers' interests. We are actively supporting many interest groups. Our focus remains on developing transparency through the introduction of river water quality monitoring and on the monitoring and reporting of flow compliance. | Collaborating with Water UK and the Welsh Government to understand the complexities around evolving interpretation of the Urban Waste Water Treatment Regulations. Engaging with Natural Resources Wales (NRW) on various permitting and regulatory policy developments affecting all wastewater assets and working through key aspects of guidance clarity with them – through this we are influencing alignment of key guidance such as "spill on a dry day" between agencies Working with the Better River Water Quality Task Force in Wales to agree the pace and nature of required improvements based on environmental need | ↓ |

TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

Strategic context to compliance

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. 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 below.

Compliance statement

Having considered the four TCFD recommendations and the 11 recommended disclosures as well as the 'Guidance for all sectors' as set out in section C of 'Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures', October 2021, here we provide our full TCFD disclosure which is consistent with these recommendations and disclosures. Alongside our TCFD disclosure we have reported in line with the mandatory Companies (Strategic Report) Climate-related Financial Disclosure Regulation 2022 (The UK CFD Regulations).

We acknowledge the significant challenges posed by climate change and our responsibility to address them through adhering to the recommendations of the TCFD. This will provide transparency to our stakeholders and aligns with our

mission to become a world-class, resilient, and sustainable water company for the benefit of future generations.

This is the fourth annual disclosure of our climate change risks, providing an update on our previous TCFD report published in our FY 24 Annual Report and Accounts.

Our TCFD reporting progress

Since adopting the TCFD framework in 2021, we have continually made progress against the recommendations and enhanced our climate-related financial disclosures year-on-year. The table below provides an update on our commitments from the previous year.

| | We said we would | Progress |
|---------------|--|---|
| 1. Governance | Enhance our monitoring of climate risks, recognising that there is ongoing work to develop our Long-term Delivery Strategy, that will set out trigger points, and further work on transition risks. | As part of our PR24 business plan submission, we considered key adaptation actions to respond to our climate change risks. This included the review of: <ul style="list-style-type: none"> Climate Change scenarios mandated by Ofwat, within a Long-Term Delivery Strategy (LTDS). This strategy includes adaptive pathways associated with defined trigger points, to ensure we invest responsibly in line with our understanding of risk. Governance surrounding our adaptation strategy, resulting in the establishment of a Climate Change Committee, which has primary oversight of our climate change strategy and ensures we sustainably meet our strategic goals and public service commitments. |
| | Build upon our already robust corporate and ESG risk governance by developing our governance mapping. This ensures our Board is fully informed of enhancements to risk monitoring and the establishment of trigger points. | We continue to report TCFD risks to our Board's ESG Committee which meets on a quarterly basis, with formal risk reviews every 6 months. We have made significant progress in developing Key Risk Indicators (KRIs) on Climate Change and Carbon targets. Our Climate Change Committee is responsible for monitoring TCFD risks. |

| | We said we would | Progress |
|------------------------|--|---|
| 2. Strategy | Complete a climate adaptation report to articulate our strategy, which outlines our approach to monitor and mitigate priority risks. | We published our first Climate Change Adaptation report in 2023 and expect to update this going forward at least every five years. |
| | Further develop our mitigation and adaptation strategies (in line with our strategic mitigations identified above) and delivery plans in the context of PR24. DWMP and WRMP published during 2024, reflecting the outcomes of consultations in 2023. | Our Climate Change Adaptation report summarises our progress on strategies and plans, including: <ul style="list-style-type: none"> Reviewed and updated mitigation and adaptation strategies Embedded consideration of climate change scenarios in the work underpinning WRMP and DWMP Reviewed our Climate Change Planning Policy to ensure each strategy and plan consider the extent to which climate change is likely to influence cost, performance and risk associated with plans resulting from that strategy We have published several strategic documents: <ul style="list-style-type: none"> Our PR24 Business Plan 2025 to 2030 Our Drainage and Wastewater Management Plan 2023 Our revised Water Resources Management Plan 2024 |
| | Further develop our scenarios for analysing our risks to accommodate tipping points and greater levels of political and climatic disorder, in line with TCFD guidance on scenario analysis. | Our transition risk scenarios consider RCP (Representative Concentration Pathway) 2.6 in 2030 and RCP8.5 in 2030 and are underpinned by drivers including policy legislation and funding change, technology shift and social behaviour change. Our physical risk scenarios consider low likelihood, high impact changes including warming of more than 4 degrees by 2100 and other major global events. Where available, we consider how these hazards are likely to change in a 2 degrees world by 2050 and a 4 degrees world by 2100. |
| 3. Risk management | Develop the financial quantification of risk by March 2024. We will use the multi-capitals approach as part of our improvements to better understand and deal with risk. | Consideration of climate change is embedded into our company-wide Enterprise Risk Management (ERM) framework. We continue to use our ERM risk matrix to score and prioritise climate-related risks in preference to using a multi-capitals approach. The ERM risk matrix severity assessment uses reputational and operational impacts in addition to financial (cash) impacts. Consideration of how best to use the developing multi capital framework for financial quantification of risk. |
| 4. Metrics and targets | Continue to develop short- and medium-term targets for the upcoming price review. | Our PR24 business plan sets out our long-term outcomes supported by short- and medium-term targets. |
| | Identify metrics for ongoing monitoring of progress to mitigate our risks and reach our targets. | Key metrics used to measure and manage physical climate-related risks have been sourced from the Dŵr Cymru Executive team Monthly Monitoring Report (MMR). Transitional risks targets and metrics relating to carbon/adaptation established. |

TCFD

CONTINUED

1. Governance of TCFD

1.1. Summary

Our governance structure has been designed to put great importance on addressing climate change. In addition to dedicated governance focus on risks, we have incorporated environmental considerations into our decision-making processes, to ensure we proactively identify, assess, and mitigate risks with a broad perspective. This approach is essential for ensuring the resilience of our operations in the face of challenges such as climate change, biodiversity loss, and the sustainable management of our water resources.

Oversight: the Board

Reviews risks related to climate change on a regular basis, including papers on a range of service and climate-related topics, which support understanding of emerging climate-related risks and issues.

Oversight: ESG Committee

Develops and oversees the Group's ESG Strategy. Monitors performance against the Company's ESG targets and key performance indicators. Regularly reviews climate-related risks. Approves the approach to TCFD disclosures. Reviews papers on a range of service and climate-related topics, which support understanding of emerging climate-related risks and issues. A summary of each ESG Committee meeting is reported to the Board to ensure continued oversight and alignment on climate-related matters.

Monitors performance against the ESG strategy objectives:

1. long term planning and sustainability
2. achieving our net zero carbon strategy
3. adopting our assets and services to mitigate climate change risks, along with subsidiary 'focus areas' and 'measures', which are monitored quarterly by the ESG Committee

Execution:

CEO: has ultimate responsibility for the group's preparedness for adapting to climate change and driving our mitigation strategy.

CRO: has executive responsibility for risk management governance including the identification, management and proper reporting of climate-related risks and opportunities.

DCE: Climate Change Committee (sub-group of DCE) has responsibility to review climate change risks and opportunities, and for the development of detailed climate change mitigation actions, metrics and targets.

Managing Directors for Water and Waste Services: have responsibility for the implementation of climate change response and the implementation of adaptation plans. Along with the other members of the executive team, they are tasked with managing the risks and mitigating actions, for example by ensuring the company has the necessary resources and skilled people in place to achieve its climate-related objective.

1.2. Oversight of Climate Risk and Opportunities

The Board

The Board has ultimate responsibility for the Group's preparedness for adapting to climate change and driving our mitigation strategy.

Oversight



Reporting

ESG Committee

Our primary vehicle for oversight of climate related risks and opportunities, meeting on a quarterly basis and formally reviewing risks and their mitigations every six months.



Climate Change Committee

The Committee has primary oversight of the Climate Change Adaptation strategy with an underlying objective that adaptation is planned to ensure the Group can sustainably meet its strategic goals and public service commitments.

Verbal and written updates are issued to the Board after each ESG Committee meeting, and every Director has access to the minutes and papers discussed. In addition, the Board and the Executive Committee receive detailed updates on strategic and emerging risks every 6 months, 2 of these risks being climate-related (adaptation and carbon targets). Monthly summary risk updates include any significant changes to these risks.

ESG Committee and Board risk reports are reviewed by the Executive Team, who ensure that climate change risks are identified, and appropriate mitigation planned and implemented to achieve strategic objectives related to sustainability, net zero, and

adaptation. The ESG Committee and the Board also review papers on a wide range of service and climate-related topics, which support understanding of emerging climate-related risks and issues.

Following Executive review, strategic risk and monthly management reports are produced for each of the Board meetings and ESG risk reports are reviewed by the ESG Committee on a 6-monthly basis, with quarterly updates. The Executive Team reviews and develops investment proposals and the delivery strategy which is underpinned by assessments of a range of possible future climate scenarios. A high-level summary of these scenarios can be seen in the strategy section (2.1)

below. Our strategy includes protecting and improving the environment while ensuring this is delivered in a sustainable way, recognising climate change and the natural environment as core considerations.

We have articulated our response to the climate and nature emergencies we face in our PR24 submission¹. Across AMP8, we will invest £49 million for schemes targeted to reduce operational GHG emissions and continue to monitor this against our common performance commitments linked to percentage of CO₂e removed against the 2021-22 baselines and overall reduction in tonnes of CO₂e.

¹ PR24 Business Plan 2025-30. Asset Planning Documents. <https://corporate.dwrwymru.com/en/library/pr24-reports>

TCFD CONTINUED

2. Strategy

We recognise that climate change is currently impacting the way we operate. This is reflected in our strategic and financial planning, including the operational impacts and investment priorities highlighted in the Chair, CEO and CFO sections of this report. In assessing climate-related risks and opportunities we ensure the resilience of our strategy across different time horizons. We will conduct an in-depth

review of our scenarios every five years. In preparing this disclosure, we deemed the current scenarios appropriate in exploring a range of plausible futures applicable to our business planning cycles and adequately covering the potential impacts of climate-related risks arising in the waste and water industry.

The Representative Concentration Pathways (RCPs) scenario analysis is commonly used across the water industry and is a credible, publicly available tool for assessing future water risks. However, we recognise climate change modelling is subject to significant uncertainty associated with whether combined global effort is taken to achieve each scenario and the range of possible temperature outcomes.

Short term (through AMP8 from 2025 to 2030):
aligning with our near-term business planning time frame

Medium term (to 2050):
aligning with our long-term strategy- Welsh Water 2050 and our business outlook time frame, enabling us to think beyond our short-term targets

Long term (2100):
supporting our long-term understanding of risk over time and to explore uncertainties surrounding the transition to net zero

2.1. Time frames

Our risks are assessed across 2030, 2050, and 2100 under the high stress-test 8.5 scenario for physical

risks to consider if society does not make concerted efforts to cut GHG emissions. Our transition risks are tested against RCP2.6 in 2030

(stringent mitigation scenario) and RCP8.5 in 2050.

2.2. Our approach to scenarios, analysis and modelling to inform long-term planning

The focus of scenario analysis is to understand how our climate may change along with concentrations of greenhouse gases in the atmosphere in the future. We apply scenario analysis across our main services

(water, wastewater, biosolids and energy), considering asset lifecycles and planning horizons. Review over short and longer time horizons helps us understand our profile of risks over time.

The impact of climate-related risks and opportunities that may impact Welsh Water requires an analysis of both physical and transitional risks using the following key scenarios:

| | |
|---------------------|--|
| Physical | Tested using scenario RCP 8.5 for 'worst case' physical climate risk across 2030, 2050 and 2100 |
| Transitional | 2030: Tested using scenario RCP 2.6 to reflect the fastest transition required and to consider the highest impact transition risks |
| | 2050: Tested using scenario RCP 8.5, which assumes early mitigation was not adopted in 2030 and more extreme, disruptive policy and economic levers are required to force the world into rapid decarbonisation |

2.3. Considering climate change in our planning

Our Climate Change Planning Policy (2023) continues to be vital in our approach and commitment to consider climate change scenarios in our long-term strategies and plans, including the Water Resources Management Plan (WRMP), Drainage and Wastewater Long-Term Delivery Strategy Management Plan (DWMP) and the Long-Term Delivery Strategy (LTDS). These plans assess the long-term risk to specific assets and systems and optimise adaptation interventions to ensure we achieve our ambitions for customer service and environmental performance, as adaptive plans, under a range of climate scenarios. Subject to regulatory recommendations and

requirements, Welsh Water strategies will normally use RCP 6.0 (medium-high) as the 'most likely' planning scenario wherever possible but will be "stress tested" against RCP2.6 (low) and RCP8.5 (high).

We will produce an updated Climate Change Adaptation Report² at least every 5 years that highlights the key climate risks faced and mitigating actions that are planned or in place, to complement our climate-related disclosures.

To ensure carbon is fully integrated into our strategic decision-making process, the Welsh Water approach to measuring and valuing carbon

emissions follows DES&NZ (2021) best practice guidance and uses the most up-to-date carbon values per tonne of carbon dioxide equivalent (tCO₂e). Estimates of embodied and operational carbon sit alongside the cost estimates for all assets in the Unit Cost Database (UCD) that are then brought forward into the Carbon & Cost Estimating Tool (C&CET). Our multi-capital analysis tool for investment planning uses £309/Tonne of Carbon which is a UK Government endorsed figure³.

² Climate Change Adaptation Report 2023 | Dŵr Cymru Welsh Water (<https://corporate.dwrcymru.com/en/about-us/our-plans>)³

³ <https://www.gov.uk/government/publications/valuing-greenhouse-gas-emissions-in-policy-appraisal>

2.4. Climate change scenarios

| | RCP 2.6 | RCP 6.0 | RCP 8.5 |
|---|--|---|--|
| Long-term delivery strategy (LTDS) | Quantitative and qualitative assessment used to develop preferred pathway | Regulatory requirements do not require strategy against an RCP 6.0 | Quantitative and qualitative assessment |
| Water Resources Management Plan (WRMP) | Modelling used to inform LTDS | Modelling used to develop preferred investment plan | Modelling used to develop stress-tested scenario |
| Drainage and Wastewater Management Plan (DWMP) | Modelling used to inform LTDS | Modelling against equivalent scenario used to develop preferred investment plan | Modelling against equivalent scenario used to develop stress tests |
| Climate Adaptation Report | Not relevant as focus on adaptation in scenarios of significant further climate change (i.e. worse than RCP 2.6) | Quantitative and qualitative assessment | Quantitative and qualitative assessment |
| Net zero carbon commitments | Assessment of requirements to align with meeting this pathway | Net zero ambitions most relevant for fast transition scenario | Net zero ambitions most relevant for fast transition scenario |

<https://www.gov.uk/government/publications/valuing-greenhouse-gas-emissions-in-policy-appraisal>

TCFD CONTINUED

2.5. Climate change scenarios

Climate-related risks and opportunities on pages 50-51 are assessed under the following scenarios, ensuring the resilience of our strategy across different time horizons.

Physical risks

| Our scenarios | Unpredictable weather (RCP 8.5 in 2030) | Tempestuous climates (RCP 8.5 in 2050) | Catastrophic storms (RCP 8.5 in 2100) |
|--------------------------------|---|---|--|
| Scenario narrative | The world has not done enough to limit warming and is on track for a 4-degree rise | The world is still not taking action and has missed 2050 emissions targets. The climate is now stormy with unprecedented extremes | The world has failed to choose a low carbon future and catastrophic storms regularly take lives and damage livelihoods |
| Floods and storms | Winter rainfall will have increased by 6% | Winter rainfall will have increased by 12% | Winter rainfall will have increased by 22% |
| Drought and hot weather | Summer rainfall will be down 9% and average summer temperature will have increased by 1.4 degrees | Summer rainfall will be down 21% and average summer temperature will have increased by 2.6 degrees | Summer rainfall will be down 36% and average summer temperature will have increased by 8 degrees |
| Sea level rise | Average sea level will have risen by 0.11-0.2m | Average sea level will have risen by 0.2-0.39m | Average sea level will have risen by 0.51-1.13m |
| °C increase by 2100 | 1.6 | 2-4 | 4+ |

Data Source: Draft Water Resources Management Plan 2024 and UK Climate Projections (UKCP18) includes regional projections for our operating areas. Temperature projections are based on global average increases by 2100 under each RCP scenario

Transition risks

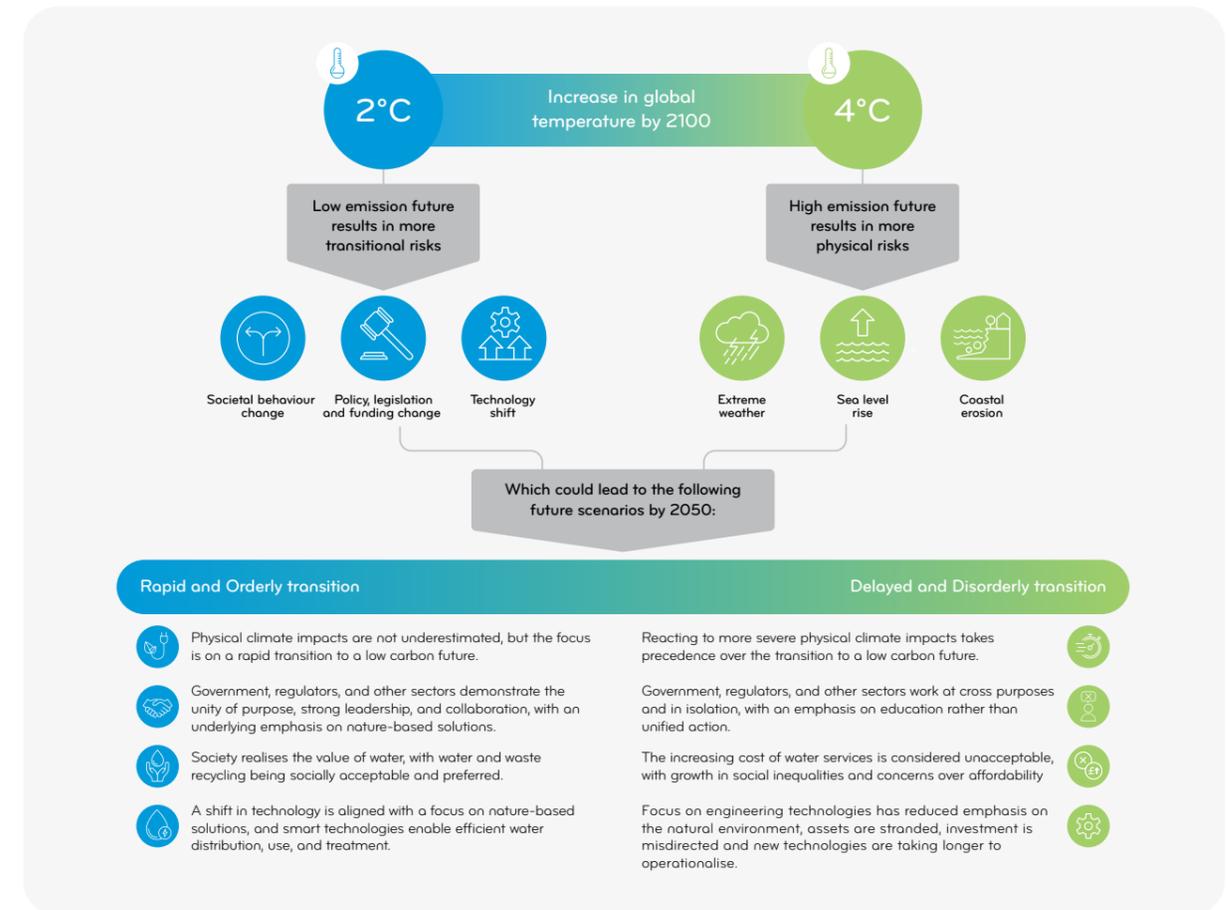
| Our scenarios | Accelerated net zero (RCP 2.6 in 2030) | Tempestuous climates (RCP 8.5 in 2050) |
|--|--|---|
| Scenario narrative | The world has not done enough to limit warming and is on track for a 4-degree rise This scenario models a future where accelerated net zero ambition reduces long-term physical risks but introduces higher transition risks due to rapid policy, investment and compliance changes | The world is still not taking action and has missed 2050 emissions targets. The climate is now stormy with unprecedented extremes This scenario assumes limited global mitigation efforts, resulting in significantly higher physical risks but few immediate transition pressures |
| Regulatory and policy | UK and Welsh Government policy and regulation incentivises significant reductions in greenhouse gas (GHG) emissions before 2030 | Government and society are sent into a state of urgency to act, leading to policy and legislation change, generating huge costs for emitting GHGs and incentivising immediate emissions reductions |
| Technological | Technological developments are made at speed, fossil fuel intensive items are made redundant, impractical, or too costly to operate and replaced by nature-based solutions and efficient technology | Technological developments are fast, but supply chains are heavily constrained |
| Societal | Social behaviour sets expectations of businesses, and the license to operate is tied to delivery of net zero commitments. The value of water is acknowledged, and costs are more easily accepted by customers | Society reacts strongly to climate change impacts and is supportive of climate actions. Customers, however, are less willing to accept costs of previous inaction |
| Radiative forcing by 2100¹ | 6.0W/m ² | 8.5W/m ² |

¹ "Radiative forcing" is the extra energy trapped in the Earth's atmosphere due to greenhouse gases, and RCP (Representative Concentration Pathway) 8.5 (the 'high' case scenario) means 8.5 watts per square metre of additional energy trapped in the atmosphere by 2100, leading to significant warming.

By defining the preceding scenarios, we can represent the material drivers of business impacts as in the graphic below. This has enabled us to explore the transitional impacts, which may be greater in a rapidly orderly transition to a low carbon economy, as well as the physical impacts which may be greater in a delayed and disorderly transition.

We recognise that a delayed and disorderly transition (represented by RCP 8.5 in 2050) may introduce heightened uncertainty due to funding availability, regulatory expectations and customer affordability. Our strategy has been designed to remain resilient across a wide range of scenarios, including this one, by prioritising flexible and adaptive investments that can be scaled or sequenced in line with available funding.

Material drivers of business impacts



2.6. Resilience of the business model and strategy according to the scenarios used

We believe that we have the right strategy⁹, including our long-term strategy Welsh Water 2050 to support our journey to Net Zero by 2040 and address the challenges and opportunities arising from climate change. Ensuring our services are resilient to the impacts of climate change is a top priority and our

strategy for future challenges includes the use of adaptive planning to account for plausible scenarios to at least 2050 for climate change, population growth, technology and environmental ambition.

We recognise that there are many uncertainties around the future climate and potential impacts of climate change and continue to incorporate our scenario modelling in our planning to further understand these impacts, either through the explicit inclusion of uncertainty in projections and/or testing plans against more than one scenario.

We have assessed risk to enable us to describe the resilience of our climate change impacts, using the RCP scenarios that are publicly available and peer reviewed. The assumptions of these scenarios are outlined on pages 46.

Climate change adaptation and transition/carbon targets have been identified as strategic risks and are reflected in our Long-term viability statement (see page 56).

<https://corporate.dwrwymru.com/-/media/project/files/page-documents/corporate-our-plans/water-2050/welsh-water-2050-review-and-update-2022---english.ashx>

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3. Risk Management and TCFD

3.1. Climate change risk management integration

Risk management is an integral part of Welsh Water's business. Our climate change risks are embedded with our Enterprise Risk Management process which provides a consistent method for identification, assessment, control, monitoring and reporting of existing and potential risks to our business. Ownership and reporting are led by our ESG committee. More detail on the ERM process, including roles and responsibilities, can be found on pages 30 to 39 of this report.

Climate-related risks and opportunities were identified from the scenario analysis (pages 45 to 46) across the 2030 to 2100-time horizon. They were assessed using information and data in existing modelling and strategic documents (WRMP, DWMP).

These risks and opportunities are classified and scored within the ERM framework, enabling the Executive, ESG Committee, and Board to assess risk priorities and significance in the longer term, using risk score and appetite values, supporting an objective assessment by the Board of risks and priorities. Based on this indicative view, we confirm these risks do not present a material risk to the overall operation of the business in the short to medium term. Over the longer term, the level of risk is highly uncertain, and adaptation is dependent on future price agreements and funding.

3.2. Climate change risk prioritisation

Climate change risks can be classified in two major categories:

Transition risks – transitioning to a lower-carbon economy may entail policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, and may pose varying levels of financial impacts as well as reputational risk to the Group.

Physical risks – event-driven (acute) or longer-term shifts (chronic) in climate patterns, causing direct damage to assets and indirect impacts from

supply chain disruption. For this disclosure, we have categorised our risks as either acute or chronic, but we recognise our risks can fall under both categories.

Through the identification of the scenarios and risk drivers (outlined in section 3), a long list of risks was developed by mapping asset categories against each of the drivers, to ensure we captured the widest range of risks across our asset base. We assessed risk consequence and likelihood in line with our ERM process, with adjustments made to allow us to better analyse the uncertainties and timescales relating to climate change. These risks were then assessed and prioritised through a series of workshops to identify the top 5 physical and transition risks and opportunities.

Our top 5 physical and transition risks and opportunities remain the same as in our previous TCFD disclosure, with a renewed assessment undertaken for our Climate Change Adaptation report (2023). Following our climate reporting workshop (2024), we reviewed these risks and agreed they remain the top ranked ones. However, we recognise a high level of uncertainty to 2100, and we will continue to horizon scan and monitor a longer list of risks and opportunities which were reported in Appendix A and B of our Climate Change Adaptation report (2023).

3.3. Risks and opportunities

Our strategic risks are regularly reviewed by the Executive team and Board, two of which relate to climate change adaptation and mitigation (Carbon targets). The management of these strategic risks is fundamental to achieving our key risk objectives, one of which is investor funding, recognising the increasing importance to investors of our ESG credentials.

A comprehensive list of risks and opportunities was identified through the scenario analysis process. In the following tables, these have been summarised into the top 5 risks and opportunities for Welsh Water. To assess the impacts of these risks, consideration was given to

quantitative impacts e.g. increase in costs and qualitative impacts e.g. reputational harm.

3.4. Effectiveness of strategic mitigations

There is significant uncertainty surrounding residual risk as our mitigations are contingent upon future investment and funding levels.

We assessed the likelihood and effectiveness of our strategic mitigations reducing the level of risk across 2030, 2050 and 2100 by considering future climate scenarios and the securing of investment.

There is an underlying risk that the current regulatory framework will not support funding for the adaptation and mitigation investments we wish to deliver.

Our mitigation strategies were included in our published Climate Change Adaptation Report (March 2023). While the mitigations reflected our best view at the time, we acknowledge the significant uncertainty around the long-term climate risks. Our adaptive planning strategy will continue to evolve as climate science, regulation, and technology develops and we are due to repeat the climate change adaptation review within the next 2 years.

We recognise that a delayed and disorderly transition (represented by RCP 8.5 in 2050) may introduce heightened uncertainty due to funding availability, regulatory expectations and customer affordability. Our strategy has been designed to remain resilient across a wide range of scenarios, including this one, by prioritising flexible and adaptive investments that can be scaled or sequenced in line with available funding.

While our mitigations are targeted and improving, we recognise that resilience to systematic climate risks also depends on factors beyond our control, including national infrastructure, supply chain dependencies and broader societal adaptation.

Primary risks: transition

| Driver | Risk description | Strategic mitigations |
|-----------------------|--|--|
| Technological | <p>T1 Inaccuracy of emissions reporting</p> <p>There is a risk that actual emissions are different to those reported. This uncertainty results in under or over investment in mitigation activities and exposes the organisation to financial impacts associated with the price controls for emitting GHGs.</p> | <p>Investment in better scientific understanding of our emissions, including estimation of our Scope 3 emissions. This should deliver highly robust and complete emission reporting for Scopes 1, 2 and 3 before 2030.</p> <p>Fugitive emissions reduction programme targeting the annual monitoring and reduction of 50,000 tons of CO₂e equivalent. Completing this work followed by our comprehensive investment in automated treatment control and measurement will verify reductions achieved. This will be completed by 2030.</p> |
| | <p>T2 Inability to adopt new technologies at pace</p> <p>There is a risk that our technological capabilities to support the transition are insufficient to mitigate residual emissions and manage future challenges, e.g. disposal of biosolids, and abating process emissions.</p> | <p>Collaborative innovation programmes, including £37.5 million via the Ofwat innovation fund and partnerships with up to 100 academics and other institutions. Increased to total of £400 million over AMP8. This will be effective at identifying new opportunities however, it is outside Welsh Water's control what sector-wide innovation projects are chosen.</p> |
| Regulatory and policy | <p>T3 Financial impact of extended emissions trading and carbon tax</p> <p>There is a risk that there is increased legislative and regulatory pressure to enter emissions trading schemes or the enforcement of carbon tax, leading to significant costs.</p> | <p>Sustainable Procurement Policy to strengthen our supply chains and reduce scope 3 emissions. There remains a risk that the Cross Border Adjustment Mechanism for carbon tax on imports, which may come into effect in 2026, places cost pressures on product sourcing. However, the aspirations from our Sustainable Procurement Policy and Supplier Code of Conduct should mitigate this to ensure low-carbon products and services are available.</p> |
| | <p>T4 Speed of transition raises costs and competition for resources in supply chain</p> <p>There is a risk that policy forces companies to transition at the same time, causing competition for the same resources.</p> | <p>Sustainable Procurement Policy to strengthen our supply chains and reduce scope 3 emissions.</p> <p>Our LTDS incorporates adaptive pathways, allowing us to invest responsibly in line with our understanding of risk.</p> |
| | <p>T5 Regulatory targets related to embodied carbon are incompatible with the regulatory targets from the NEP</p> <p>There is a risk that embodied carbon and other targets in the NEP may conflict, leading to a failure to meet targets, resulting in reputation damage and/or negative environmental impact, worsening the outcomes for several other risk areas (e.g. ESG credentials).</p> | <p>Service measure framework development and use to make the case for blue/ green solutions to reduce carbon impacts of interventions and contribute to the Sustainable Management of Natural Resources.</p> |

Score changes to reflect the latest evidence and our understanding of climate change are summarised below.

| Risk | Score change | Reason for change |
|------|-------------------------------|---|
| P1 | Score increase from 20 to 25. | Increased to reflect the impacts of named storms (e.g. Bert and Darragh) which caused significant disruption and demonstrated the growing intensity and frequency of extreme weather. |

¹ Climate Change Adaptation Report 2023 | Dŵr Cymru Welsh Water (<https://corporate.dwrcymru.com/en/about-us/our-plans>)

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Primary risks: Physical

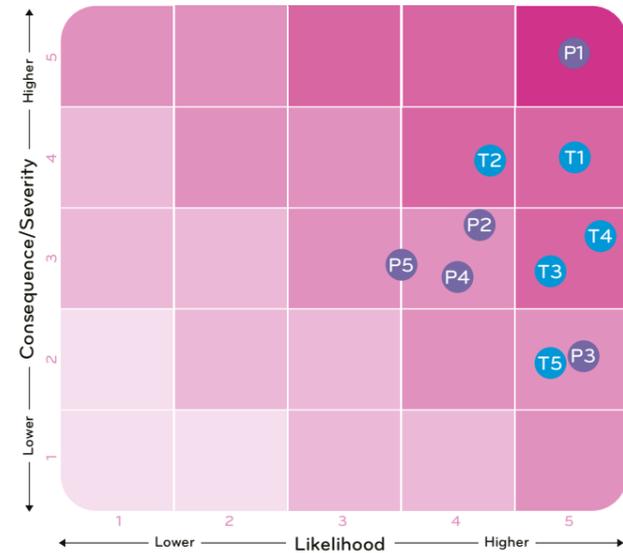
| Driver | Risk description and profile ¹ | Strategic mitigations |
|--|--|---|
| Acute: flood and storms | <p>P1 Inundation of sewer networks in high rainfall events</p> <p>There is a risk of sewer inundation during periods of increased rainfall intensity or duration, leading to a flooding event (internal/external flooding, Storm Overflow discharge).</p> | <p>Sewer network sensor technology and continued use of Event Duration Monitoring (EDM) to provide greater visibility on spilling Storm Overflows (SOs).</p> <p>Provision of Drainage and Wastewater Management Plan (DWMP) version 2 by 2027.</p> <p>Our (DWMP) includes strategies for increasing sewer network capacity and sustainable drainage solutions, backed by investment of £420 million in AMP8 and over £4 billion by 2050.</p> |
| Impact | Increased costs of temporary solutions, outage or spillage penalties, legal fines and/or costs of clean up. | |
| Chronic: extreme weather events – drought and hot weather | <p>P2 Climate change impact on drinking water quality</p> <p>There is a risk that extreme weather conditions, including drought conditions, increases in rainfall intensity, more extreme wet/dry cycles, and other indirect causes, change the composition of raw water inlet to treatment plants, changing chemical treatment regimes and the ability to treat the same volume of water.</p> | <p>Raw water quality monitoring and modelling programmes.</p> <p>Catchment management, particularly by replicating the integrated land and water management approach used in the Brecon Beacons mega-catchment project. Similar strategies could be applied to other water treatment works upgrades.</p> <p>Research and development into algae, their growth and control as well as new technologies like catalysis for the treatment of algae and the chemical compounds produced by them (see Ofwat innovation fund).</p> <p>These measures are likely to be effective by 2030 given the slow rate of decline in water quality. However, in the long term to 2050 and 2100, such measures have not been operating long enough to assess and their effectiveness will depend on the climate scenario.</p> |
| Impact | Increased costs due to increase in treatment chemicals and energy required | |
| | <p>P3 Increase in customer demand under hot conditions</p> <p>There is a risk that customers require more water under hot conditions, limiting planned reductions in per capita consumption (PCC) to meet local supply/demand restrictions. If supply targets are not met, this may result in reputational harm, financial penalties, or regulatory consequences such as breach of licence obligations</p> | <p>Drought and supply modelling in WRMP.</p> <p>Leakage reduction programme to reduce leakage to 75/85 Ml/d by 2050. Per capita consumption reduction programme to reach 100/110 l/h/day by 2050. Use of technology to develop a smarter network to monitor and react to local supply issues more effectively.</p> <p>These measures will likely be effective to 2030-2050, our water resources management plan forecasts supply demand sufficiency under the most adverse climate scenario. However, to 2100, these will be dependent on the climate scenario, continuing the water resources management planning approach should ensure this risk is effectively managed.</p> |
| Impact | Reputational risk if customers have to restrict water use in hot periods | |
| Acute: extreme weather events – flood and storms | <p>P4 Risk to our assets during extreme weather events and sea level rise</p> <p>There is a risk that our assets (e.g. dams, treatment works, pumping stations, pipework) are impacted by climate change. Leading to increased pipe bursts and overall asset deterioration. Such events can cause flooding to our assets during high rainfall, resulting in an inability to supply customers or risk of environmental harm due to loss of treatment capability.</p> | <p>Asset flood modelling supported by asset resilience investments through the periodic review e.g. changes to dam spillway design.</p> <p>River and coastal erosion modelling. Partnership flood alleviation programme.</p> <p>These measures will likely be effective by 2030 given the slow rate of change in flood risk. Assuming funding is secured at PR29 for investment, a programme of flood defence mitigations from 2030 to 2050 should be effective. Provided this work is undertaken to 2100, then the risk should effectively be mitigated.</p> |
| Impact | Asset damage (impact on asset performance, increased risk of landslides/ subsidence) resulting in increased costs to repair. Such disruptions may lead to reputational damage, fines, and reduced performance against regulatory targets. | |

| Driver | Risk description and profile ¹ | Strategic mitigations |
|---------------|--|--|
| | <p>P5 Risk to infrastructure supply chains during extreme weather events</p> <p>There is a risk that other infrastructure systems may be damaged or disrupted through the direct impact of extreme weather events (e.g. telecoms, transport, or energy infrastructure). This can cause disruption to our own systems and can lead to an inability to supply our customers and present a risk of environmental harm due to loss of treatment capability.</p> | <p>Engagement with the National Infrastructure Commission for Wales on the interdependencies with key infrastructure providers such as power and transport to understand the system implications.</p> <p>Designing back-up generators on specific sites to improve resilience.</p> <p>Sustainable procurement strategy and implementation.</p> <p>The extent of this risk depends on the Government adopting the recommendations of the National Infrastructure Commission and setting resilience targets for all to follow.</p> |
| Impact | Operational disruptions (e.g. telecoms, transport, energy, bioresources) | |

Opportunities

| Driver | Description of opportunity | Our approach to opportunity realisation |
|--|--|--|
| Acute: flood and storms | <p>O1 Develop innovative technology</p> <p>We have an opportunity to develop and deploy innovative new technologies to improve our service now and meet future climate challenges.</p> | <p>This opportunity is best realised through our investment in low carbon technologies, renewable energy and collaboration with universities to enhance our resilience against climate change impacts.</p> |
| Policy, legislation, funding change | <p>O2 Implementation of circular economy principles</p> <p>There is an opportunity to implement circular economy principles, which aim to design out waste, keep resources in use for as long as possible and regenerate actual systems - moving away from a 'take-make-dispose' model towards reuse, recycling and recovery, with the co-benefit of reducing associated carbon emissions. Such practice could also create social and economic wellbeing.</p> | <p>Reduction programme to reduce our fugitive emissions by 50% and to increase biomethane/biohydrogen production programme to produce 120GWh per year. Research and piloting programme to explore the use of circular economy in different parts of the business.</p> <p>These circular economy initiatives contribute to climate change mitigation by reducing waste and emissions associated with resource extraction and disposal, while also delivering local economic and social value through reuse and innovation partnerships.</p> |
| | <p>O3 Support for the development of new laws and regulation</p> <p>We have an opportunity to continue to support 'Team Wales', the Welsh Government, and other key stakeholders with positive legislative, policy and regulatory change. This approach can create opportunities for joint management of our risks and opportunities, relevant for managing our interdependent and cascading risks.</p> | <p>We are directly helping the Welsh Government on a host of legislative, policy and regulatory fronts e.g. on the development of nutrient, sustainable farming, biodiversity, and nutrient/carbon trading in river catchments.</p> <p>Service measure framework development and use, based on our good practice multi capitals approach to make the case for blue/green solutions to reduce carbon impacts of interventions and contribute to Sustainable Management of Natural Resources.</p> |
| Policy, legislation, funding change | <p>O4 Use of sustainable procurement to capitalise on the green economy</p> <p>There is an opportunity to use our Sustainable Procurement Policy (2023), supported by our environmental stakeholder community, to support Wales' green economy, including for example through local direct wire Power Purchase Agreements or Corporate Power Purchase Agreements.</p> | <p>We have developed and gained approval for our new sustainable procurement policy and are now working with external centres of excellence to help us operationalise the policy and deliver value for our customers. We are also supporting a number of circular economy initiatives, particularly where these align with other performance needs.</p> |

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3.5. Impact assessment

Climate-related risks are assessed using an adapted matrix from our Enterprise Risk Management (ERM) framework that applies extended likelihood thresholds (100 years) to reflect long-term planning. Impacts are the highest of reputational, operational and financial (cash). Scores are inherent (excluding controls) to highlight investment and oversight requirements.

Recent physical climate events, such as extreme weather and water quality impacts, have highlighted the increasing significance of physical risks. In light of these developments, we intend to refresh the relative scoring of physical and transition risks in future cycles to ensure alignment with emerging evidence and operational experience

Physical risks assessed using RCP8.5 while Transition risks reflect RCP6.0

| | Reputation | Operational | Operational health & safety | Operational organisation | Operational customer service | Financial (cash) £ million |
|---|---|---|---|--|--|----------------------------|
| 5 | Severe and lasting impact on all relationships of trust | Affecting key stakeholders and significant numbers of customers | Fatality or major incident, e.g. fire/explosion | Significant impact on recruitment and retention activity | Affecting all key stakeholders and significant numbers of customers: >200,000 customers | >100 |
| 4 | Impact on key stakeholder, government, or investors | Affecting significant numbers of customers and/or pervasive impact on several performance commitments | Life-changing injury/illness or significant incident e.g. RIDDOR Dangerous Occurrence | Impact on ability to retain/attract key individuals | Affecting significant numbers of customers and/or pervasive impact on several PCs: 200,000 customers | >50-100 |
| 3 | Impact on key stakeholder relationships | Affecting one, or a few, performance commitments | RIDDOR injury or disease | Impact on morale internally and on external reputation as responsible employer | Affecting one or a few PCs: 50,000 customers | >25-50 |
| 2 | Wider reputational/trust impact but considered manageable | Significant operational issues but considered manageable | Lost time injury/work-related illness/property damage | Wider impact on multiple teams/functions but considered manageable | Significant operational issues but considered manageable: 15,000 customers | >10-25 |
| 1 | Local/minor impact only | Minor, manageable | Minor injury/near miss | Impact on team/function morale | Minor, manageable: <10,000 customers | <10 |

| Likelihood | 1 | 2 | 3 | 4 | 5 | |
|-------------------------|--|---|--|---|---|---|
| Physical risk: | All drivers | < 1- in 100-year event | 1- in 100-year event | 1- in 30-year event | 1- in 5-year event | 1- in 1-year event |
| Transition risk: | Policy, legislation, and funding change | Change in government structure required for this change | No government appetite, some mass movement organisations campaigning for this change | Government leadership/political party change required to bring in this change | Other jurisdictions are bringing in this policy | Discussions about bringing in this policy |
| | Technology shift | No known discussions about this technology | | Some academic research in this field/technology | | Technology trials are currently in progress |
| | Societal behaviour change | No examples of these behaviours seen anywhere | | Some examples of this behaviour in other geographies | | Significant behaviour change evidenced in Welsh Water's areas |

4. Climate-related metrics and targets

Managing our risks is underpinned by frequent monitoring of our metrics and targets related to decarbonisation and adaptation. We have comparable cross-industry climate-related metrics that meaningfully capture adaptation and achieving our climate change targets. These include a range of measures that demonstrate our ability to provide a high-quality service while minimising our impact on the environment. These are reported in our Performance outcomes on pages 18 to 19, providing a transparent assessment of our performance. Some of these performance measures are incorporated into remuneration policies for Annual variable pay (AVPS) and Long-term variable pay (LTVPS), as set out in the Remuneration Committee report on pages 120 to 140.

Targets across our strategic horizons

- 2025**
 - 33% reduction in intensity of embodied carbon for individual projects compared to the 2020/21 baseline year
- 2027**
 - 35% energy self-sufficiency
- 2030**
 - 50% reduction in fugitive emissions compared to the 2020/21 baseline year
 - 50% energy self-sufficiency
 - Triple biomethane/biohydrogen production compared to 2020/21 baseline year
 - 50% reduction in embodied carbon versus conventional project solutions compared to 2020/21 baseline year
- Beyond 2030**
 - Convert largest N₂O emitters to reactor type treatment
 - Zero emissions vehicle fleet
 - 90% reduction in embedded carbon by 2040 compared to the 2020/21 baseline year
 - Use carbon capture, usage and storage (CCUS) technologies to capture 8,000tCO₂e per year

4.1. Our journey to net zero

We have an objective to achieve net zero by 2040 and this will support mitigating our transition risks. To deliver this, we have identified six areas of focus:

- Reducing use of electricity/purchasing renewable electricity and increasing our own renewable electricity generation
- Reducing fossil fuel use
- Gradual transition to a low carbon-fuelled fleet
- Actively controlling and reducing fugitive emissions from treatment process¹
- Monitoring and reducing construction-related carbon emissions
- Carbon sequestration

For our detailed scope 1, 2 and 3 emission disclosures and our ambitious plan to achieve net zero by 2040 please see 'ESG Objective 2 Net Zero Carbon on page 64.

4.2. Metrics used to assess climate-related risks and opportunities

This section describes our performance in respect of our climate-related risks and opportunities and outlines the key metrics we use to track our progress against the top physical and transition risks we face.

This table shows the metrics and targets to manage our top 5 physical risks (risk drivers associated with each risk ID shown in risk narrative tables 3.4).

| Risk | Metric | Performance FY 25 ⁶ | Target FY 25 |
|------|---|--------------------------------|---------------|
| P1 | Internal sewer flooding (on target) Risk of sewer flooding in a storm % (above target) | 200 24.23% | 200 29.45% |
| P2 | Acceptability of drinking water (contacts per 1,000 population) (below target) Top water quality event risk index (ERI) (below target) | 2.70 36.14 | 2.30 30 |
| P3 | Per capita consumption (l/p/d) (above target) Risk of severe restrictions in a drought % (above target) | 151 0.7% | 145.8 0% |
| P4 | Asset resilience (water network + above ground assets) (above target) | 88.6% | 86.6% |
| P5 | Treatment works compliance (below target) Asset resilience (water network + above ground assets) (on target) | 98.08% 88.6% | 99% 88.7 |

¹ "Fugitive emissions" are unintentional releases of gases, such as methane or carbon dioxide, from equipment, pipes or treatment processes. They are not deliberately emitted but can contribute significantly to overall greenhouse gas emissions.

TCFD CONTINUED

This table shows the metrics and targets to manage our top 5 transitional risks (risk drivers associated with each risk ID shown in risk narrative tables 3.4).

| Risk | Metric | Performance FY 25 | Target FY 25 |
|------|--|-------------------|--|
| T1 | Reduction of process emissions (CapEx) ¹ | n/a | 50% reduction in fugitive emissions by 2030 ² |
| T2 | Energy self-sufficiency (%) ³ (below target) | 22% | 35% |
| T3 | Percentage of capital projects with low carbon footprint (below target) | 32% | 33% |
| T4 | Scope 3 emissions intensity reduction | n/a | 7% intensity reduction each year |
| T5 | % Reduction in CO ₂ compared with 2010-11 baseline (below target) | 65% | 66% |
| | Environmental Performance Assessment (EPA) (below target) | 2-star | 3-star |

¹ FY 25 'n/a' as AMP8 only target

² The 2050 Net Zero target that companies in Wales are expected to achieve follows interim target years of 2020, 2030 and 2040

³ The target of 35% is being changed from 2025 to 2027

This table shows the metrics and targets to realise our top 4 opportunities.

| Risk | Metric | Performance FY 25 ¹ | Target FY 25 |
|------|---|--------------------------------|--------------|
| O1 | Meters installed (on target) | 51% | 51% |
| O2 | Bioresource product quality % (above target) | 98.5% | 97.3% |
| O3 | Water catchments improved (above target) Km of river improved (above target) | 23 576 | 18 418 |
| O4 | % Reduction in CO ₂ compared with 2010-11 baseline (below target) | 65% | 66% |

The tables below outline our measures in managing climate-related risks and opportunities, split by physical risks and transition risks, followed by opportunities on the following page.

| Risk | Description of measures and targets |
|------|--|
| P1 | Measuring internal sewer flooding allows us to understand the extent of the impact of this risk on the community and the customers we serve. We have set a target for 2025 of 200 (number of incidents). The resilience measure, risk of sewer flooding in a severe storm, is a key element in our long-term strategy of reducing flood risk. This measure is the percentage of the population at risk of a sewer flooding in a 1-in-50-year storm. |
| P2 | Measuring the acceptability of drinking water is a top priority for our customers. It is important that we provide water which not only meets quality standards but is acceptable to customers. We have set a target for 2025 of 1.58 contacts per 1,000 population served. This is supported by the Event Risk Index (ERI) to measure our response to drinking water quality events and assess the impacts of events on consumers. We have set a target score for 2025 of 10. |
| P3 | Per Capita Consumption and the risk of severe restrictions in a drought serve as valuable measures by informing demand monitoring and drought preparedness. We have set a PCC target for 2025 of 138 l/h/d. |
| P4 | The water network and above ground assets resilience measure allows us to identify a risk of major customer impact in extreme circumstances. These are the assets where a failure leads to interruptions to customers' water supply. |
| P5 | The water network and above ground assets resilience measure is used in conjunction with treatment works compliance to understand the risk of an inability to supply our customers and where compliance failure would have the most significant impact on the environment. |

| Risk | Description of measures and targets |
|------|---|
| T1 | Owvat confirmed our PR24 submission for an investment package of £38.55 million in AMP8 CapEx (post frontier shift and real price effects, and in 2022/23 price base) towards reducing process emissions. This investment will support measuring and controlling fugitive emissions, such as nitrous oxide (N ₂ O) and increase confidence in reporting. We have set a target to achieve a reduction of over 50% by 2030, which supports the interim targets (2020, 2030 and 2040) with respect to Net Zero that companies in Wales are expected to achieve. |

| Risk | Description of measures and targets |
|------|--|
| T2 | Energy self-sufficiency is an exciting area for us and our customers, as new technological opportunities are continually presenting themselves. Therefore, this measure serves as an indicator of our commitment to supporting the transition to net zero and adopting energy-efficient technologies. |
| T3 | Monitoring the percentage of capital projects with a low carbon footprint will support our goal of reducing greenhouse gas emissions and ensure our capital investments align with emission reduction targets, mitigating the risk of non-compliance with potential emissions trading schemes or carbon tax requirements. |
| T4 | Scope 3 relates to upstream and downstream emissions from supply chain activity or customer use of products and services. This measure will provide visibility into supply chain emissions and help to identify areas where technological solutions are lacking or insufficient to mitigate residual emissions. |
| T5 | Through monitoring our reduction in CO ₂ emissions, we are able to measure progress against the broader goal of Net Zero by 2040 and by the end of AMP8 ensure our targets align with those set by regulatory bodies and the NEP. Our overall impact on the environment is assessed through the Environmental Performance Assessment (EPA) and we will target a 3-star score. |

| Opportunity | Description of measures and targets |
|-------------|---|
| O1 | Measuring the percentage of household customers metered demonstrates our progress towards realising this opportunity and improving the monitoring for water consumption to create a more sustainable and resilient water future. |
| O2 | This measure is the percentage of Wastewater sludge producing an enhanced Biosolids Assurance Scheme (BAS) accredited Biosolids product. This provides an indicator of the extent to which circular economy principles are being implemented in wastewater treatment and biosolids management. |
| O3 | This opportunity is measured through our ESG objective of Long-term planning and sustainability. Our focus area for this objective is Working with 6 Nutrient Management Boards, and other third parties, to enable sustainable developments in the Wye and Usk catchments. The measure Km of river and water catchments improved assesses our progress against this objective. |
| O4 | Our ESG objective of demonstrating accountability has a focus area including our sustainable procurement aspirations. We will measure the effectiveness of sustainable procurement in our supply chain through our reductions in CO ₂ . |

4.3. Greenhouse gas (GHG) emissions and targets

The UK Water Industry Research Limited developed a standardised workbook and associated methodology for estimating Operational greenhouse gas emissions, called the Carbon Accounting Workbook (CAW), to bring consistency and accuracy to the reporting process across the water industry. It is updated annually to reflect latest UK Government emissions factors. Our data is reported annually to ISO 14064 carbon reporting standard.

In assessing progress against our target to be net zero by 2040, we report our detailed performance against our Scope 1 and 2 emissions, and the six material Scope 3 categories to our sector- fuel and energy related activities, upstream transportation and distribution, waste generated in operations, business travel, downstream transportation and distribution* and, end-of-life treatment of solid products**, on page 65 of this report. Our scope 3 emissions exclude categories 7, 8, 10, 11, 13, 14 and 15 on the grounds of materiality and being outside our operational control. A summary of our FY 25 and prior year operational (waste and wastewater) emissions is shown below:

| Gross annual operational GHG emissions (all values in Kilotonnes of CO ₂ e, and all location-based) | FY 25 | FY 24 |
|--|-------|-------|
| Scope 1 | 64.2 | 62.1 |
| Scope 2 | 92.5 | 91.6 |
| Scope 3 | 47.3 | 66.2 |
| GHG efficiency ratios (kgCO₂e/MI) | | |
| Emissions per MI of drinking water | 38 | 38 |
| Emissions per MI of wastewater | 79 | 79 |

| | Near-term/ interim target | Long-term target |
|---|---|------------------|
| Scope 1 | 50% reduction by 2030 | Net zero by 2040 |
| Scope 2 | 0 by 2035 | 0 by 2040 |
| Scope 3 | 7% intensity reduction each year under the UNFCCC Race to Zero pledge | Net zero by 2040 |
| Energy self-sufficiency (%) | 2027: 35% | 2050: 50% |
| % Reduction in CO₂ compared with 2010-2011 baseline | 2025: 66% | 2050: 100% |

4.4. Methodology of measures

The Outcomes performance commitment appendix⁹ sets out detailed information on the measures used to assess the climate-related risks and opportunities on preceding pages.

⁴ Outcomes performance commitment appendix | <https://www.ofwat.gov.uk/wp-content/uploads/2019/07/PR19-draft-determinations-D%C5%B5r-Cymru-Outcomes-performance-commitment-appendix.pdf>

* In Scopes 1 and 2 as these relate to our water supply activities

** In Scopes 1 and 2 as these relate to our wastewater treatment activities

LONG-TERM VIABILITY STATEMENT

We are a regulated monopoly of essential public services with a rolling 25-year licence characterised by multi-year investment programmes and stable, predictable revenues. The water industry in England and Wales is regulated by Ofwat, which has a statutory duty to ensure that efficient companies can finance their operations. Ofwat meets this duty by setting price controls for five-year Asset Management Periods (AMP), which importantly includes allowed revenues, regulatory capital value of the Group's regulated business, performance commitments (PC) and price control deliverables (PCD) the Group needs to deliver. A failure to deliver these can result in financial penalties being applied which are typically recovered through reduced customer charges.

The Directors have undertaken a robust assessment of the long-term viability of the Group, taking account of the Group's current position, a medium-term forecast reflecting the final determination, the potential impact of the principal risks facing the business in severe but plausible scenarios, and the effectiveness of any mitigating actions.

This assessment period has been considered by assessing several factors including the long-term nature of the regulatory operating model, medium term detailed operating, capital and financial planning processes and the final determination from Ofwat. The Board considers 5 years a suitable period as it covers the rest of the AMP to 2030 where visibility on allowances is available and aligns to the business planning cycle.

The financial forecast has been prepared based on the final determination provided by Ofwat in December 2024 and accepted by the Directors in January 2025. The final determination includes significant inherent challenge for the business to deliver the outcomes required for customers while providing value for money to those customers. The proposed capital programme is materially larger than AMP7 and will have to be delivered efficiently. Further, AMP8 includes a more rigorous and granular penalty regime for non-delivery of what is a larger and more complex capital programme, reducing flexibility for the business to mitigate financial issues that may arise during the plan period. This has been reflected in our assessment of risk set out below.

As custodians of a long-term business, ensuring viability is embedded in our risk management and planning processes. The Board undertakes a detailed assessment of the Group's risk management processes, which are detailed on pages 30 to 39, with due consideration given to the management of risks over the long term that could impact on the business model, future performance, credit ratings, solvency and liquidity of the Group: specifically, risks associated with the current levels of economic uncertainty, environmental performance and climate change. The Audit and Risk Committee considers the assessment of risks and estimated impact of mitigating activities in financial forecasting on an annual basis and recommends the Long-Term Viability Statement to the Board, where it is reviewed and approved by the Directors. Our assessment of risks is incorporated into our annual detailed budgeting and forecasting process for the upcoming regulatory period, and at a broader level on a 5 to 10-year horizon.

The Directors' assessment of the Group's financial position at 31 March 2025 is set out in the Financial Review on pages 24 to 29 of this report. Important aspects relevant to the assessment of the Group's long-term viability are:

- Gearing maintained in line with the Group's target of below 65%,
- Sufficient cash and credit facilities to fund financial commitments over the next year are available to the Group,
- Credit ratings for the Group's bonds are above Common Terms Agreement (CTA) required levels,
- The Group's defined benefit pension scheme remains fully funded, with contributions unchanged.

It is necessary to make certain assumptions and estimates and to apply sensitivities when considering the Group's prospects in the medium term. These are as follows.

- The Group is able to continue to access affordable debt finance and capital markets, enabling the Group to successfully refinance its debt as it comes due in AMP8 and continue to roll over our revolving credit facilities, where necessary. It is assumed that any period in which the Group is unable to raise finance, for reasons outside the Group's

control, does not extend beyond 6 months.

- The current regulatory and statutory framework does not substantively change beyond known variables, referenced on page 12, in the period covered by this assessment.
- The timing and quantum of the financial impact associated with the crystallisation of principal risks has been based on historical evidence and the evaluation of similar events observed in the market.
- The severe but plausible scenario is based on the Board's view of each principal risk's post-mitigation likelihood and severity, available on pages 32 to 39.

Stress scenarios

Our viability assessment is based on exposing our forecasts to several negative "stress" scenarios, which include the Board's view of likelihood and severity of our principal risks and uncertainties occurring, both individually and in aggregate, and to a higher inflation and higher cost of debt environment. The key risks faced by the Group and mitigation measures can be found in the key risks' summary on pages 32 to 39.

We have identified what we consider to be the most severe, yet ultimately plausible, negative scenario, as a means of gauging the overall level of headroom that exists in what we believe is a challenging yet deliverable plan. We know that some of our combined scenarios are unlikely to occur in practice. However, they are useful in determining the overall level of resilience and understanding what would need to happen to threaten the Group's continued operation.

As part of the assessment, reverse stress testing of an extreme theoretical scenario focusing on totex overspend and inflation pressures have been performed to understand the extent to which the Group could further absorb financial stress, pre and post-mitigation options, before it reaches the trigger event credit ratings defined in the CTA (Class A/B bonds fall to BBB/Baa2/BBB, C bonds fall below investment grade). If reached, a trigger event would restrict the Group from being able to raise and utilise new debt until agreement was reached to amend the CTA.

KEY to principal risks

- 1 Environmental performance and reputation
- 2 Business continuity
- 3 Climate change impacts and transition risks
- 4 Health and safety major incident
- 5 Cyber, information and operational technology (IT and OT)
- 6 Performance and costs
- 7 Loss of trust
- 8 People talent and diversity
- 9 Finance risk
- 10 Public health

| Risk scenarios | Stress test applied | Pre-mitigation impact (examples) | Principal risk | Available financial mitigation options |
|--|---|---|----------------|--|
| 1. Failure to deliver cost efficiency challenges Inability to achieve the stretching efficiency challenges set by Ofwat for PR24 resulting in less financial headroom. | An average increase in totex of 4.5% per annum. | Reduced profits and additional capital expenditure increasing gearing and deterioration in credit rating metrics. | 6 | 1, 2, 3, 4 |
| 2. Persistent failure to achieve performance commitments and non-compliance with regulations Inability to achieve the stretching performance challenges set by Ofwat for PR24 resulting in potential ODI penalties and additional totex spend. | An average decrease in revenue of 4% through increased ODI penalties and cost challenges, impacting RCV over the forecast period. | Reduction in revenues, increased gearing and deterioration in credit rating metrics. | 6, 7 | 1, 2, 3, 4 |
| 3. Cost-of-living crisis and economic downturn Recession with low GDP growth, cost pressures and decline in customer ability to pay impacting collection rates. | An average increase in totex of 1.6% per annum. | Reduced profits and cash flow pressures. | 2, 9 | 2, 5 |
| 4. Severe climate events Extreme and more persistent weather events resulting in unplanned costs, customer compensation and the failure of key assets impacting operations and delivery of service. | An average increase in totex of 1.8% per annum over the forecast period. | Totex and cash flow pressures leading to credit metric deterioration. | 1, 3 | 2, 3, 4 |
| 5. Service delivery failures Experiencing prolonged service delivery failures; water contamination or sewerage treatment work discharges, resulting in enhanced stakeholder scrutiny and regulatory investigations leading to penalties and unplanned rectification costs. | An average increase in totex of 2.3% per annum over the forecast period. | Reduction to RCV, leading to increased gearing and deterioration on credit metrics. | 1, 2, 7 | 2, 3 |
| 6. Cyber security Core operational capabilities are compromised through severe breach of technology and systems. The possibility of fraud is unlikely on a large scale based on the recent strength of our IT services. | An average increase in totex of 0.8% per annum over the forecast period representing fines and rectification costs. | Totex and cash flow pressures. | 5 | 2 |
| 7. Increase in the cost of new debt issuance Macroeconomic pressures combined with poor financial performance resulting in increasing cost of new debt issuance. | An increase in RPI of c.1.2% and interest rates of c.0.8% in year 1, gradually falling in line with forecast from year 4. | Interest cover ratio decline leading to deterioration of credit rating metrics. | 2, 9 | 5 |
| 8. Health and safety major incident Inherent risk due to the nature of our operations which, without mitigation, could result in a health and safety incident to our people, contractors or members of the public. | A one-off major health and safety incident in 1 year of the forecast period representing highest market H&S fine to date. | Reputational pressures | 4 | - |

LONG-TERM VIABILITY STATEMENT

CONTINUED

| Principal risk scenarios | Stress test applied | Pre-mitigation impact (examples) | Available financial mitigation options |
|--|--|--|--|
| Severely adverse but plausible A severely adverse but plausible scenario reflects non-delivery of efficiency challenges compounded by significant cost shocks which occur in a high-inflation and high cost-of-debt environment. Cost shocks are based on a formulaic probability multiplier, combining all scenarios using their likelihood to weigh their financial impact | Formulaic multiplier of all scenarios based on principal risk likelihood overlaid with high inflation and cost-of-debt. | Significant increase in totex, increasing gearing and deterioration in credit rating metrics, including a one notch rating downgrade for all three agencies. | 1, 2, 3, 4, 5, 6 |
| Reverse stress test We conducted a reverse stress test on our financial plan to identify the deterioration required in our financial performance that would result in credit ratings falling to levels that create a trigger event under the CTA. | Total financial impact resulting in credit ratings falling below the trigger level limits included in the CTA for two of three ratings agencies. | Significant increase in totex, increasing gearing and deterioration in credit rating metrics, including a one notch rating downgrade for all three agencies. | 1, 2, 3, 4, 5, 6 |

Mitigating actions

There are a number of key mitigations available to the Group, the effectiveness of which is underpinned by the strength of the Group's liquidity position. As well as the protection that exists from the regulatory environment within which the Group operates, several actions are available to mitigate more severe scenarios. When selecting mitigation actions in response to our principal risk scenarios, we would consider the balance of all stakeholder interests and would prioritise mitigating actions that would not lead to a breach of our commitments to customers.

| Mitigating actions considered normal business considerations | Considerations | Incorporated in our financial plan |
|--|--|------------------------------------|
| 1 Transformation programme | We have initiated a transformation programme aimed at fundamentally changing the way we work to drive improvements in performance and efficiency. To the extent that action plans have been defined, the impacts have been incorporated as mitigations. | Yes |
| 2 Engage with ratings agencies and banks | Where a rating threshold or a covenant threshold is breached, a downgrade might not always be applied, with judgement also considered by rating agencies. We engage with rating agencies and our banks on a regular basis and will continue to liaise on macroeconomic pressures and present our financial plan. | Not applicable |
| 3 Treasury management – working capital management | Should new lending be unavailable for a period of time, we would use our revolving credit facilities or seek to manage our working capital through, for example, working with suppliers to agree longer credit terms where appropriate. We routinely evaluate our treasury management strategy, assessing our predicted cash requirements in future years and funding sources, with the aim of ensuring that enough liquidity is available to meet forecast financial needs as well as an adequate level of headroom as a contingency. | No |
| 4 Reprofile capital programme | We could seek to reprofile our capital programme in order to smooth the impact of risk scenarios on our cash flows and mitigate the effect on key performance ratios. | No |

| Further mitigating actions available outside normal business considerations | Considerations | Incorporated in our financial plan |
|---|---|------------------------------------|
| 5 Cost reduction to non-regulatory programmes | In only the most extreme circumstances, we would look to reduce our expenditure to cover only our regulatory and legislative requirements. | No |
| 6 Consider issuance of new funding sources | The Group has access to a wide range of capital markets and maintains a diverse range of funding sources. The Group is also in a positive liquidity and gearing position which would be attractive should we seek to issue new sources of funding. Issuing new debt would raise cash flows in the short term but could detrimentally impact gearing and potentially expose the Group to more expensive debt in the long term. | No |

We acknowledge the additional mitigating actions available to us and recognise the importance of evaluating each option in detail to ensure we meet our stakeholder expectations. As would be expected from any organisation, we regularly review our operating costs and have built in cost reduction programmes into our financial plan. Although only minor additional mitigating actions have been built into our severe but plausible scenario, we acknowledge the restricted headroom over our credit rating metrics between our reverse stress test and our severe but plausible scenario. Utilising some of the additional mitigating actions above would provide additional headroom to withstand downside scenarios, most notably diversifying our range of funding sources for future debt issuances.

Outlook

The output of the scenarios set out above forecasts that the Group maintains compliant credit ratings and financial covenants set out in the Common Terms Agreement throughout the assessment period, assuming the mitigating actions are delivered. The scenario with the least headroom is the severely adverse but plausible case where totex is forecast to increase

by 10% in total over the period after some mitigating actions have been implemented with gearing forecast to increase beyond the current board target of 65% and some isolated credit metric threshold exceedances which are not assumed to be severe or prolonged enough to result in trigger level credit ratings. The severely adverse but plausible scenario does not represent all the available mitigation options at the Group's disposal, with further totex reductions and financing options available to reduce gearing and financial performance ratios in line with credit rating metrics, should these be required.

We conducted a reverse stress test on our financial plan to identify the deterioration required in our financial performance that would result in trigger level credit ratings. Pre-mitigation, the Group has no additional headroom over our severe but plausible scenario and therefore would have to implement mitigating activities. By diversifying our future debt issuances alone, mitigation option 6, an additional headroom of c.£300 million over totex is available. The Board considers this a viable option with diversified funding sources already being evaluated through engagement with key stakeholders.

Conclusion

By conducting stress testing, the Board has considered the impact on the covenants attached to our existing funding position (interest cover and gearing), as well as on the principal financial metrics used by credit rating agencies in assessing our credit ratings and liquidity.

The Board considers that the risk management and forecasting controls in place are sufficient and that the five-year financial plan and stress testing outputs and available mitigation options provide an appropriate level of information from which to draw a conclusion on the Group's long-term viability. Having reviewed these outputs as summarised above, and while recognising the challenges of a larger capital programme, the required company wide efficiency programme and uncertain regulatory environment, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2030.



WHAT SUSTAINABILITY MEANS TO WELSH WATER

As a business using long-term critical infrastructure, sustainability is central to our mission to offer truly world-class, resilient and sustainable water and wastewater services for the benefit of current and future generations. It is also a priority for our customers, our investors, Welsh and UK governments and regulators.

To be sustainable we must fulfil the needs of current generations without compromising those of future generations. Our not-for-shareholder business model makes it easier for us to focus on the long-term interests of customers and communities, which is critical if we are to remain sustainable, given our very long-lived assets. The nature and scale of our long-term goals mean they are likely to need significant investment above recent levels over several AMP cycles.

We have chosen to follow the principles of the Well-being of Future Generations (Wales) Act 2015 (the Act) and its definition of sustainability – to act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. The 7 Wellbeing Goals defined

by the Act, which is itself aligned to the UN's Sustainable Development Goals, are built into our Welsh Water 2050 strategy and our Environmental, Social and Governance (ESG) objectives and underlying key performance indicators (KPI).

By following the principles of the Act, we balance our shorter-term considerations with the long-term needs of customers and society. This is especially the case where meeting short-term requirements may have a detrimental long-term effect, but also where our objectives impact upon each other or upon other related objectives e.g. where, by improving river water quality we increase our carbon footprint and costs of our services to society.

Like the public bodies that are bound by the Act, we take a 'Team Wales' approach. This means we share our

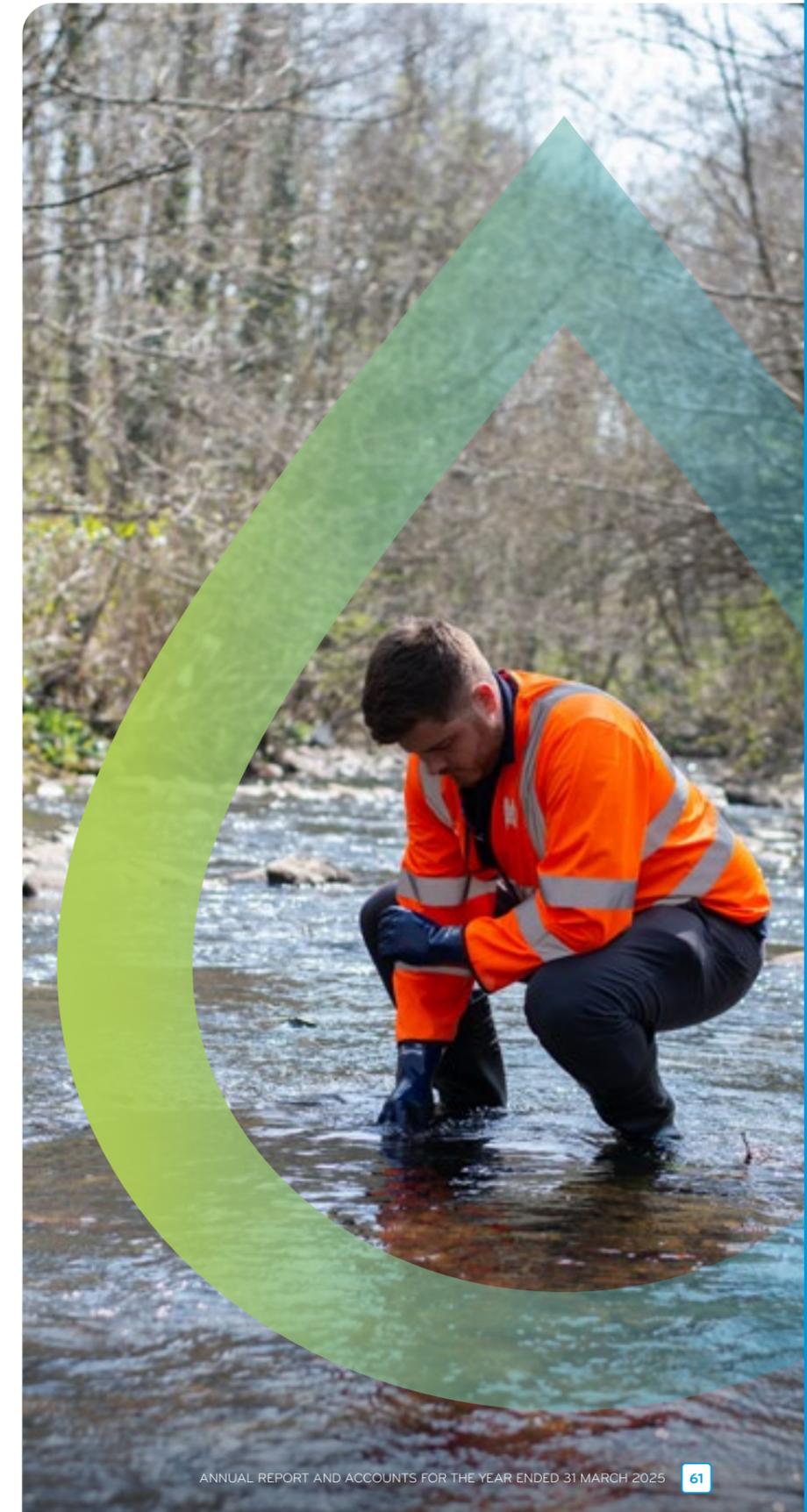
skills, knowledge and resources with other Welsh bodies, stakeholders and regulators. We also act in collaboration with other parties, which helps us to meet our objectives efficiently, and helps other Welsh bodies to meet theirs.

Ensuring sustainability runs through everything we do and is governed effectively is of key importance to the Company and the Board. To that end, our ESG Committee, formed in FY 22, has responsibility for overseeing the Company's ESG strategies and activities and ensuring that they are aligned and integrated with our broader business purpose and strategy. This includes an annual review by our Independent Challenge Group of our performance against the 10 ESG objectives and underlying KPIs.

Our 10 ESG objectives are shown below and our progress for each one is set out on the following pages, as indicated. The objectives are set out more fully in Appendix E.

| ESG objective | Overview see page |
|-------------------------------------|-------------------|
| 1 Long-term planning | 62 |
| 2 Net zero carbon | 64 |
| 3 Adapting assets and services | 67 |
| 4 Tangible benefits for communities | 68 |
| 5 Affordability | 70 |
| 6 Engaging with customers | 71 |
| 7 Diverse workforce | 72 |
| 8 Adapting to future challenges | 72 |
| 9 Demonstrating accountability | 73 |
| 10 Working collaboratively | 75 |

Supported and Enabled by Governance of Sustainability



SUSTAINABILITY & ESG OBJECTIVES



Protecting the Environment

ESG Objective 1 – Long-term planning and sustainability

Our assets will be relied upon to provide our essential services, and minimise impact on the environment, for many generations to come, so it is imperative that we plan for the long term and consider the needs of future generations of our customers.

Water as a resource

Most of our water is supplied from our impounding reservoirs, although we also take water from lowland river intakes, such as those on the Rivers Wye and Usk in south-east Wales, the Rivers Tywi, Cleddau and Teifi in south-west Wales and the River Dee in north Wales. Ground water accounts for less than 5% of our supplies for the company as a whole.

Our water abstraction licences are granted by Natural Resources Wales and the Environment Agency in England and set out the amounts that can be taken from water sources. These licences have additional conditions, such as the volume of water that needs to be released from reservoirs for environmental compensation, and the need for river intake fish screening to protect the ecology of our rivers.

It is important we ensure that we will always be able to provide a sufficient supply of water to meet our customers' reasonable need for water, and that this is managed in a sustainable way within environmental limits. It is equally important that we seek to conserve water by reducing leakage and promoting customer behaviours that reduce their water consumption. The progressive metering of customers has a significant role in achieving these goals. These actions will help reduce both our need for abstraction and our use of energy in processing and distributing water.

To support the aims above, we develop long-term Water Resource Management Plans (WRMP) addressing the sustainability of supplies over the next 25 years, ensuring that our water supply systems are resilient to drought, that our operations cause no environmental deterioration, and account for latest demand forecasts under a changing climate and growing population.

We take a progressive approach to Water Resource Planning as successive WRMP time frames overlap. Every 5-year plan is an update of the last, based on new drivers, such as revised government or regulatory guidance, customer priorities, and improved evidence. We have finalised our WRMP for the 2025 to 2050 period and will now report on progress against this.

Drainage and Wastewater Management Plans (DWMP)

Our Drainage and Wastewater Management Plans (DWMP) describe how we will develop our drainage and sewerage systems. We published our first plan in summer 2023. It addresses the impacts that environmental pressures, climate change and customer requirements will have on the wastewater services we provide. It highlights the need for significant further investment, particularly to reduce the impacts of storm overflows, the nutrient content in treated effluent discharges, flooding risks, and, in some cases, the impacts of wastewater operations on designated waters, such as those used for bathing. The scale of this investment is such that it needs to be spread over many years and so these needs will be addressed incrementally in our business plans for the next 5-year period (AMP8) and subsequent periods. The work that we have done in AMP7 has resulted in 576 km of rivers in our area being improved.

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 dwcymru.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.

Biodiversity

Our Biodiversity strategy (<https://dwcymru.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.



SUSTAINABILITY & ESG OBJECTIVES CONTINUED



Protecting the Environment

ESG Objective 2 – Achieving our net zero carbon strategy

As one of the largest energy users in Wales, it is vital that we adapt the way in which we deliver our services to address the challenges of climate change. We strive to develop our processes to minimise our impact on the environment. We originally planned to achieve carbon neutrality by 2040 and we continue to make good progress against the areas that we targeted. This is the first operational year since aligning our net zero strategy to a location-based reporting basis, which will help focus our future investment across the 6 work packages:

1. We have invested £9.1 million in reducing our electricity consumption through pumps, motors and blowers. We have entered into Power Purchase Agreements directly with local or community-owned renewable generators securing 15% of our electricity needs in this manner.
2. We are developing our second biomethane facility and have had our best year of renewable gas production from our Five Fords site in Wrexham.

3. We have installed new electric vehicle chargers at 4 of our offices and depots to support the transition to lower-carbon forms of transport.
4. Our strategic work to reduce our process emissions has expanded to 13 of our largest sites. New treatment solutions and innovative control systems are proposed for AMP8.
5. We have lowered our emissions per £ invested in upgrading services.
6. Multiple trial sites for carbon sequestration and biodiversity enhancement are identified for delivery, with a biodiversity target agreed with the regulator and plans to restore 2,000 hectares of peatland.

Following an internal review we have amended our target date to achieve 35% energy self-sufficiency in 2027 rather than in 2025, though we remain committed to our long-term goals on net zero and energy self-generation. This change in the short-term target is mainly due to later delivery of energy generation capability which

was planned for AMP7, but which has been de-prioritised in favour of other environmental investments, and is now scheduled for delivery in AMP8. Our long-term goals for net zero and energy self-sufficiency are unchanged and are shown below.

More details of our carbon footprint performance are available in Table 11A of the Ofwat Annual Performance Report.

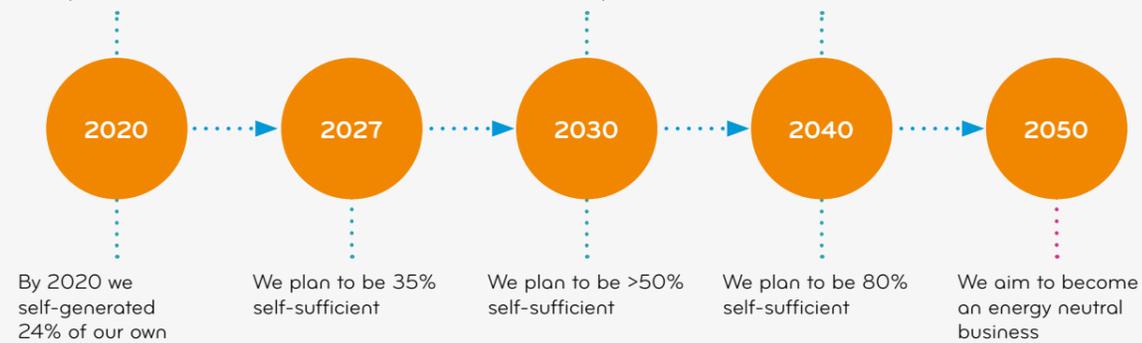
For detail of how our net zero carbon strategy is integrated into our approaches to risk management, TCFD, planning and decision making see pages 15 and 30 to 57.

Our Goals

By 2020 we reduced total carbon emissions by 65% (compared to 2010 levels)

We will reduce total carbon emissions by 90% (compared to 2010 levels)

We will become carbon neutral



As shown in the emissions table below, in FY 25 our carbon emissions increased slightly compared to FY 24. This was despite reducing our natural gas usage and making a significant reduction, over 10 GWh, in our grid electricity imports, because these have higher carbon intensities. This is partly why we moved to a Location-Based focus in our net zero strategy, to ensure our mitigation efforts are prioritized and respond to actual carbon footprint associated with our activity. Our plans to continually increase energy self-sufficiency, reduce process emissions, and transition vehicles to lower carbon fuels will internalise these emissions and help us to meet the 2040 goal of net zero carbon through the work packages above.

| Gross annual operational GHG emissions (all values in Kilotonnes of CO ₂ equivalents) | FY 25 | | FY 24 | |
|--|--------------------------------|------------------------------|-------------------|-----------------|
| | Location ¹ based | Market ¹ based | Location based | Market based |
| (i) Scope 1 emissions | | | | |
| Direct emissions from burning of fossil fuels (including combined heat and power (CHP) generated onsite) | 15.7 | 15.7 | 14.1 | 14.1 |
| Process and fugitive emissions | 40.6 | 40.6 | 40.6 | 40.6 |
| Transport: Company-owned or leased vehicles | 7.9 | 7.9 | 7.4 | 7.4 |
| (ii) Scope 2 emissions | | | | |
| Purchased electricity ² | 92.5 | 0.7 | 91.6 | 0.2 |
| Purchased heat | 0.0 | 0.0 | 0.0 | 0.0 |
| Electric vehicles | 0.0 | 0.0 | 0.0 | 0.0 |
| Removal of electricity used to charge electric vehicles at site | 0.0 | 0.0 | 0.0 | 0.0 |
| (iii) Scope 3 emissions | | | | |
| Business travel on public transport and private vehicles used for company business | 0.9 | 0.9 | 0.7 | 0.7 |
| Outsourced activities (if not included in Scope 1 or 2) | 9.4 | 9.4 | 9.4 | 9.4 |
| Energy and other purchased electricity (transmission and distribution) | 8.2 | 8.2 | 7.9 | 7.9 |
| Chemicals | 28.8 | 28.8 | 28.8 | 28.8 |
| Purchased heat – transmission and distribution | 0 | 0 | 0.0 | 0.0 |
| Gross operational emissions | 204.0 | 112.2 | 200.5 | 109.1 |

1 Location-based factors help organisations gauge their impact within the physical locations where they operate, while the market-based method accounts for the complexities and ramifications of purchasing decisions.
2 We have changed our approach to report our Scope 2 carbon emissions to more accurately reflect the energy we source which is backed by Renewable Energy Guarantees of Origin (REGO).

As shown below, our energy self-generation was stable over the 5 years from FY 20 to FY 24 at between 22% and 24%, which we consider to be a significant contribution to our energy needs. This also demonstrates that in our industry major performance gains are rarely achieved over short periods, and will often require sustained and increased investment over several AMP cycles. Generating our own energy remains central to our ambitions to reduce our carbon emissions and to increase resilience by becoming energy neutral in 2050, producing enough energy to provide our critical service to customers.

Despite some improvement to renewable generation following a further investment in our anaerobic digestion operations to improve the reliability of our combined heat and power engines, the relatively low rainfall in the year led to reduced electricity from our hydro-electric stations, significantly impeding our overall self-sufficiency gains, meaning our energy self-sufficiency declined slightly over the AMP. We are planning to increase our solar-generated electricity through working with a third party who is developing a 40,000 panel scheme adjacent to our Five Fords centre in north Wales. This project is expected to take around 2 years to complete.

| Financial Year | FY 20 | FY 21 | FY 22 | FY 23 | FY 24 | FY 25 |
|-------------------|-------|-------|-------|-------|-------|-------|
| % self-sufficient | 24% | 24% | 22% | 22% | 24% | 23% |

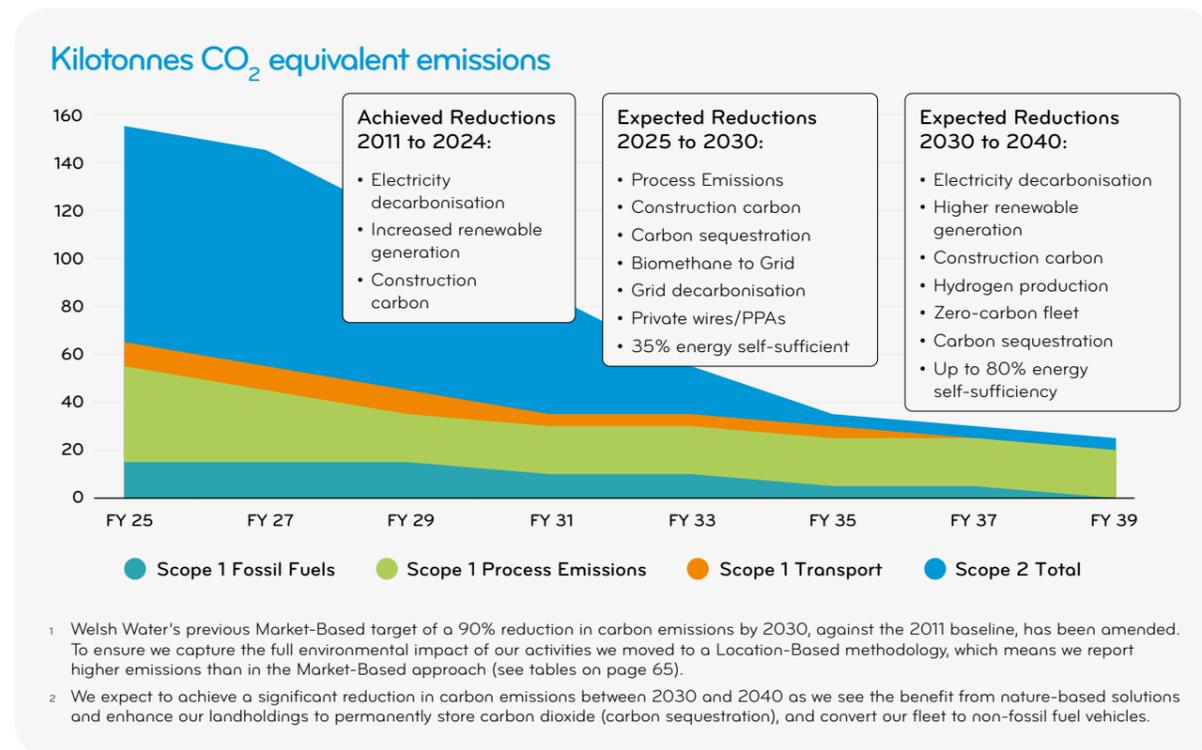
SUSTAINABILITY & ESG OBJECTIVES CONTINUED



Protecting the Environment

ESG Objective 2 – Achieving our Net Zero Carbon strategy – CONTINUED

The following graphic shows our historical commentary and projected progress in reducing our greenhouse gas emissions for Scopes 1 and 2. As noted previously, we have also implemented our 'Sustainable Supplier Code' whereby we actively collaborate with our supply chain to achieve reductions to our Scope 3 emissions, such as use of fuel cells and hydrogenated vegetable oil generators instead of diesel during construction activities. We continue to revise this pathway taking account of technological change and Science-based Targets Initiative principles to ensure we primarily reduce our emissions to as low as possible. The key illustrates the material emission components within Scopes 1 and 2 in the graphic.



We are pleased to provide our comparative 'Streamlined Energy and Carbon Reporting' overview which contextualises the carbon emissions intensity of our operational activity¹ against throughput from our operational business, i.e. Megalitres of drinking water supplied to Customers and Megalitres of wastewater treated. Our performance can be benchmarked against the wider sector on the Discover Water website where readers can see our current performance, which places us in the top quartile. We already have some of the lowest emissions per Megalitre supplied and our Net-Zero strategy will further reduce these emissions. Following the PR24 Final Determination we are excited to proceed with the process emissions work and the peatland restoration activities which are critical aspects of the work up to 2030 toward achieving net zero emissions.

¹ This excludes some Scope 3 categories to align with our Regulator Ofwat's Performance Commitment definition of 'Operational Carbon' using the UK Water Sector Carbon Accounting Workbook to assess emissions.

Streamlined Energy and Carbon Reporting (SECR)

Energy consumption reporting – GWh per year:

| Energy type | FY 25 | FY 24 |
|---------------------------------|------------|------------|
| Grid electricity imported | 430 | 442 |
| Self-generated electricity | 100 | 111 |
| Renewable electricity exported | 40 | 47 |
| Electricity consumption | 490 | 506 |
| Natural gas imported | 67 | 69 |
| Biomethane exported | 39 | 35 |
| Transport use | 36 | 36 |
| Static fuel use | 10 | 7 |
| Total energy consumption | 603 | 618 |
| Energy self-sufficiency: | 23% | 24% |

Protecting the Environment

ESG Objective 3 – 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. 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.



In January 2025, a burst on the drinking water pipe under the Afon Ddu affected supplies to customers in the Conwy Valley area.

To improve resilience, we are installing an extra pipe under the river alongside the existing one, so if one fails the other will keep supplying drinking water to our customers in the area without interruption.

SUSTAINABILITY & ESG OBJECTIVES CONTINUED



Service Delivery

ESG Objective 4 – Working to create tangible benefits for the communities we serve

We have continued to roll out our Water Resilient Communities Project over the past 12 months which aims to create social value through innovative, customer-focused approaches. Launched in Rhondda Fach in 2018, it seeks to address local challenges by collaborating with organisations which are located and working in the areas we chose. Through these partnerships, we deliver a programme of initiatives to support vulnerable customers, as well as promoting water efficiency, and providing employment and education opportunities. This hands-on, co-productive approach emphasises

"doing with" rather than "doing for," helping to ensure a meaningful and lasting impact.

The project has now expanded to Cardigan (west Wales) and Bangor (north Wales). In addition to being the focus of upcoming or ongoing capital investment schemes which aim to help protect the environment, the two areas have some socio-economic challenges to overcome – as highlighted by the Welsh Index of Multiple Deprivation (WIMD). In Cardigan, the Teifi area ranks in the top decile of deprivation, driven by housing, income, employment, and community safety indicators.

Similarly, Bangor's Marchog council ward area faces significant challenges in health, income and safety.

Project activities build on lessons learned in the most recent project area of Newport. By bringing together our teams and community partners, the project delivers integrated support across key areas such as debt, tariffs, water efficiency, wastewater and environment, education, and employability, as it strives to enhance customer and community wellbeing for future generations.

Our programme of capital investment delivers tangible benefits to customers while also supporting the delivery of service level performance improvements. **Examples of our key investment schemes over the past 12 months include:**

Case Study

Spittal wastewater treatment works, west Wales

We have recently invested £5.5 million to upgrade the wastewater treatment works in Spittal, Pembrokeshire, to help improve water quality in the river Cleddau by removing more phosphates from the treated wastewater which in turn will benefit the river quality and its aquatic life. The work started in December 2023 and was completed in spring 2025. Furthermore, as part of our and our contractor's Corporate Social Responsibility approach, the team spent over a week carrying out extensive ground and drainage works, as well as placing large rocks to kick off the Spittal Sanctuary (or Yr Hafan) project, giving pupils from Spittal Primary School a place to reflect and improve their wellbeing.

REMOVING MORE PHOSPHATES FROM THE TREATED WASTEWATER WILL BENEFIT THE RIVER QUALITY AND ITS AQUATIC LIFE.



Case Study

Bangor Beach Road wastewater pumping station, north Wales

We are investing £19 million at our Beach Road wastewater pumping station in Bangor, Gwynedd. The waste network in Bangor is a combined system, so during heavy rainfall the additional rainwater can sometimes overwhelm the network which can cause flooding.

As part of the project an attenuation tank is being installed underneath a community football field to increase capacity in the wastewater network during periods of heavy rainfall. It will also help improve the water quality of the Menai Strait (the channel that separates the Isle of Anglesey from the mainland) which is home to many rare and protected species of marine life.

THE STATION WILL IMPROVE WATER QUALITY IN THE MENAI STRAIT, WHICH IS HOME TO RARE AND PROTECTED SPECIES OF MARINE LIFE.

Case Study

Llyn Celyn dam, north Wales

Work to build one of Europe's largest spillways is well underway at Llyn Celyn near Bala, Gwynedd. The new auxiliary spillway at the reservoir will improve the resilience of the dam for decades to come, having been designed to deal with exceptionally high water levels that far exceed the capacity of the current spillway.

With the reservoir located in Eryri National Park every effort was made to minimise the visual impact of the new spillway to help it better blend with its natural surroundings. The innovative new spillway will be culverted under the crest of the dam and will use the natural gradient of the valley to direct flows back to Afon Tryweryn below. If the waters at Llyn Celyn reach the exceptional level of the additional spillway, water will flow over the new concrete weir of the proposed spillway into the upstream compartment but will go no further at that point as it will be held in the reservoir by a system of hydraulic gates. In extremely rare events of exceptionally high water levels when the reservoir levels far exceed the point where the current spillway comes into use (0.01% in any one year) the gates would open on the new spillway. Enabling works started on site in 2023 and the main project is set to be completed by late 2025.



Economic benefits generation in mid Wales

Elan Valley is an iconic visitor attraction in a scenic location. It welcomes around 190,000 visitors a year with 400,000 visitors to the wider estate, and a haven for wildlife.

We are working in partnership with Growing Mid Wales to deliver on the sustainable tourism objective of the Mid Wales Growth Deal. The Elan Valley Lakes development is a £22m programme of investment that will create a world-class destination, boost economic growth in the region, enhance biodiversity and contribute to Dŵr Cymru's net zero aims.

The programme will safeguard 24 jobs and create 41 more, delivering annual economic benefits of £4m, with an estimated £17m cumulative contribution to the regional economy by 2040.

This project is a testament to our commitment to sustainable tourism and environmental regeneration, playing our part in the 'Team Wales' approach to tackling climate change. It will transform the Elan Valley into a flagship destination, benefiting customers and the local community.

SUSTAINABILITY & ESG OBJECTIVES CONTINUED



Service Delivery

ESG Objective 5 – Ensuring 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 of our customers are in "water poverty" 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.

Service Delivery

ESG Objective 6 – Engaging with our customers

We actively engage with household and non-household customers through various research programmes to understand what they want and expect from their water and wastewater services.

We see our customer engagement and research as a continuous and changing process, not as a one-time activity. We know that our customers' needs, and expectations may change over time, because of various factors such as technology and economy.

Over the last 12 months, our customer engagement activities included:

Ad hoc research

Customer research conducted by independent research agencies for one-off purposes e.g. customer responses to incidents such as the Boil Water Notice affecting communities in Rhondda Cynon Taff in November 2024. This involved qualitative and quantitative research (with over three quarters of respondents said they were satisfied or very satisfied with our response) which will help inform our response for future incidents.

Business-driven research

Customer research conducted by independent research agencies in order to inform strategic business decisions e.g. PR24 Business Plan research in which 84% of household customers as a whole found the plan to be 'acceptable'.

To help inform our Vulnerable Customer Strategy up to 2030, we also commissioned research to explore customer vulnerability and provide recommendations identifying how the current strategy can evolve and improve to meet today's needs.

Customer data-driven insight

This includes all customer contact data, including complaints and other feedback e.g. using a speech analytics system to analyse customer calls to provide insights on sentiment.

Tracker research

This monitors trends of key topics over time e.g. our Trust Tracker monitors trust, value for money and other issues monthly.

Public events

Our £1 million a day investment in our water and wastewater services in communities can cause disruption and inconvenience to our customers. This is why we proactively communicate with customers before starting the work and often host community events for high impact schemes to explain to customers what we are doing and the likely duration and impact of the work.

Education

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.



SUSTAINABILITY & ESG OBJECTIVES CONTINUED



Service Delivery

ESG Objective 7 – 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 page 120.

Protecting the Environment

ESG Objective 8 – Adapting to future challenges

Welsh Water 2050 describes our commitment to plan for the long term, anticipating and responding proactively to emerging risks and opportunities. It identifies 8 key trends that are likely to have the most significant impact on service provision over the long term:

- Climate change
- Change in customer expectations
- Environmental change
- Protecting essential infrastructure
- Protecting public health
- Policy and regulatory change
- Changes to the structure of the economy
- Demographic change

Through our Water Resource Management Plans (WRMP) and Drainage and Wastewater Management Plans (DWMP) we consider the impacts that these trends will have on the sustainability of our services over the long term. Our latest WRMP, which we published in October 2024, outlines our plans to address potential risks to water resource resilience through:

- continuation of our 'find and fix' leakage programme;
- a progressive customer metering programme over AMP8 and AMP9, which will support leakage reductions and reduce usage by our domestic customers;

- four major network improvement schemes in our highest risk water zones;
- commitment to joint investigations with NRW to assess future sustainability of our abstraction licences under a changing climate; and
- commitment to look further at nature-based solutions.

The investment to support these plans was approved by Ofwat in its final determination of our business plan in December 2024.

Protecting the Environment

ESG Objective 9 – Demonstrating accountability

Given our clear company Purpose, which was incorporated into our constitution through the amendment of our Articles of Association in 2019, we are already committed to ensuring that Welsh Water is a wider force for good in all our interactions with customers, communities, landowners and developers across our supply area. The increased focus on ESG issues and growing interest from bondholder investors about our activities in these areas led us to establish the ESG Committee as a committee of the Board in 2021.

Through the Committee, we have reviewed our risk governance and the effectiveness of our consideration of climate-related risks and opportunities,

and we have used our preparation for the fourth year of Task Force on Climate-related Disclosures to ensure these issues are fully integrated into our long-term planning and strategy. As well as TCFD reporting, we are actively reviewing other nature-based reporting frameworks, to see if and how we might use them to improve our corporate governance arrangements for biodiversity specifically, and to mitigate our other environmental footprints.

We put good governance at the heart of our decision making and this is recognised externally. Sustainable Fitch confirmed that the ESG rating for Glas Cymru Holdings Cyfengedig is '2 – Good' for the third year running. Alongside the Fair Tax Mark, our

commitment to the Prompt Payment Code and our Supplier Code of Conduct, this provides investors, customers, suppliers and other stakeholders with reassurance of the strength of our commitment to transparency and sustainability. We continue to improve our ability to report in almost real time on the operation of our storm overflows and the quality of bathing waters in our operating area, which are aspects of our operations which are of particular interest to the communities we serve.



SUSTAINABILITY & ESG OBJECTIVES CONTINUED



| Our commitments | |
|--|--|
| <p>Accreditations for Fair Tax and Prompt Payments</p> | <p>Fair Tax Mark 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.</p> <p>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.</p> |
| <p>Anti-Bribery and Corruption Policy and Anti-Fraud</p> | <p>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.</p> |
| <p>Sustainable Procurement Policy, Supply Chain Compliance Standards and Anti-Slavery initiatives</p> | <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> |

Protecting the Environment

ESG Objective 10 – 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:

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.

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.

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.

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.

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.

Partnerships support safe open water swimming and education

Following the confirmation in May 2025 of our Llanishen and Lisvone reservoirs as designated inland bathing waters, in partnership with Swim Wales and the RNLI we are excited to host free structured swimming sessions teaching children aged from 7 to 14 years how to stay safe in open water in a fun and safe environment. During the 2025 summer holidays we also intend to introduce lifeguarded family swim sessions, allowing families to enjoy outdoor swimming together in safe and clean water.



S172 STATEMENT

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

Section 172 of this Act requires a director of a company to act in a way they consider, in good faith, would most likely promote the success of the Company, having 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; and
- 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 these duties during the year. For further information, please see the Governance Report on pages 80 to 143.

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 Group to inform decision making.

Our Board met with customers throughout the development of the Group'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 Group's Vulnerable Customer Strategy.

Members of the 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.

Board Members have attended the Phosphate Summit meetings called by the First Minister of Wales to improve river water quality and presented on the Group's contribution to this. Following the 2024 General Election members of the Board met with newly appointed Members of Parliament to discuss the Group's strategy and improvement plans and the Chair, CEO and CFO met with the newly appointed First Minister, Eluned Morgan who attended the Group'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 Group, 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 Group has a Supplier Payment Policy and is a signatory to the UK Government Prompt Payment Code (see page 74 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 Group'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 Group'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. 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.

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
- Member Survey

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 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). 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 Group. 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.

S172 STATEMENT CONTINUED

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 for more details) the Board is able to see and experience how the Group'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 08 to 10 of this report.

Board decision making in relation to our stakeholders during FY 25

| Decision | Discussion topics | Action taken following Board decision as a result of stakeholder feedback |
|--------------------------|---|--|
| River water quality | First Minister's River Summit (July 2024) | Board members have attended each River Summit and contributed to the Action Plans agreed. The Group continues to be a significant contributor to the Teifi Demonstrator Catchment project, which seeks to develop and implement innovative solutions to improve river quality within the River Teifi and act as a pilot for similar collaborative projects on other rivers. |
| Cost-of-living increases | Supporting our customers through our Vulnerability Strategy | The Group has approved continued investment and resource for its Social tariff initiatives including the (first of its kind), Cymuned scheme which provides financial support for qualifying working households who are struggling to afford cost-of-living increases. Feedback received through stakeholder engagement was incorporated into the Group's Vulnerability Strategy which was agreed by the Board and published in June 2024 (https://www.dwrcymru.com/en/vulnerability-strategy). |
| | Bill increases | Following robust feedback from Members regarding the need for a comprehensive communications plan to accompany AMP8 Bill increases, the Board approved a bespoke communications plan to increase awareness of the support offered to our most vulnerable customers and encourage them to access support when they need it. |
| PR24 planning | Customer and stakeholder engagement | The Board's insight into our customer and stakeholder priorities, gained through customer engagement and research, and participation in the Wales PR24 Forum, has been used as part of our PR24 planning, Draft Determination and Final Determination submissions. |
| Biodiversity strategy | Approval of the Biodiversity Action Plan – Making Time for Nature | At the recommendation of the ESG Committee the Board approved the Group's Biodiversity Action Plan which had been prepared following consultation with the IEAP and the Group's regulators and environmental stakeholders. The Action Plan demonstrates the Group's contribution to long-term solutions to meet the prevailing challenges of the climate and biodiversity landscape. |

STAKEHOLDER ENGAGEMENT DURING THE YEAR

| Stakeholder group | Their interest | Our objective | How we engaged |
|--|---|--|--|
|  Financial and investors | Secure and dependable investment with a strong understanding of our strategy, performance, ambition and culture, reflected in a positive ESG agenda | To ensure financing is available when needed at an appropriate cost and in accordance with our ESG Investment Policy | We have a comprehensive programme of investor engagement including our annual investors meeting in July each year, site visits and regular dialogue to update them on financial and operational performance, risks and potential mitigating actions. |
|  Our people | Employment with a trusted and reputable employer that does the 'right thing' for customers, communities and the environment | To motivate, support and empower an open and safe workforce that works for the benefit of customers both today and in the future. This will help us continuously improve our customer service as well as our operational and environmental performance | All colleagues are invited to a monthly CEO Teams call and given the opportunity to put questions to the Executive. This is supported by continual communication to support colleagues' health, safety and wellbeing as well as a series of annual Colleague Roadshows whereby the Executive host over 20 'town hall events' across our operating area. Colleague feedback is also shared via the annual Staff Survey. |
|  Customers, communities and society | A dependable and trustworthy company that works in the interests of its customers, community and environment | To earn the trust of our customers every day. To influence behaviour to e.g. reduce consumption, and not add inappropriate items to wastewater and sewers. To impart understanding of our operating activities and plans to deliver against their, and our, objectives | We hosted two open 'Your Water, Your Say' meetings to help inform the development of our 2025 to 2030 Business Plan. We meet quarterly with the Consumer Council for Water and our Independent Customer Challenge Group, which play a key role in protecting customers' interests. We track customer perceptions including trust and satisfaction against key indicators. We also offer customers online self-service options to report problems and they can also contact us 24/7 through an array of different channels. |
|  Regulators and government | Efficient high-performing company that efficiently and reliably provides essential services, and adds wider social and environmental value | To gain their input to and agreement for our Business Plans and support our wider 'Team Wales' policies where appropriate. To understand and influence policy direction | We regularly meet with our regulators at Board, Director and management level to discuss operational and reputational issues, legislative and performance requirements and future plans and policy decisions/proposals. We also engage regularly with the Welsh government, local government officials and elected representatives on water and environmental issues. |
|  Industry and business groups | To collaborate on common goals that support the needs of their members and their organisations' objectives | To work together to help the Company achieve its objectives and add value to the communities within which we operate | We play a key role as an 'anchor company' in Wales and a member of advisory bodies such as the IoD and Business in the Community, to ensure we influence and provide strategic input on various policy agendas. |
|  Suppliers and contractors | To meet their clients' needs: to improve their own reputation and support their own corporate goals | To engage and collaborate with suppliers that support our ethos and share common ESG goals, thereby ensuring the deliverability of our plans. | Having agreed performance measures at the outset of our relationship with suppliers, we often meet them to monitor and review their performance including their health, safety and wellbeing. We host audits and inspections of suppliers ensuring that we can provide consistent and seamless services to customers. |
|  Environmental groups | To protect and enhance the environment and tackle the challenges associated with climate change | To gain insight on the wider environmental agenda; to gain support and constructive challenge on our plans; to develop collaborative and innovative approaches/projects; to improve and defend the reputation of the Company's commitment to the environment | With our environmental performance under scrutiny, we often meet – both in private and as part of public meetings – with environmental groups to discuss investment plans to help address issues and concerns. This is supported by our Independent Environmental Advisory Panel (representing frontline organisations in Wales) which meets 6 times a year to help ensure that we maximise the benefits of our investment programme for customers and the environment, and to secure a safe and sustainable future for the environment. |

CHAIR OF THE BOARD'S INTRODUCTION TO GOVERNANCE

OUR BOARD IS COMMITTED TO THE HIGHEST STANDARDS OF INTEGRITY, TRANSPARENCY, AND ACCOUNTABILITY IN ALL OUR DECISION MAKING AND OVERSIGHT OF PERFORMANCE. OUR GLAS MEMBERS, AN ESSENTIAL PART OF OUR UNIQUE OWNERSHIP MODEL, ENSURE THAT THE BOARD IS HELD TO ACCOUNT FOR THE STEWARDSHIP OF THE COMPANY'S ASSETS AND THE PROVISION OF ESSENTIAL SERVICES SUSTAINABLY FOR OUR CUSTOMERS AND FUTURE GENERATIONS.

Jane Hanson CBE
Chair of the Board



Focus of the Board in the last 12 months

Operational performance

Given the scale of the operational and environmental challenges confronting the Group over the last 12 months, the Board, Performance and Safety Committee and ESG Committee have applied significant focus to reviewing the Company's progress against its operational and environmental measures with the Executive Directors and the Group's Managing Directors, who are permanent attendees at the Board.

Significant time has been spent reviewing the Group's performance recovery plans and action being taken to improve the performance of the Group's Storm Overflows given the intensifying focus on this by the public, media and our regulators. In addition to this, the Board has maintained oversight of the Group's efforts to improve its Environmental Performance Assessment rating from 2 stars to 3 stars, to move out of Ofwat's 'lagging company' categorisation and its response to the Drinking Water Inspectorate's Transformation Programme.

As a provider of an essential public service, supplying over 3 million people with clean, safe drinking water the Board has remained aware of the Group's duty to put our customers first to ensure that the services we provide are not only sustainable but also affordable and accessible to all our customers. To support this work the Board has maintained oversight of the Group's vulnerability strategy 'Supporting our Customers – Working at the Heart of our Community' which supports low-income households and customers who struggle to access our services and meets the objectives and minimum expectations of Ofwat's vulnerability guidance for water companies (Service for All).

PR24 planning

Throughout FY 25 the Board has devoted significant time to debating the Group's strategic and long-term business priorities; and the Financing Strategy as we need to significantly increase funding to support our ambitious PR24 investment plans.

Throughout this process the Board has recognised the crucial importance of working in partnership with our key stakeholders to deliver on our plans, which has played a vital role in our decision making. Examples of the decisions taken in relation to our stakeholders, together with details of our engagement with them, are set out in the Board's S172 Statement on page 76.

Wastewater investigation

During 2022 Ofwat and EA opened enforcement cases into six water companies, and subsequently on 16th July 24, announced the opening of enforcement cases into the remaining four water and sewerage companies, including Dŵr Cymru Welsh Water (the Wastewater Investigation), and served us and them with formal s.203 Water Industry Act notices requesting further information.

This disclosure has been requested to review the extent of any non-compliances with "full flow to treatment" requirements at Wastewater Treatment Work sites and to establish how the Company's compliance with legal and regulatory obligations have been managed.

The Board continues to oversee the Group's response to Ofwat's investigation to ensure that the processes we have followed and the data to be shared are appropriate and robust, with requisite due diligence and oversight. The Board remains committed to delivering lasting service improvement and will continue to engage with Ofwat in an open and transparent manner throughout their investigation.

Board of Directors changes

Following the appointment of our new Glas Cymru Board members; James Bevan, Darren James (Chair of the Performance and Safety Committee), Darren Pope (Chair of the Audit and Risk Committee) and Alison Wilcox (Chair Designate of the Remuneration Committee), we have reviewed our Committee structure and membership and have made changes to ensure that the Board is able to maintain focus on performance improvement across the business. The governance framework can be found on pages 83 to 84.

Board and Committee key focus areas in FY 25

- Working with Glas Members to ensure that the Group's Governance Model continues to provide robust scrutiny and challenge.
- Considering the Group's strategy for engagement with its customers and stakeholders to maintain trust in our non-shareholder business model.
- Preparation for PR24 to understand the implications of Ofwat's Final Determination and reviewing progress with investment cases for the Group's PR24 business plan.
- Approval of a Funding Strategy for AMP8, which ensures that sufficient liquidity headroom is held to withstand adverse developments in funding markets and to minimise market risk.
- Ensuring the Company continues to provide support to those customers who struggle to afford their bills, and who have characteristics of vulnerability through approval of the Group's Vulnerability Strategy.
- Considering the issues highlighted through ongoing scrutiny of operational performance at Performance and Safety Committee, including examination of the appropriateness of the resulting action plans to improve performance, in particular our Environmental Performance Assessment (EPA).
- Maintaining oversight of the Company's River Quality strategy and CSO programme, which is prioritised on the basis of harm reduction and plans to improve more than 500km of rivers, through regular performance and KPI reviews at Performance and Safety, and ESG Committees.
- The development and implementation of plans to adapt to the challenges of climate change which have been the subject of deep dive reviews at Board Strategy days and scrutinised at Performance and Safety, and ESG Committees to ensure that the Group remains able to provide affordable and resilient services.

On behalf of the Board, I am pleased to introduce our Governance report for FY 25, which has been prepared in accordance with the 2024 UK Corporate Governance Code (the Code) and Ofwat's Board Leadership, Transparency and Governance Principles. This report sets out the activity of the Board and its Committees to support the delivery of the Group's Purpose through the application of best practice and effective corporate governance procedures for the mutual benefit of our customers, employees and stakeholders.

As detailed within the Chief Executive's Review (page 20 and my Chair's Statement (page 01), FY 25 has been an exceptionally busy period for the Board and its Committees with a significant amount of time being spent finalising our PR24 business plans, overseeing operational performance and running a recruitment process to recruit four new Non-Executive Directors following my appointment as Chair, and the retirements of Alastair Lyons and Barbara Moorhouse.

The Board and its Committees continue to adopt a holistic approach to governance and oversee and scrutinise the operations of the Group as opposed to focusing separately on segregated sections of activity. This has enabled the Board to maintain strategic oversight of the Group's performance against, and its compliance with, key regulatory, operational and strategic objectives.



CHAIR OF THE BOARD'S INTRODUCTION TO GOVERNANCE CONTINUED

Our people

The Board considers it very important to have direct engagement with our colleagues, as this provides a better understanding of the day-to-day challenges they face, from both operational and office-based perspectives, and is one of the ways we monitor culture and behaviours.

Similarly, the Board values the opportunity to undertake operational site visits, which enable face-to-face meetings with colleagues (see page 97 for details of these site visits during the year). These visits give us the insight and opportunity to learn about issues facing the business at first hand and provide us with opportunities to see the great work being undertaken by our colleagues.

Through our Remuneration Committee we have been pleased to see the progress that has been made in the area of diversity and inclusion during the past year and we are proud to support the publication of the Group's Ethnicity Pay Gap data which we published for the first time in 2024 in addition to broader Gender Pay Gap data. This further demonstrates the Group's ongoing commitment to work-based equality and a desire to continue improving diversity to better represent the communities we serve. See page 127 for further details.

Our Members

The Company's Annual General Meeting (AGM) is held in July each year and welcomes a large number of our Members. We appreciate the valuable role our Members perform in relation to our non-shareholder model in holding the Board to account. We are fortunate that through our annual Member recruitment process we are able to attract individuals from a wide range of backgrounds who share an interest, not only in our Purpose (the what we do and for whom), but also in our culture (the how), both of which focus on delivering the best outcomes for our customers and the environment.

During FY 25 we undertook a Member survey to consider the views of Members to ensure that their role continues to be effective and robust. Further feedback has been shared at Regional Members meetings and will inform the development of action plans during FY 26. Further detail on our engagement with Glas Cymru Members is set out on page 76.

UK Corporate Governance Code

Throughout the year the Audit and Risk Committee has considered updates to the Code including the extent of arrangements to put in place to meet the requirements of updates to Provision 29 of the Code. Such updates will apply to financial years beginning on or after 1 January 2026 and will require the Board to make a declaration in relation to the effectiveness of the Group's material internal controls.

Alongside this work a self-assessment of Board and Committee activity has been undertaken during the year to assess compliance against the Code and Ofwat Board Leadership, Transparency and Governance Principles. The output of that review, which was shared with the Audit and Risk Committee in May 2025, evidenced that the Board and its Committees had applied the Principles and complied with the Provisions of the Code as we are required to under the terms of the Common Terms Agreement, which governs our debt issuance. I am confident as to the quality of the Board's decision making and compliance, and that the Group has complied during the year with the key principles of good governance.

Board evaluation, succession and Governance Changes

The Board's focus continues to be on supporting and guiding the Executive Team to deliver improved operational performance to meet the investment and regulatory challenges of AMP8 and beyond. To do so, the Board must be independent and effective to drive the required level of performance improvement.

Following my appointment as Chair, and the appointment of four new Non-Executive Directors, the Nomination Committee undertook an informal review of Board and Committee effectiveness to ensure that an appropriate balance of skills and expertise, between our existing and new Board Members, was distributed across our Board Committees.

The review resulted in a re-distribution of Committee Membership and agreement being reached to stand down the Board Technology, Finance and Direct Procurement for Customers Committees, with matters reserved to

each of these Committee's reallocated to the Board and other Committees as appropriate.

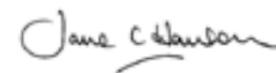
During FY 24 an internal evaluation of Board performance was undertaken which considered that the Board, and its Committees, had the appropriate balance of skills, experience, independence, and knowledge to enable them to discharge their respective duties and responsibilities effectively. In line with the UK Corporate Governance Code, the Board intends to commission an externally facilitated effectiveness review once the recently appointed Non-Executive Directors are fully embedded and a new Chief Executive Officer is in place, to ensure the review is both timely and meaningful.

Looking Forward

The Board will continue to oversee and support the business to deliver its AMP8 plans and to respond effectively to a changing regulatory and legislative landscape that will continue to shape the industry over the coming years. Board members will continue to engage with our stakeholders, employees, regulators and Members to articulate progress made and the challenges that arise, with feedback guiding the Group's short and long-term strategies.

A detailed induction process has commenced for our new Board members which is being overseen by the Nominations Committee and will provide them with a full oversight of the Group's purpose, culture and operational position so that they are able to fully contribute to the Board and wider business, bringing their experience to bear to drive improved performance.

The Nomination Committee will also oversee a robust recruitment process for the appointment of a new Chief Executive Officer.



Jane Hanson CBE
Chair of the Board

6 June 2025

GOVERNANCE FRAMEWORK

Our governance framework, as set out overleaf, shows the relationships between the Glas Members, the Board and the Board Committees and selected operational and management committees.

All Board Committees have formally established Terms of Reference (found here: <https://corporate.dwrcymru.com/en/library/terms-of-reference>), which define their scope, responsibilities and means of operation. The Company Secretary works closely with the Chair of the Board and the Board Committee Chairs to ensure appropriate and timely information flows are maintained. Committee membership, terms of reference and effectiveness are all reviewed annually. Further detail on each Board Committee is provided on the following pages.

We pride ourselves on conducting our business in an open and transparent manner. Our governance framework remains flexible, allowing for fast, efficient, and effective decision making and management oversight. The Board monitors the performance of our operations, our internal governance structure, and the management of risk and related controls, while maintaining oversight over the way the business is operated by the DCE and its constituent management committees

(See page 98 for further detail on the role of the DCE).

Also supporting the DCE is a clearly defined management structure and governance framework, consisting of sub-committees and project-specific steering groups, which operate within defined terms of reference and in accordance with our Group policies. All decisions made by individuals or by a Committee that involve financial spend or an associated risk are governed by the Group's established Delegations of Authority.

This is structured to ensure that day-to-day operational decisions can be taken efficiently, while ensuring higher-risk and high-value commitments go through the appropriate channels for approval.

By maintaining this structure of management control, we ensure our operations are run effectively, and decisions are made in line with our commitment to our values and to always do the right thing. This structure also ensures that all decision making is

adequately informed and is supportive of the Directors' duties under Section 172 of the Companies Act 2006 to act in a way that reflects:

- the need to foster the Company's business relationships with suppliers, customers, and other stakeholders; and
- the impact of the Company's operations on the community and the environment, and the desirability of the Company maintaining a reputation for high standards of business conduct.

Details of how we engage with our key stakeholders and examples of how the Board has taken their interests into consideration during the year are described in the Section 172 Statement on pages 76 to 79.



Our Members

Individuals independently drawn from across our supply area (with no financial stake in the business) who hold the Board to account. In the same way as shareholders would in a shareholder-owned company. Members are responsible for the following: receiving the Annual Report and Accounts, approving the Directors Remuneration Report, approving the Directors Remuneration Policy, electing and re-electing Members of the Board, appointing the Group's Auditor.

The Board

The joint Board of Glas Cymru Holdings Cyfyngedig (Glas Cymru) and Dŵr Cymru Cyfyngedig (Dŵr Cymru) is responsible for the overall conduct of the Group's business, including our long-term success in meeting the needs of our customers and the communities we serve; setting our Purpose, values, standards, and strategic objectives; reviewing our performance; maintaining oversight of our governance framework; and ensuring a positive dialogue with our stakeholders is maintained. Having regard to the duty of all Directors under Section 172 of the Companies Act 2006, the Board has reserved to itself, among other priorities, approval of long-term objectives and Annual Operating and Capital Expenditure budgets. The full detail of the Matters Reserved to the Board are described in the Board's Terms of Reference (<https://corporate.dwrcymru.com/en/library/terms-of-reference>).

Board Committees

Performance and Safety Committee (PSC)

Reviews and monitors operational performance relating to water, wastewater and the environment and risks to the business arising from operational and health and safety-related issues. Reviews compliance with regulatory requirements of DWI, NRW, and the EA.

Audit and Risk Committee (ARC)

Reviews the integrity, adequacy and effectiveness of the Group's systems of internal control, risk management and related activities. Oversees the preparation and review of financial and regulatory returns. Examines cases of whistle-blowing, ensuring full independent assessment and resolution of issues raised.

Nomination Committee

Reviews Board composition and ensures Board diversity and balance of skills. Reviews Board and Executive Committee succession plans to maintain continuity of skilled resource. Responsible for the process of recruiting new directors and their proposal to the Board for appointment.

Technology Committee

Reviews the development and implementation of the Group's digital strategy. Maintains oversight of the effectiveness of the Group's information technology (IT), operational technology (OT) and information security provision in support of the achievement of the Group's medium-term business objectives.

Finance Committee*

Makes decisions on financial matters in between Board meetings as and when required.

*Stood down as Committees of the Board with effect from 14 January 2025 (see page 101 for further detail).

Remuneration Committee

Sets, reviews and recommends the policy on remuneration of the Chair of the Board, the Executive Directors and the senior management team. Maintains oversight of the remuneration policies and practices for the whole workforce, having regard to these when determining the remuneration of the Executive Directors.

Environment, Social and Governance (ESG) Committee

Oversees the Group's ESG Strategy and the proposed ESG targets. Considers how all elements of the ESG Strategy are reported and measures are adopted by the Company, and monitors performance against the Company's ESG targets. Ensures that the Company develops and maintains appropriate policies to effectively support its ESG Strategy, particularly its environmental impact.

Direct Procurement for Customers (DPC) Project Committee*

Oversees progress of the construction of new water treatment works in the Merthyr Tydfil area and makes recommendations to the Board in relation to the necessary approvals and Board assurances required under Ofwat's DPC delivery model.

Leakage and Per Capita Consumption Committee*

Established during FY 23 as a task-and-finish Committee to oversee the review of misstatement of leakage and per capita consumption data during FY 21 and FY 22.

Dŵr Cymru Executive Committee (DCE)

Comprising the leaders of key business function areas, the DCE is appointed by the CEO to support him in the performance of the CEO's duties, including the development and implementation of strategy, operational plans, policies, procedures, and budgets; the monitoring of operating and financial performance; the assessment and control of risk; and the prioritisation and allocation of resources.

Key Executive-level forums that support the DCE

Information Security Steering Group (ISSG)

Ensures that the Group's information is protected, and risks are mitigated. The ISSG is supported by a Data and Analytics Steering Group.

Investment Portfolio Group

Ensures the effective delivery of the Group's capital programme.

Climate Change Committee

Oversees the Groups Climate change adaptation strategy with the objective of planning the adaptation needed to ensure the Group can sustainably meet its strategic goals and public service commitments.

Regulation Steering Group(s)

The Triage team meets fortnightly to discuss developments in the industry and agree forward plans to address regulatory requirements. In addition, we have a specific steering group for Charges and one focused on PR24.

Leakage Performance Review

Provides guidance, support, and recommendations to the DCE in achieving the objectives relating to leakage performance and recovery.

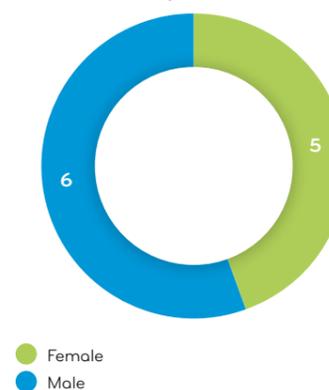
Policy Approval Committee

Supports the review, approval, and communication of Group policies.

GOVERNANCE AT A GLANCE

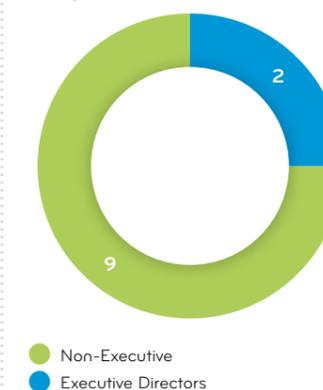
Board composition at 31 March 2025

Gender diversity



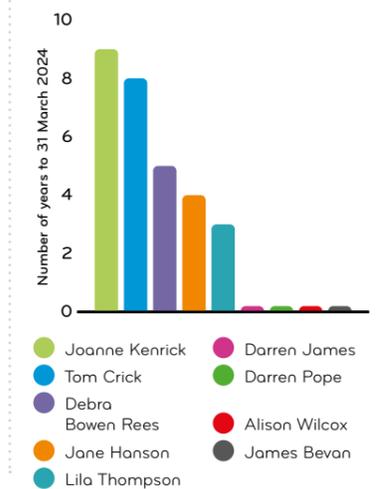
See page 98 on Directors' independence.

Independence



Tenure of NEDs

Shown to the nearest full year to 31 March 2025



Directors' skills and experience

In determining the composition of the Board, we aim to have at least one Non-Executive Director who professes themselves expert in each area of skills and experience that is material to the determination and delivery of the Group's strategy.



GOVERNANCE AT A GLANCE CONTINUED

Meeting attendance

8 scheduled Board meetings took place during the year with an additional 11 quorate Board meetings convened to review arising issues including the Ofwat Draft and Final Determinations, the Group's response to the Ofwat and EA Wastewater Investigation and the related s.203 information request (see below). Every effort is made by Board members to attend all meetings. The table below shows the number of scheduled meetings attended and the maximum number of the Board and Committee meetings that the Directors could have attended.

| Director | Board | PSC | ARC | Remuneration | Nomination | Finance | Technology | ESG | DPC ⁶ | Leakage and PCC ⁷ |
|--------------------------------|-------|-----|-----|--------------|------------|---------|------------|-----|------------------|------------------------------|
| Jane Hanson ^{1,2} | 8/8 | 5/5 | 5/5 | 3/3 | 1/1 | 2/2 | 2/2 | 3/3 | - | 3/3 |
| James Bevan ³ | 1/1 | 1/1 | - | - | - | - | - | 1/1 | - | - |
| Debra Bowen Rees | 8/8 | 7/7 | 7/7 | - | 2/2 | - | - | 4/4 | - | - |
| Tom Crick | 8/8 | 5/5 | 1/1 | 6/6 | - | - | 3/3 | 1/1 | - | - |
| Darren James ⁴ | 2/2 | 2/2 | - | - | - | - | - | - | - | - |
| Joanne Kenrick | 8/8 | 5/5 | 7/7 | 8/8 | 2/2 | - | 3/3 | - | - | - |
| Darren Pope ⁴ | 2/2 | 2/2 | 1/1 | 3/3 | - | - | - | - | - | - |
| Lila Thompson | 8/8 | 5/5 | 1/1 | - | - | - | - | 4/4 | - | - |
| Alison Wilcox ⁴ | 2/2 | 2/2 | - | 3/3 | - | - | - | - | - | - |
| Alastair Lyons ⁵ | 6/6 | 5/5 | - | 5/5 | 2/2 | 1/2 | - | 1/2 | - | 3/3 |
| Barbara Moorhouse ⁵ | 6/6 | 5/5 | - | - | - | - | 2/2 | - | - | - |
| Peter Perry ⁸ | 8/8 | 7/7 | 6/7 | 8/8 | 2/2 | 1/2 | 2/3 | 2/4 | - | 3/3 |
| Mike Davis ⁵ | 8/8 | 6/7 | 6/7 | - | - | 2/2 | - | 1/4 | - | 2/3 |

¹ Appointed Chair of the Board as of 1 January 2025
² Attended Technology Committee at the invitation of the Committee Chair
³ Appointed 11 February 2025
⁴ Appointed 1 January 2025
⁵ Retired as of 31 December 2024
⁶ Direct Procurement for Customers Project Committee
⁷ A purpose-formed task-and-finish Committee of the Board established in March 2023 to oversee the leakage and per capita consumption review but will remain in place to oversee deliver of the recovery plan
⁸ Attends Committee meetings as an attendee, not Committee member.

BOARD ACTIVITY

Specific Board and Committee activities

Board composition, succession and Non-Executive Director induction

Progress made:

The Board reviewed Board and Committee size and memberships in January 2025 following the retirement of Alastair Lyons and Barbara Moorhouse and the recruitment of 4 new Non-Executive Directors.

Action taken:

See page 101 for changes made to Committee memberships and the Nomination Committee report (pages 102 to 103) for overview of the appointment and induction process for newly appointed Board members.

Preparation for PR24

Progress made:

The Board progressively considered, and input into, each of the elements of the PR24 Business plan and considered in detail the outcome of Ofwat's PR24 Draft and Final Determinations.

Action taken:

The Board approved procurement exercises for the Wastewater Repair and Maintenance (R&M) and Network Operating Services (NOS) contracts and existing Alliance and construction contractors for AMP8 to secure a resilient supply chain for delivery of AMP8 investment plans.

AMP8 readiness

Progress made:

The Board oversaw the development of updated procurement frameworks to support delivery of AMP8 Capital Investment plans.

Action taken:

The Board approved procurement exercises for the Wastewater Repair and Maintenance (R&M) and Network Operating Services (NOS) contracts and existing Alliance and construction contractors for AMP8 to secure a resilient supply chain for delivery of AMP8 investment plans.

Asset resilience – strategy day

Progress made:

The Board met at its October 2024 Strategy Day to review the impacts of Climate Change on Asset Health and the subsequent impact to service performance which had been a key focus of the Asset Planning team during the preparation of our PR24 plans.

Action taken:

The detailed review of existing and emerging risks, and mitigating investment informed post-draft determination representations and submissions to Ofwat to inform PR24 Final Determination discussions and reviews.

Meeting the environmental challenge

Progress made:

The Board considered in detail the metrics that describe the impact of the Group's activities on the environment, in particular on river water quality and plans to minimise ecological harm.

Action taken:

The Board supported the development and submission of a PR24 investment plan prioritised to reduce harm. While Ofwat substantially funded the Group's enhancement cases that prioritised harm reduction, their Outcome Delivery Incentives continue to prioritise a reduction in Storm Overflow spill frequency. The Board also approved the Group's Biodiversity Action Plan for 2024, Making Time for Nature (found here: <https://corporate.dwcymru.com/en/community/environment/conservation-and-biodiversity>), the implementation of which will maintain and enhance biodiversity in the fulfilment of our functions as well as promoting the resilience of ecosystems.

Financial plans

Progress made:

The Board has scrutinised the development of the Group's financial plans to secure sufficient investment to deliver the Group's AMP8 business plans.

Action taken:

The Board has approved the Group's updated Prospectus and Sustainable Finance Framework which has supported raising £750 million in bonds over the course of the year. Additionally, the Board scrutinised and approved the Group's FY 26 Financial Plans during FY 25. For further detail on this investment see the Financial Review at pages 24 to 29.

Board diversity

Progress made:

The Board has continued to achieve the targets it set in its Diversity Policy, which includes having at least 33% female representation on the Board, and a target to appoint one Board Member from an ethnic minority background by the end of 2025.

Action taken:

Following recent Board appointments, two of the 4 senior board positions are held by females, with 45% of all Board appointments held by women. The Nomination Committee's activities related to diversity are set out at pages 103 and 104.

Technology Committee

Progress made:

The Committee oversaw the Group's successful migration to cloud platforms and has monitored achievement of strategic and operational technological objectives, including the development and implementation of plans to upgrade and replace key software applications across the business.

Action taken:

A full report of the Committee's activity during FY 25 is set out at pages 113 to 115. Due to the increased maturity of the Group's Information Technology Services, teams and platforms, the Technology Committee will be stood down at the end of FY 25 with key ITS strategies and objectives to be overseen and reviewed by the Board moving forward to ensure clear alignment with the overarching Group Business strategies.

BOARD OF DIRECTORS

A Summary of Non-Executive Director and CEO roles and responsibilities can be found at page 99. References to Committee Membership below reflect Committee Membership at the end of FY 25 following changes to Committee Membership made during the year. Please refer to page 101 for an overview of changes to the structure of Committees and Committee Membership agreed during the year.

Key to Committee memberships as at 31 March 2025

- A Audit and Risk Committee
- F Finance Committee
- R Remuneration Committee
- D Direct Procurement for Customers (DPC) Committee
- L Leakage Oversight Committee
- T Technology Committee
- E ESG Committee
- N Nomination Committee
- C Committee Chair
- P Performance and Safety Committee (formerly Quality and Safety Committee)



Jane Hanson CBE
Chair of the Board

N R

Appointed to the Board
January 2021

Chair from 1 January 2025

Jane was appointed Non-Executive Director in January 2021 and was deemed independent on her appointment as Chair of the Board in January 2025.

Skills and experience

A qualified Chartered Accountant, Jane has over 20 years of Non-Executive Director experience on private, listed, public sector and charity Boards in Audit and Risk Committee Chair and Board Chair roles. Her executive career included extensive experience of Strategic Development, Enterprise Risk Management, Corporate Governance and Internal Control frameworks in blue-chip, heavily regulated entities. Jane was awarded a CBE in 2023 for services to charity having served as Chair of the Reclaim Fund for over 10 years, making available over £2 billion of Financial Sector assets to charitable causes, and as Honorary Treasurer of the Disasters Emergency Committee. She is also a magistrate.

External appointments

Jane is a Non-Executive Director of Royal BAM Group N.V. and HM Treasury. Jane is also an Independent Advisor and Audit and Risk Committee member of John Lewis Partnership and Chair of the Board of Trustees of the Bardi Symphony Orchestra.



Peter Perry
Chief Executive Officer

A N P E R T *

Appointed to the Board
August 2006

Peter was appointed Chief Executive Officer in April 2020. His role is to manage the Group's business effectively, within the strategies set by the Board.

Skills and experience

Peter was previously the Managing Director of Dŵr Cymru Welsh Water from October 2017 after four years as Chief Operating Officer. Appointed Operations Director of Welsh Water in July 2006, Peter has a civil engineering background and was formerly the Chief Operating Officer for United Utilities Operational Services (UUOS), having previously been the Operations Director with responsibility for the operational contract with Welsh Water and UUOS's water interests in Scotland and Ireland. Prior to that, he worked for Welsh Water for over 20 years.

External appointments

President of the Institute of Water. Chair of the Wales Leadership Board and Member of the Community Leadership Board of Business in the Community Cymru. Member of the Water UK Board and adviser on the UK Resilience Forum.

*Attends Committee meetings as an attendee, not a member.



Mike Davis
Chief Financial Officer

A N P E R T *

Appointed to the Board
January 2020

Mike resigned as Company director and stepped down from the Board on 7 May 2025. Until that date, he was responsible for the Group's financial operations.

Skills and experience

Mike graduated as a Chemical Engineer and is a Chartered Accountant by profession. He has previous experience in the media, ICT and mining industries, including as Finance Director for two private equity start-up businesses. Mike previously held the positions of Director of Strategy and Regulation and Financial Controller at Welsh Water, with a focus on regulatory price reviews and competition.

External appointments

Non-Executive Director of Wales & West Utilities.

* Attended Committee meetings as an attendee, not a member.



Sir James Bevan KCMG
Non-Executive Director

P E

Appointed to the Board
February 2025

Skills and experience

James has extensive experience in government relations, leadership, operational delivery, regulation, environmental protection and climate change. After a diplomatic career during which he served in Africa, Europe, the United States and India, and as the Chief Operating Officer of the Foreign, Commonwealth and Development Office, he was the Chief Executive of the Environment Agency from 2015 to 2023, leading its work to protect the environment, reduce the risks of flooding and drought and their impacts on local communities, and tackle the causes and effects of climate change.

External appointments

Trustee on the Board of the Canal and River Trust, Trustee of Clinton Devon Estates, and Visiting Professor at Cranfield University.



Debra Bowen Rees
Non-Executive Director

P E N

Appointed to the Board
January 2020

Debra is Chair of the Environment, Social and Governance Committee. She also represents the Board on the Independent Member Selection Panel, which recommends to the Board the appointment of Glas Members.

Skills and experience

Debra has a wealth of experience in leadership and management, including managing safety-critical, regulated infrastructure. After a successful career serving in senior positions in the Royal Air Force, Debra joined Cardiff Airport in 2012 as Operations Director, and was appointed Managing Director in 2014. She became Chief Executive of the Welsh Government-owned airport in 2017.

External appointments

Non-Executive Director of the Port of Milford Haven, Airport Coordination Ltd and ACL International Coordination Limited.



Professor Tom Crick MBE
Non-Executive Director

A E T

Appointed to the Board
October 2017

Tom was Chair of the Technology Committee during FY 25.

Skills and experience

Tom is Professor of Digital Policy at Swansea University and Chief Scientific Adviser at the UK Government's Department for Culture, Media and Sport (DCMS). He brings with him a wealth of experience as an interdisciplinary computer scientist and engineer; within DCMS, he provides scientific and technical advice directly to ministers and senior officials, including oversight of AI and R&D. He is a Fellow of the Learned Society of Wales, and was appointed MBE in 2017 for services to computer science.

External appointments

Chief Scientific Adviser (CSA) at the Department for Culture, Media and Sport (DCMS), Trustee of the Cumberland Lodge and a Turing Fellow at the Alan Turing Institute.

BOARD OF DIRECTORS

CONTINUED



Darren James
Non-Executive Director

P N

Appointed to the Board
January 2025

Darren is Chair of the Performance and Safety Committee.

Skills and experience

Darren is a qualified civil engineer and was appointed CEO of Aureos (formerly Keltbray Infrastructure Services) in August 2024 having led the purchase by EMK of the infrastructure arm of the Keltbray group where he served as CEO from April 2020. Prior to this, he spent 30 years at Costain Group PLC, latterly as Chief Operating Officer. He has a wealth of experience in leading high-profile programmes for public and private sector customers, often in highly regulated infrastructure sectors, in the UK and internationally. Previously, Darren served as Non-Executive Director at the Port of London Authority.

External appointments

CEO of Aureos (formerly Keltbray Infrastructure Services) and Board Member of the Rail Industry Association.



Joanne Kenrick
Non-Executive Director
Senior Independent Director

A R N T

Appointed to the Board
November 2015

Joanne was appointed Senior Independent Director in July 2023. She is Chair of the Remuneration Committee.

Skills and experience

Joanne was Marketing Director of Homebase until the end of 2015. Prior to that, she was Chief Executive Officer of Start, setting up and running the Prince of Wales' public-facing initiative for a more sustainable future. Former roles include Marketing and Customer Proposition Director of B&Q, Marketing Director of the National Lottery, and Group Sales and Marketing Director of Wilson Connolly. She has also worked for Woolworths, Asda, Pepsico and Masterfoods. Joanne has a degree in Law from Nottingham University, and while at college she was one of the first women trained by the RAF to fly.

External appointments

Chair of the Board at the Co-operative Bank Plc, Senior Independent Director, Deputy Chair and Chair of the Remuneration Committee at Coventry Building Society. Non-Executive Director and Chair of the Remuneration Committee of Sirius Real Estate. Non-Executive Director and Consumer Duty champion for Vitality Health and Life Insurance.



Darren Pope
Non-Executive Director

A P R

Appointed to the Board
January 2025

Darren is Chair of the Audit and Risk Committee.

Skills and experience

Darren is a qualified accountant with 10 years of Non-Executive Director experience across many types of Financial Services listed businesses. His executive career was primarily within the retail banking sector where he held senior and board level positions in Lloyds Bank and TSB Bank, the latter as the group CFO. He has gained extensive experience of leading large and complex Finance, Treasury and Strategy teams as well as overseeing enterprise risk management systems and processes in heavily regulated environments. He brings experience of both M&A and raising funds in public markets and leading large transformation programmes (where he led the build and IPO of TSB out of Lloyds bank).

External appointments

Darren is the Audit Chair at Starling Bank.

Key to Committee memberships as at 31 March 2025

- A Audit and Risk Committee
- F Finance Committee
- R Remuneration Committee
- D Direct Procurement for Customers (DPC) Committee
- L Leakage Oversight Committee
- T Technology Committee
- E ESG Committee
- N Nomination Committee
- C Committee Chair
- P Performance and Safety Committee (formerly Quality and Safety Committee)



Lila Thompson
Non-Executive Director

A E

Appointed to the Board
September 2022

Skills and experience

Lila has over 20 years of experience driving business growth, policy development and stakeholder engagement across industry sectors including healthcare and the environment. She currently leads the UK's largest supply chain membership organisation and challenge-led, independent, thought leadership water industry forum as Chief Executive Officer of British Water. Prior to her tenure as CEO, Lila was responsible for advising multi-nationals on international opportunities and advising the UK Government on trade policy.

External appointments

Chief Executive Officer at British Water. Trustee of the Chartered Institution of Water & Environmental Management (CIWEM). Member of the Board of Spring, the innovation centre of excellence for the water sector.



Alison Wilcox
Non-Executive Director

P R N

Appointed to the Board
January 2025

Alison is the Chair Designate of the Remuneration Committee pending the retirement of Joanne Kenrick.

Skills and experience

Alison has enjoyed a diverse career spanning management consulting, HR expertise, business partnering and leadership roles in Hay Group, Vodafone and BT. Alison is a former Group HR Director for BT and Europe Regional HR Director for Vodafone with over 25 years' experience of operating at Executive and board level roles in divisional, corporate and consulting HR roles.

External appointments

Trustee Board Member and Nominations Committee Chair at Health Data Research UK (HDR UK) and Non Executive Director, Guy's and St Thomas' NHS Foundation Trust.



Alastair Lyons CBE
Chair of the Board

D E F L N P R T

Term
May 2016 to December 2024

Alastair was Chair of the Board until his retirement on 31 December 2024. He was appointed Non-Executive Director in May 2016 and was deemed independent on his appointment as Chair of the Board in July 2016.

Skills and experience

A chartered accountant by profession, Alastair has over 20 years' experience as Non-Executive Chair of listed and private companies. During an extensive executive career in financial services, he was Chief Executive Officer of the National Provident Institution and the National & Provincial Building Society, Managing Director of the Insurance Division of Abbey National plc, and Director of Corporate Projects at National Westminster Bank plc. He was awarded the CBE in 2001 for services to social security.

External appointments

Chair of Harworth Group plc and Vitality UK.



Barbara Moorhouse
Non-Executive Director

P T

Term
January 2023 to December 2024

Barbara Chaired the Performance and Safety Committee until stepping down from the Board on 31 December 2024.

Skills and experience

Barbara is an experienced Chair, Committee Chair and Non-Executive Director, holding appointments across a range of business sectors, including as Chief Finance Officer, Group Finance Director, and Regulatory Director. Barbara has also worked within the public sector as Director General of the Ministry of Justice, Director General of the Department for Transport, and Chief Operating Officer of Westminster City Council.

External appointments

Chair of Agility Trains Group, an infrastructure fund-owned train services company. Senior Independent Director and Chair of the Remuneration Committee at Aptitude Software Group plc. Non-Executive Director at Balfour Beatty plc.

CORPORATE GOVERNANCE REPORT

Sound corporate governance is an essential feature of the decisions we make to generate value for our stakeholders and support our delivery of an essential public service.

Our governance processes have been established to support the Company Purpose (set out in full at page 08) and are based on transparency and fairness, underpinned by the values of the Group.

The Ofwat Board Leadership, Transparency and Governance Principles include many of the principles and provisions of the Financial Reporting Council's (FRC) UK Corporate Governance Code (the Code) to which we are committed to adhere. We, therefore, apply both the Ofwat Principles and the principles and provisions of the UK Corporate Governance Code and can confirm that they have been applied during the financial year in all material respects.

How we meet the provisions of Ofwat's guidance on Board leadership, transparency and governance

| Guidance provisions | How we have complied with the provisions | Further information |
|--|---|--|
| Purpose, values and culture | <p>The Board of the Appointee (otherwise referred to as Dŵr Cymru Cyf, our regulated company or the Company), has established the Company's Purpose, strategy, and values, and is satisfied that these and its culture reflect the needs of all those it serves.</p> <p>Our vision and culture underpin our decision making and are monitored by the Board (see definition of the Board below) to satisfy itself that behaviour throughout the business is aligned with the Company's purpose.</p> <p>The Company Direction and Performance Statement sets out how the Company has set its aspirations and has performed for all those it serves.</p> | <p>See page 08.</p> <p>The Company Direction and Performance Statement can be found in our Annual Performance Report, which will be available from mid-July 2025 on our website (https://corporate.dwrcymru.com/en/library/annual-performance-reports).</p> |
| Standalone regulated company | <p>Dŵr Cymru Cyf. has an effective Board with full responsibility for all aspects of the business of the Appointee for the long term.</p> <p>We have an identical Board of Directors for our holding company, Glas Cymru Holdings Cyf, (the Board) as our sole purpose is the provision of our essential water and waste services for the benefit of our customers.</p> <p>Our Corporate Governance Report sets out in detail the role of the Board and those matters that are delegated to its Committees, all of which report to the Board.</p> | <p>See pages 93 to 101.</p> <p>Although we have a unified Board for the Group and Dŵr Cymru Cyf, we regularly review potential conflicts with Board members and consider any conflicts with reference to the agenda for each meeting.</p> |
| Board leadership and transparency | <p>The Board's leadership and approach to transparency and governance is designed to engender trust in Dŵr Cymru Cyf. and ensures accountability for its actions.</p> <p>As required, information on the following is published in this Annual Report: our Group Structure; dividend policy; principal risks and uncertainties; details of Board and Committee memberships; meeting attendance; and Executive Pay Policy.</p> | <p>Group structure, see corporate.dwrcymru.com/en/about-us/company-structure</p> <p>Dividend Policy (page 141).</p> <p>Principal Risks and Uncertainties (pages 33 to 39).</p> <p>Board and Committee membership and meeting attendance (page 86).</p> <p>Executive Pay Policy (pages 120 to 140).</p> |
| Board structure and effectiveness | <p>A review of the effectiveness of the Board and its Committees is undertaken each year. An external review was carried out by Halex Consulting Limited in FY 23 in accordance with the Code requirement that Companies should carry out an externally facilitated evaluation of the Board every 3 years. An externally facilitated review will be undertaken once recently appointed Non-Executive Directors are fully embedded and a new Chief Executive Officer is in place.</p> | <p>The conclusions of our informal Committee Membership and effectiveness review for 2024 to 2025 can be found on pages 100 and 101.</p> |

| Guidance provisions | How we have complied with the provisions | Further information |
|---------------------|--|---|
| | <p>The balance of skills and experience, and independence of the Board and its Committees, is kept under review. There is a majority of Non-Executive Directors on the Board and on all of its Committees.</p> | <p>Information about the independence and objectivity of our Directors (page 98).</p> |
| | <p>A formal, rigorous and transparent procedure for new appointments, led by the Nomination Committee, is in place and has supported the appointment of new Non-Executive Directors in FY 25.</p> | <p>An overview of the process followed for new appointments can be found at pages 103 to 104.</p> |

How we meet the provisions of the UK Corporate Governance Code

The following sections of this report set out how we have complied with the provisions of the Code, under the main sections (numbered from 1 to 5) as listed below.

Reporting on the application of principles against the provisions of the 2024 UK Corporate Governance Code (the Code).

Section of the Code

- 1 Board leadership and Company Purpose**
- 2 Division of responsibilities**
- 3 Board composition, succession and evaluation**
- 4 Audit, risk and internal control**
- 5 Remuneration**

1 Board leadership and Company Purpose

The Board

The Board is responsible for ensuring that the Group delivers on its Purpose for the benefit of its customers and the communities it serves, having regard to the interests of all its stakeholders, and is the principal decision-making forum of the Group. It is intent on providing inspirational leadership, both directly and through its Committees, and delegating authority, as appropriate, to the Dŵr Cymru Executive team (the DCE). The Board has determined the Group's Purpose, which is consistent with its values and supported by its Strategy, and is satisfied that the Group's culture is aligned with the achievement of that Purpose.

The Board is responsible for organising and directing the affairs of the Group in a manner that enables the delivery of its agreed medium and long-term objectives. Through the effective governance framework that it has in place, the Board seeks to ensure strong and sustainable financial and operational performance, which is especially important to the Group given the long-term nature of investment needed in its core services to customers. The Board is also accountable for ensuring that in carrying out its duties the Group's legal and regulatory obligations are met, and that the Group operates within appropriately established risk parameters.

The Board is mindful of its role as custodian of a long-term business, with, therefore, a responsibility to ensure that the next generation receives the assets it needs to deliver the Group's Purpose.

The Board sets the strategy of the Group based on proposals formulated by the DCE and it reviews the progress achieved by the management of the business in meeting the agreed strategic objectives. The Board's long-term goals for the Group, in the context of future challenges and changing customer expectations, are set out in our published strategy document, Welsh Water 2050. Alongside this, the ESG Strategy includes 10 key objectives to support the focus on Environmental, Social and Governance issues in the context of Welsh Water 2050. Further details of the Group's planning framework are set out in the Strategic Report on page 15.

Board engagement with employees

During FY 25, employee engagement sessions were held by Non-Executive Directors with Employee Engagement Champions at which a range of topics were discussed, including the impact of public and social media focus on colleagues and the water sector generally; the Group's approach to external communication; working patterns; PR24; and the role of the Remuneration Committee and senior colleague pay.

CORPORATE GOVERNANCE REPORT

CONTINUED

The DCE also held engagement sessions with colleagues, which discussed a variety of topics including hybrid working and work/life balance, communication and collaboration, a positive Health and Safety culture, a strengthening of trust in employee engagement activity, and career aspirations and personal development. Alongside the informal meetings held

with managers (see below), the Board believes this is the most effective method for engagement as against the 3 more formal methods suggested by the Code for workforce engagement.

Informal meetings with managers

During the year, informal meetings took place between Non-Executive Directors

and managers drawn from across the business to discuss operational activity and the challenges facing the business, and to thank them for their efforts. The Chair and Non-Executive Directors also attended site visits across the Company's operations together with lunches and dinners with colleagues organised around these visits.

Key activities of the Board during FY 25

| Topic | Key activities and discussions FY 25 | Key achievement | Key priorities FY 26 |
|-------------------------|---|---|---|
| Strategy and management | PR24 planning and AMP8 readiness preparations | <ul style="list-style-type: none"> Following extensive engagement with regulators, external stakeholders and advisors the Board approved Ofwat's Final Determination | <ul style="list-style-type: none"> To oversee and review implementation of the Group's AMP8 operational and final plans to ensure delivery in line with the terms of the Final Determination. |
| | Welsh Water 2050 | <ul style="list-style-type: none"> Approval of PR24 plans that align to the Group's Long-Term Delivery Strategy against the objectives of Welsh Water 2050. | <ul style="list-style-type: none"> Ensuring delivery of plans that continue to address the strategic responses set out in Welsh Water 2050 |
| | Review of operating performance against business plan targets and regulatory requirements | <ul style="list-style-type: none"> The Board, supported by the Performance and Safety Committee, have maintained oversight of the Company's operational response to the challenges facing the business and have considered the adequacy and effectiveness of improvement plans developed by management | <ul style="list-style-type: none"> To maintain focus on those areas where operating performance falls short of regulatory targets and Company objectives, measuring the effectiveness of the improvement plans developed by management to ensure that plans support achievement of performance targets for AMP8 |
| | Water resources | <ul style="list-style-type: none"> Maintained oversight of implementation of the Water Resources Plan which was approved by Welsh Government on 15 October 2024. Maintained oversight of the ongoing development of the Company's Drought Plan 29 via the Performance and Safety Committee. Reviewed and monitored delivery of Per Capita Consumption and Leakage recovery plans and targets | <ul style="list-style-type: none"> To oversee implementation of the Water Resources performance improvement plan in order to deliver against Service Commitment Plans agreed with Ofwat including those linked to Per Capita Consumption and Leakage. To oversee the ongoing development of the Company's Drought Plan 29 following further engagement with stakeholders. |

| Topic | Key activities and discussions FY 25 | Key achievement | Key priorities FY 26 |
|--------------------------------------|--|---|---|
| | Environmental performance | <ul style="list-style-type: none"> Approved the Company's environmental Wastewater Investment plans for PR24 which prioritise reducing harm to the environment. Maintained oversight of performance against updated National Environmental Programme targets and their implications on PR24 plans. | <ul style="list-style-type: none"> Oversee the Company's prioritisation of investment in wastewater assets on the basis of contribution to reducing harm to the environment in accordance with approved PR24 plans. Review the effectiveness of the Company's programme to improve its Environmental Performance Assessment and deliver against the Environmental Service Commitment Plan agreed with Ofwat |
| | Customer charges for 2025-26 | <ul style="list-style-type: none"> The Board approved a structure of charges for FY 26 following publication of Ofwat's Final Determination that sought to minimise the level of charge increases to those customers on social tariffs. The Board also reviewed and approved the Company's Vulnerable Customer Strategy and the provision of financial support for customers struggling to pay their bills. | <ul style="list-style-type: none"> Monitor impact on customer ability to pay following increased charges and the wider cost-of-living context, when considering the appropriate level of charges for FY 27 |
| | IT, Cyber and Technology Infrastructure | <ul style="list-style-type: none"> The Technology Committee has overseen the governance and progress of the Group's ITS Transformation Programme including the successful migration to Cloud solutions. Oversight of the Group's cyber security capability and consideration of existing and emerging cyber threats was maintained by the Technology Committee | <ul style="list-style-type: none"> To monitor implementation of the Group's ITS Transformation Programme ensuring that full network and security capability remains in place To keep under review emerging cyber security threats and review the risk this presents to the Group |
| Environmental, Social and Governance | ESG Committee reviewed progress towards ESG Objectives | <ul style="list-style-type: none"> Key performance indicators reviewed at each meeting (which have included 'deep dives' into those KPI's aligned to ESG Strategic Objectives) Maintained oversight of the Group's Carbon Accounting policies and progress towards Net Zero commitments. Approved the Group's Biodiversity Action Plan. | <ul style="list-style-type: none"> Focus on the key performance indicators that are material to our stakeholders and that measure the Company's progress towards its ESG Strategic objectives Review the Company's progress towards its net zero carbon commitments in the context of the Final Determination for AMP8. |

CORPORATE GOVERNANCE REPORT

CONTINUED

| Topic | Key activities and discussions FY 25 | Key achievement | Key priorities FY 26 |
|--|--|---|---|
| Risk management and internal controls | <ul style="list-style-type: none"> Reviewed the Enterprise Risk Management Framework Reviewed Strategic and Emerging risks on a 6-monthly basis Oversaw the Group's response to the Wastewater Investigation. | <ul style="list-style-type: none"> Approved updates to the Group's Enterprise Risk Management Framework including changes to Key Risk Objectives (Risk Appetite) and Risk Categories. The Board constructively challenged the DCE assessment of strategic and emerging risks Reviewed and approved the Company's approach, methodology and response to the Wastewater investigation. | <ul style="list-style-type: none"> The continued monitoring of the Enterprise Risk Management Framework across the business To continue to receive risk reports and updates on strategic and emerging risks, led by the Chief Risk Officer Maintaining oversight of the Company's ongoing response to the Wastewater Investigation. |
| Financial reporting and controls | <ul style="list-style-type: none"> Accounting policies and half-year and year-end Financial Reports reviewed at the Audit and Risk Committee Systems of internal control reviewed at the Audit Committee and approved by the Board as part of our year-end reporting to Ofwat (see Annual Performance Report available from mid-July at corporate.dwrcymru.com/en/library/annual-performance-reports) | <ul style="list-style-type: none"> Accounting policies and half-year and year-end Financial Reports reviewed with input from the Group's external auditors. The Group's year-end Annual Report and Accounts and Annual Performance Report processes reviewed at the Audit and Risk Committee and approved by the Board incorporating best practice recommendations from external auditors. | <ul style="list-style-type: none"> Accounting policies and Financial Reports will be regularly reviewed with input from the external Auditor on current issues/best practice Further enhancements to year-end processes to be implemented for the FY 26 year-end reporting to Ofwat (Annual Performance Report) and the Company's statutory financial reporting |
| Financial approvals | <ul style="list-style-type: none"> Approval of the Group's updated Prospectus and Sustainable Finance Framework | <ul style="list-style-type: none"> The Board approved the Group's updated Prospectus and Sustainable Finance Framework to support the Group's financial plans for the delivery of the requirements of AMP8. | <ul style="list-style-type: none"> To continue to monitor implementation of the Group's Financial Plan to support delivery of AMP8 plans. |
| Board composition and effectiveness | <ul style="list-style-type: none"> Nomination Committee reviewed Board composition, succession planning and Committee membership To appoint and induct new Non-Executive Directors during FY 25. | <ul style="list-style-type: none"> Changes to Committee membership made following the appointment of new Non-Executive Directors in January and February 2025. The Nomination Committee oversaw and delivered the recruitment and appointment process for 4 new Non-Executive Directors and the appointment of a new Chair of the Board. | <ul style="list-style-type: none"> Board effectiveness review will be via an externally facilitated process in FY 26 To support the ongoing induction of new Non-Executive Directors into the business. Progress agreed actions arising from the FY 25 internal review of Board effectiveness |

Board development and education

The Board undertook several development sessions during FY 25, which considered, among other issues, the Group's Governance Model, the Future of Regulation in the Water Sector and Asset Resilience. In addition the Board met with Welsh Government stakeholders and received targeted updates on the Group's cyber security systems and processes and hosted a Board dinner attended by key supply chain partners to inform capital investment planning for AMP8.

Operational site visits

All Non-Executive Directors are expected to undertake at least two site visits to improve their understanding of the Group's operational and investment activity. During FY 25 the following site visits have been undertaken:

- July 2024** – Site visit to Llwyn Celyn Dam to review ongoing work to the Llwyn Celyn Dam spillway.
- July 2024** – Site visit to the Brecon Wastewater Treatment Works for an overview of the work being undertaken in the Usk catchment.
- July 2024** – Site visit to Pen-y-Bont Wastewater Treatment Works
- September 2024** – Site visit to Felindre Treatment Works
- November 2024** – Board visit to the Group's Operational Response Centre
- January and February 2025** – Operational leakage, metering and Wastewater Network visits.
- March 2025** – Operational site visit to the Lluest Wen Reservoir

Members and investors in FY 25

In the same way that a listed company would have a dialogue with its shareholders, we maintain a regular dialogue with our Members and bond investors. We currently have 62 Glas Cymru Members, excluding Board members. Glas Members are selected by an Independent Member Selection Panel (IMSP). Through an annual recruitment process based on open advertising, the aim of the Panel is to maintain a balanced and diverse group of individuals, broadly reflecting the range of our customers' and key stakeholders' interests.

Our Independent Member Selection Panel

Sir Paul Silk (Independent Chair) is joined on the panel by, Chris Jones, former CEO, Debra Bowen Rees, Non-Executive Director and former Glas Member, Amanda Davies who was appointed in July 2024. The Company Secretary manages the Membership, seeks feedback from the IMSP on the format and content of Members' meetings and organises the Member recruitment process and resulting induction process. The IMSP recommends the final list of candidates to the Board for approval.

Our Membership

During the year, 13 Members stepped down from their role. 5 new Members were appointed following an open recruitment process, which was advertised on social media. Following appointment, new Members were invited to a full day's induction, held at the Llwyn Onn Water Treatment Works and Cilfynydd Waste Treatment Works Education Centre.

Members' meetings held during 2024 and 2025

2024

- Annual General Meeting (July)
- New Members' Induction (November)
- Half-yearly Meeting (December)
- Autumn Regional Members Meetings (South West and North Wales)

2025

- Members Final Determination Deep Dive review – February 2025.

Meetings and dialogue with Members

The AGM and other Member meetings are used by the Board to provide Members with updates on the Group's performance and its progress against strategic objectives, to ensure an understanding by Members of the key issues the Company is addressing, and to consider formal resolutions at the AGM. Members meetings also provide Members with opportunity to challenge and question the Board and Executive Colleagues.

Feedback from Members, is shared with the Board at each Board meeting to ensure that feedback, scrutiny and recommendations are taken into account within the decision-making activity of the Board.

The Chair, Debra Bowen Rees, as the Non-Executive Director Member of the IMSP, Joanne Kenrick (on matters relating to Remuneration Policy) and the Company Secretary are also available to meet with any Member outside scheduled Member Meetings.

Reports on press coverage and emerging operational issues, including extreme weather events are regularly shared with Members via the Company Secretariat between Members meetings.

Further information on how we engage with our Members and other key stakeholders is set out on pages 76 to 79.

Our investors

We are wholly debt-financed and raising debt at a low cost is a key part of our financial strategy. Our long-term funding strategy continues to be to maintain our gearing at a level which the Board considers we would be able to obtain access to the most efficient level of debt funding to deliver our strategic objectives. Access to financial markets is key to the delivery of our strategic objectives and we maintain close and open relationships with our bond investors.

Meetings and dialogue with bond investors

The Treasury team ensures our investors are well informed through six-monthly Board approved Investor Reports with Investor feedback considered by the Board in its decision. The Chair, CEO, CFO, Company Secretary and Group Treasurer meet with investors at scheduled annual investor days and as required or requested by our investors.

During FY 25, Board members have engaged with investors throughout the preparation of the Group's updated Prospectus and during its return to the UK Capital Markets with the issue of £750 million of Sustainability bonds, please see pages 24 to 29 for further detail.

CORPORATE GOVERNANCE REPORT

CONTINUED

2 Division of responsibilities

Roles and responsibilities

The Board members

All Board members are Directors of both the holding company, Glas Cymru, and the regulated operational company, Dŵr Cymru Cyfyngedig. The identical Board membership ensures a unified approach where the interests of the operational company are promoted as if Dŵr Cymru Cyfyngedig were a separate public listed company, in line with Ofwat's guidance on Board Leadership, Transparency and Governance. Glas Cymru's Purpose is aimed at ensuring Dŵr Cymru delivers against its strategic objectives, meeting the needs of our customers and communities.

The Board has collective responsibility for:

- Setting the strategy and agreeing the plans developed by DCE to ensure the long-term success of the Group for the benefit of its customers and their communities, having regard to the interests of stakeholders.
- Challenging, encouraging, and monitoring performance of the DCE against the strategic objectives.
- Ensuring adequate financial and human resources to achieve the Group's objectives.
- Overseeing and ensuring the Group's compliance with statutory and regulatory requirements.
- Overseeing major capital investment projects.
- Setting the risk appetite for the business and ensuring the adequacy and efficacy of the Group's systems of internal controls and risk management.
- Assessing and monitoring of the Group's corporate culture, values and standards.

Decisions and matters reserved for the Board

The Board has adopted a formal schedule of Matters Reserved for the Board's consideration. This is monitored by the Company Secretary and reviewed by the Board as and when required but as a minimum on an annual basis.

The Board has delegated detailed consideration of certain responsibilities to Board Committees, while retaining overall responsibility for decision making in these areas. Each Board Committee Chair reports back to the Board on the matters discussed, decisions taken, and, where appropriate, makes recommendations to the Board on matters requiring its approval. A description of the work of the Board Committees is set out at pages 102 to 140.

Minutes of the Board and its Committees are available to all Non-Executive Directors. All Committees are Chaired by an independent Non-Executive Director, except the Nomination Committee, which is Chaired by the Chair of the Board.

Appointments to the Committees are made on the recommendation of the Nomination Committee, which reviews Committee membership annually, and are for a period of up to 3 years, which may be extended for 2 further 3-year periods, provided the Director remains independent. The Committees are constituted with written Terms of Reference that are reviewed annually to ensure that they remain appropriate and reflect any changes in best practice and governance. (Terms of Reference and Matters Reserved for the Board are available on the Group's website: <https://corporate.dwrcymru.com/en/library/terms-of-reference>.)

The DCE

The DCE is responsible for implementing the strategy agreed by the Board to achieve the Company's medium and long-term objectives and to deliver required operational performance targets in accordance with an established risk management framework, compliance policies, internal control systems and reporting Requirements. The DCE is led by the CEO and includes the Chief Financial Officer (CFO) and 9 senior managers representing all the key functions of the business. The DCE meets three times per month and is responsible for the day-to-day running of the business and other operational matters to implement the strategies that the Board has agreed. The Governance Framework diagram on page 84 shows the Board Committees and Management Committees supporting the DCE. The Board receives reports from the CEO, CFO and members of

the DCE at every scheduled meeting, providing an update on our financial and operational performance and any current and emerging issues. Members of the DCE, including the CEO and CFO, are also Board Members of Welsh Water Holdings Limited, a subsidiary company of Glas Cymru Holdings Cyfyngedig, which oversees the Group's commercial entities that sit outside of the regulated business.

Board effectiveness

The performance of the Board and its Committees is reviewed annually (see page 92). The composition of the Board is reviewed, also annually, by the Nomination Committee to confirm an appropriate diversity of background, skills and experience, and as part of Director succession planning. The composition of the Board Committees was reviewed during the year and changes to current membership proposed and approved. The forward schedule for future Board meeting agendas is reviewed by the Board at each Board meeting so that Board members can suggest items for inclusion. At the end of each Board meeting, there is a discussion as to Directors' views of the effectiveness of the meeting and opportunities for improvement to shape future Board business and discussion.

Independence

We consider the independence of our Non-Executive Directors on an ongoing basis and formally on an annual basis. Our Chair and our Non-Executive Directors are considered to be independent in accordance with the Code and free from any relationship that would compromise their independent judgement. Potential conflicts of interest are considered at the start of each Board and Committee meeting. Directors would recuse themselves from any matter where such a conflict was considered to exist.

In November 2024 Joanne Kenrick reached 9 years' service as a Board Member from her date of appointment. On review of Joanne's independence, the Board remained satisfied that her independence had not been compromised and that her services would be retained beyond 9 years to maintain an appropriate level of experience within the Board following the departure of Alastair Lyons and Barbara Moorhouse.

External appointments

Our constitutional documents do not specify a particular allocation of time required by Non-Executive Directors to be effective in their roles.

However, the Nomination Committee reviews the extent to which Non-Executive Directors have the appropriate time to fulfil their role effectively and considers any new commitments that Non-Executive Directors propose to take on, alongside their existing roles. The Committee also regularly reviews the range and balance of skills and experience on the Board, which are wide-ranging, as set out in the Nomination Committee report at pages 102 to 104.

The external appointments held by all Board members are set out in their biographies at pages 88 to 91.

Membership and attendance at Board and Committee meetings

The Board met at 8 scheduled meetings during FY 25 and met a further 11 times to review emerging issues during the year. The table on page 86 shows the number of Board and Committee meetings held during FY 25 and the attendance of the Directors at those meetings.

Conflicts of interest

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 Group. 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.

Chair of the Board

- Is responsible for the leadership of the Board.
- Sets the agenda for Board meetings.
- Ensures the effectiveness of the Board and its Committees and good governance.

Senior Independent Director

- Meets with other Non-Executive Directors and the Executive Directors on an annual basis to review the performance of the Chair of the Board.
- Stands in as Chair of a Board meeting in the event the Chair of the Board is not able to attend.
- Acts as an informal sounding board for all members of the Board.

Non-Executive Directors

- Challenge the Executive Directors constructively and monitor delivery of the Board's agreed strategy within the risk and control framework approved by the Board. They are also involved in mentoring and supporting members of the DCE and senior managers across the business.
- Take an active interest in operational issues affecting the business (see site visits on page 97).

Chief Executive Officer

Other than for matters reserved to the Board, the Chief Executive Officer has primary responsibility for leading the management of the Company, with support from the DCE.

Members

As a Group owned by a company limited by guarantee, we do not have shareholders, but our Membership is made up of individuals drawn from across our supply area (or who have a strong connection with it) who carry out a vital governance role. Membership is personal and unpaid. Members have no financial stake in the business. This independence allows Members to hold the Board to account for the stewardship of our assets and for providing an essential public service in a manner that will be sustainable for future generations.

Company Secretary

- Supports the Chair of the Board in ensuring the Group operates effective governance and delivers against its statutory and regulatory responsibilities.
- Acts as the primary liaison and point of contact for the Group's Membership, ensuring that Members are kept up to date with emerging issues and sharing Member scrutiny and feedback with the Board and DCE.
- Prepares agendas for Board meetings, which are agreed in consultation with the Chair of the Board and Chief Executive Officer, although any member of the Board may request that an item should be added to the agenda.
- The Company Secretariat is available to support all Non-Executive Directors and the DCE and works to promote good information flows between the Board, DCE and internal committees and management teams within the Group.

CORPORATE GOVERNANCE REPORT

CONTINUED

3 Board composition, succession and evaluation

Directors' appointment, induction and development

A rigorous and transparent process is followed for the appointment of new Directors to the Board (see page 103).

The induction process includes access to Board and Committee papers, site visits and meetings with other Non-Executive Directors, principal advisers to the Company, members of the DCE and senior managers across the business. New Non-Executive Directors can also attend the Institute of Directors' course for new directors. Directors receive a tailored induction and ongoing educative and information programmes on topics relevant to the operation and governance of the business. During the year, an induction programme commenced for Alison Wilcox, Darren James and Darren Pope who were appointed to the Board in January 2025 and James Bevan who was appointed in February 2025.

As part of the ongoing development of our Directors, the Company Secretary ensures that updates to

legislation, corporate governance and reporting are brought to the attention of the Board and its Committees as appropriate. Regular attendance from our External Auditor, Deloitte, at meetings of the Audit and Risk Committee also supports the Directors being kept up to date on current developments in governance.

Details of the operational site visits made by our Non-Executive Directors and educational development opportunities for the Board during the year are set out on page 97. Non-Executive Directors are invited to identify topics on which they would benefit from specific training in order to be more effective in their roles.

All new Non-Executive Director appointments to the regulated Company Board meet with Ofwat ahead of any appointment being finalised.

Term and re-election

Non-Executive Directors are appointed for a 3-year term, which can be renewed for up to 2 further periods of 3 years. Each Non-Executive Director (other than the Chairman) shall retire at each AGM following the ninth anniversary of their appointment under the terms of our Articles but will remain available for re-appointment subject to approval by Members in accordance with the Group's Articles.

All Directors seek re-election by Glas Members every year at the AGM. Directors appointed during the year seek election at the next AGM following their appointment. Alastair Lyons and Barbara Moorhouse resigned from the Board on 31 December 2024.

Board evaluation

The Board considers that it, and its Committees, have the appropriate balance of skills, experience, independence, and knowledge

of the Group to enable them to discharge their respective duties and responsibilities effectively.

The Board regularly reviews this through effectiveness reviews and in discussions with the Company Secretary and Nomination Committee and through the Company Secretariat's annual review of Committee performance against agreed terms of reference.

Following the retirement of Alastair Lyons and Barbara Moorhouse during FY 25 the Nomination committee oversaw the recruitment process for a replacement Chair and Non-Executive Directors to replace Barbara Moorhouse as Performance and Safety Committee Chair, and Jane Hanson as Audit and Risk Committee Chair following her appointment as Chair of the Board. Additionally, the Committee commissioned a recruitment process for a Chair Designate of the Remuneration Committee to ensure a smooth transition of leadership prior to Joanne Kenrick's retirement from the Board during FY 26.

In advance of and during the recruitment process for all appointments, the Nomination Committee placed a focus on recruiting candidates that would ensure that the Board and its Committees retained an appropriate balance of independence, skills and experience to enable the Board to continue to discharge its duties and responsibilities.

To reflect the importance placed on maintaining this balance, the Board and Nomination Committee agreed to recruit an additional Non-Executive Director, James Bevan, which served to bolster the Board's sector experience.

Additionally, following the appointment of new Non-Executive Directors, the Nomination Committee undertook an informal review of Committee Membership to ensure that an appropriate balance of skills and expertise was reflected within each Committee of the Board.

The outcome of that review resulted in a re-distribution of Committee Membership and agreement

being reached to stand down the Board Technology, Finance and Direct Procurement for Customers Committees FY 25, and for matters reserved to each of these Committee's reallocated to the Board and other Committees as appropriate.

It has been agreed that the scheduled internal review of Board effectiveness for FY 25 will be replaced by an external review which will be scheduled once new Non-Executive Directors have completed their induction programmes, and a new Chief Executive Officer is in place which will support a robust review process.

CORPORATE GOVERNANCE REPORT

CONTINUED

Nomination Committee report



“SUCCESSION PLANNING IS AN ONGOING AND DYNAMIC PROCESS FOR THE COMMITTEE, AS EVIDENCED BY THE SMOOTH AND EFFICIENT TRANSITION OF BOARD ROLES IN THE YEAR.”

Jane Hanson CBE

Chair of the Nomination Committee

Other members:

- Debra Bowen Rees
- Darren James (From January 2025)
- Joanne Kenrick
- Alison Wilcox (From January 2025)
- Peter Perry
- Alastair Lyons (until December 2024)

In the absence of the Chair, or when the Committee is dealing with the matter of succession to the role of Chair of the Board, the Senior Independent Director will chair Committee meetings.

Meetings held: 2

In addition to the 2 scheduled meetings, further quorate meetings of the Committee took place to facilitate the recruitment of successors to Alastair Lyons and Barbara Moorhouse following their resignations from the Board, and in advance of Joanne Kenrick's term as a Non-Executive Director coming to an end in FY 26.

Focus areas looking ahead to FY 26:

- Overseeing the recruitment process for a new Chief Executive Officer.
- Overseeing the induction process for the most recent Non-Executive Director appointments to the Board.
- Maintaining the appropriate balance of skills, knowledge, experience and independence on the Board through Board succession planning and agreed outcomes from the scheduled Board effectiveness review.

The responsibilities of the Committee are to:

- Ensure the Board has the necessary skills, background, and experience to enable the Group to meet its current and future strategic objectives;
- Ensure the composition of the Board and its Committees is regularly reviewed in the context of director rotation, the Company's strategy and activities, its diversity objectives, and the Board's Terms of Reference;
- Establish plans for orderly succession to positions on the Board and Committees;
- Ensure that there is a formal, rigorous and transparent procedure for appointments to the Board;
- Maintain oversight over the succession plans developed by the Chief Executive for the DCE; and

- Work and liaise with other Board Committees, as appropriate, including the Remuneration Committee in respect of a remuneration package to be offered to any new appointee to the Board, and on issues relating to gender and ethnicity pay equality.

The Committee has applied the Principles and complied with the Provisions of the Code relating to Nomination Committees. The majority of members of the Committee are independent Non-Executive Directors.

The Committee Terms of Reference (corporate.dwrcymru.com/en/library/terms-of-reference) set out 5 responsibilities that the Committee undertakes on behalf of the Company and its subsidiaries, which have informed the agenda and key areas of focus for the Committee during 2024/25.



| Priorities | Committee activity and outcome |
|---|---|
| Board composition and balance | The Committee considered and commented on the Non-Executive Director skills, knowledge, experience, independence and diversity. During the year, the Committee has considered Director Commitments and terms of appointment to inform Board succession planning. |
| Ensuring diversity of thinking and approach from Board members | The Committee has considered the Group's diversity and inclusivity objectives when undertaking its recruitment processes and has maintained at least 40% female representation on the Board and appointed at least one Non-Executive Director from an ethnic minority background to the Board. |
| Board Committee membership | On joining the Board, Non-Executive Directors are appointed to the Performance and Safety Committee (PSC) in order to ensure they have a good understanding of operational issues and challenges. Following appointment of new Non-Executive Directors the Committee undertook a review of Committee Membership to ensure that all Board Committees retained the right mix of skills and experience, as well as the capability to provide effective challenge and promote diversity. Details of Committee Membership are included within each Committee report at pages 102 to 140. |
| Succession planning | The Committee has reviewed succession plans for the Board and Dŵr Cymru Executive team during 2024–25 which has incorporated the recruitment process for the appointment of successors to the Chair of the Board and Chairs of the Audit, Performance and Safety and Remuneration Committees, following the resignations of Alastair Lyons and Barbara Moorhouse, my appointment as Chair of the Board and the scheduled retirement of Joanne Kenrick, our Senior Independent Director and Chair of the Remuneration Committee during 2025. |
| Governance and Board and Committee effectiveness | The Committee conducted an annual review of its effectiveness against its own Terms of Reference and concluded that the Committee has discharged its duties during FY 25 and that no amendments were required to its Terms of Reference. The Committee reviewed the list of Directors appointed to Group subsidiary companies and was satisfied that appropriate arrangements continued to be in place across the Group. |

Board appointment process

The Committee leads the process for making appointments to the Board. The Committee is satisfied that the process constitutes a formal, rigorous and transparent process for the appointment of new Directors to the Board, which meets the Group's diversity and inclusion objectives, as well as supporting orderly succession. To aid transparency Board vacancies will be advertised externally. Following a rigorous selection process Saxon Bampfylde and Odgers Berndtson were appointed to support the Nomination Committee throughout the recruitment process for new Board appointments made during FY 25.

Succession planning

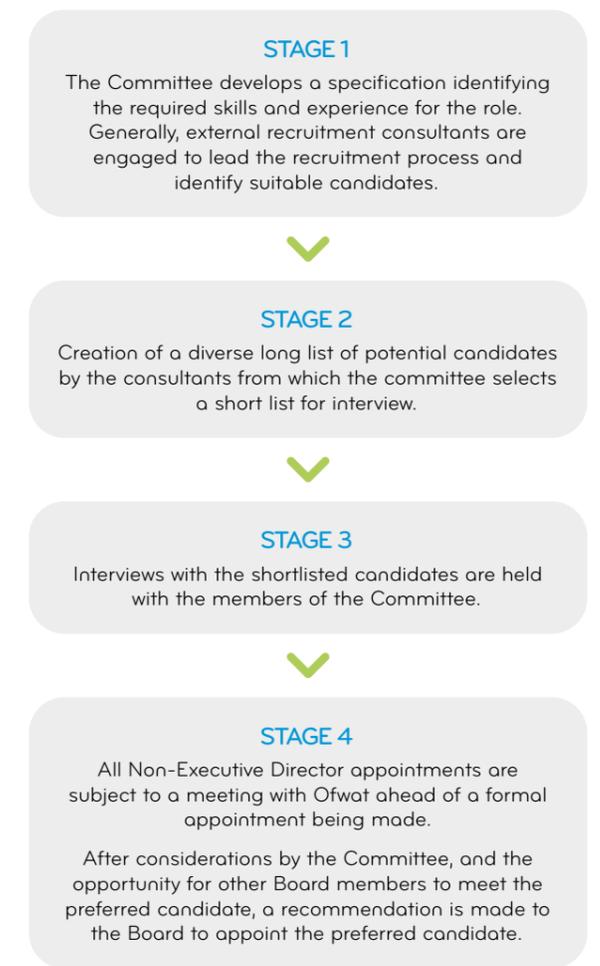
The Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Directors. It maintains oversight of the succession plans developed by the Chief Executive, and the Board reviews the succession plans of the Dŵr Cymru Executive (DCE) team, with an annual update from the Business Support and People Director.

Equality, diversity and inclusion (ED&I)

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.

Board appointment process



CORPORATE GOVERNANCE REPORT

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At the end of FY 25, 45% of our 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.

Our Board diversity statement can be accessed via corporate.dwrcymru.com/en/library/company-statements/board-diversity-statement.

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:

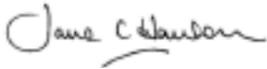
- At least 40% of the Board are women (45% for FY 25)
- At least one of the senior Board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) is a woman

- 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 Group is committed to eliminating discrimination and encouraging diversity and inclusivity to enable us to recruit and retain a diverse workforce.

| Diversity policy objectives | Actions | Progress |
|--|---|--|
| The Committee, will consider true diversity of thought considering the full range of skills, knowledge, experience, backgrounds and characteristics of Board members, will regularly review Board composition, succession planning, talent development and the broader aspects of diversity. | A diverse Board will include and make use of differences in skills, regional and industry experience, background and race, gender and personal attributes, such as intellect, critical assessment and judgement, courage, openness, honesty and tact, and the ability to listen, forge relationships and develop trust. | The Committee balances the consideration of these characteristics, bearing in mind that all Board appointments are made on merit, in the context of the skills and experience the Board requires in order to be effective. These factors have been considered in progressing the recruitment of Non-Executive Directors. Future vacancies will be advertised publicly to support applications from of a diverse range of candidates. |
| The Committee will work with recruitment consultancy firms who understand the Group's values and approach to diversity and will identify and propose suitable candidates. | The Committee will work with a recruitment consultancy firm, following a best value selection process. The firm will be a signatory to the Standard Voluntary Code of Conduct for executive search firms and be committed to adhering to those standards. | The Committee has continued to engage with appropriate recruitment consultancy firms which meet these criteria during recruitment processes undertaken during FY 25. |
| The Committee will report annually, in the corporate governance section of the Annual Report, on the process it has used in relation to Board appointments, its progress in maintaining or improving the diversity of the Board and on gender diversity ratios. | See pages 103 and 104. | This report evidences the work of the Committee on the process for appointments, progress in maintaining or improving the diversity of the Board and on gender diversity and inclusion. By reviewing progress each year, the Committee maintains oversight of the implementation of policies to improve diversity and inclusivity across the business. The review of the Gender Pay Gap Report also includes a discussion about the actions planned to further reduce the gap. |
| The Committee will also report on its oversight of plans to promote diversity within our workforce to ensure that the individuals working for us are truly representative of the communities that we serve. | The Environment, Social and Governance Committee received an update on attracting and retaining a diverse workforce to reflect our communities in November 2024. | The Company has worked hard to collect personal data on protected characteristics. Reporting of ethnicity data has been increased to 81% and the Board continues to support the programme of EDI activities held for the wider business. |
| Review its Diversity Policy annually and recommend any amendments to the Board. | A review and update of the Company's Equality, Diversity and Inclusion Policy was undertaken in August 2023. | The Company will continue to undertake bi-annual reviews of the Company's EDI Policy and strategy. |


Jane Hanson CBE
 Chair of the Nomination Committee
 6 June 2025

4 Audit, risk and internal control



Darren James
 (from January 2025)

Other members:

- James Bevan (From February 2025)
- Debra Bowen Rees
- Tom Crick*
- Jane Hanson*
- Joanne Kenrick*
- Peter Perry
- Darren Pope (from January 2025)
- Lila Thompson*
- Alison Wilcox (From January 2025)
- Alastair Lyons (Until December 2024)
- Barbara Moorhouse (Chair until December 2024)

*Ceased to be a member of the Performance and Safety Committee from 14 January 2025 following a reorganisation of Board and Committee structure and membership

Independent consultants:

- David Elliott (Expertise in the Environment and Wastewater performance)
- Milo Purcell (Expertise in Water and Public Health)

Meetings held: 7

Barbara Moorhouse stood down as Non-Executive Director and Chair of the Performance and Safety Committee (PSC) with effect from 31 December 2024. Darren James succeeded Barbara as Chair of the PSC with effect from 1 January 2025.

THE PERFORMANCE AND SAFETY COMMITTEE WILL CONTINUE TO OVERSEE AND DRIVE IMPROVED PERFORMANCE TO MEET THE NEEDS AND REQUIREMENTS OF OUR CUSTOMERS, EMPLOYEES, REGULATORS AND THE ENVIRONMENT. IT WILL ALSO CONTINUE TO ENSURE WE MEET OUR PUBLIC HEALTH RESPONSIBILITY LINKED TO PROVISION OF SAFE, CLEAN DRINKING WATER.

Performance and Safety Committee report

Principal responsibilities

On behalf of the Board, the Committee operates as the primary forum for monitoring and scrutinising the operational performance of the Group and provides oversight of the management and mitigation of risks to the business arising from operational, environmental and health and safety-related issues.

The Committee functions to assess and provide guidance on the Group's strategies and operational initiatives aimed at enhancing performance, elevating the company from its current underperforming 'lagging' status, and achieving an Environmental Performance Assessment (EPA) rating of 3 stars, with an ultimate goal of obtaining a 4-star rating.

To support this process the Committee will continue to focus its attention on maintaining oversight of the Group's activity to improve lagging areas of performance within the Group's Service Commitment Plan (SCP) and will monitor progress against the Group's strategic priority performance areas; Acceptability of Water, Bathing Water and Storm Overflow spills.

On behalf of the Board the Committee also:

- challenges the DCE to ensure continuous improvement in operational performance and the delivery of the Drinking Water Inspectorate Transformation Plan put in place during FY 25.
- reviews the Group's Water and Wastewater operational performance and assesses the appropriateness of Water, Wastewater and Environmental strategies;

- monitors the evolving landscape of environmental, regulatory and governmental priorities and emerging areas of concern and the impact these may have on regulatory standards and operational and investment plans.
- assesses annual reports, including, but not limited to, the Annual Dam Safety Report, Water Resources Management Plan and the Annual Health and Safety Report, and recommends these to the Board for approval;
- reviews and influences the Health and Safety Management Plan and monitors its delivery;
- oversees the Group's compliance with its public health responsibilities and obligations to provide safe, clean drinking water and wastewater sanitation in line with all relevant standards;
- reviews the adequacy of the Group's emergency and security arrangements and receives assurance that these are in line with relevant statutory guidance such as Critical National Infrastructure (CNI), Protective Security Strategy and the Security and Emergency Measures Directive (SEMD) requirements;
- reviews and agrees the Group's operational systems and quality assurance audit programme and receives the findings of audit reports relating to water and wastewater service provision; and
- reviews the findings of Serious Incident Reviews (SIRs) of any water quality, environmental, safety or customer service failure. SIRs are led by the Group's Chief Executive Officer to identify root cause(s) and any wider implications of the incident and agree action plans to address any ongoing issues.

CORPORATE GOVERNANCE REPORT

CONTINUED

The Committee Terms of Reference (found here: <https://corporate.dwrcymru.com/en/library/terms-of-reference>) set out 13 duties that the Committee undertakes on behalf of the Group and its subsidiaries, which have informed the agenda and key areas of focus for the Committee during FY 25.

| Priorities for FY 25 | Committee activity and outcome |
|---|---|
| Monitoring Health and Safety | <p>Annual and six-monthly Health and Safety Reports were presented by the Director of Health, Safety and Wellbeing, and the Committee reviewed reports of Health and Safety incidents, near misses and potential risks and provided updates to the Board after each meeting.</p> <p>The Committee noted the work of the Process Safety Steering Group and its key areas of activity for FY 25 and, acknowledging the planned increase in capital programmes during AMP8, the Committee considered the Group's Health and Safety Strategy and AMP8 Construction Health and Safety plans to ensure that appropriate processes and procedures were in place to respond to the large increase in projects.</p> |
| Hearing directly from our key regulators on their priority areas for the Group | <p>At its June 2024 meeting, the Committee reviewed with NRW, the principal factors underlying the Group's Environmental Performance Assessment, in particular the increased number of assessed serious pollution events. The Committee noted a reduction in pollution incidents from water supply assets.</p> <p>NRW attended Committee again in November 2024 to receive an update the Group's Envisage 2030 Transformation Plan to transform Wastewater EPA performance, with detailed feedback provided on the Group's proposals.</p> <p>The Drinking Water Inspectorate (DWI) Chief Inspector attended the September 2024 Committee meeting to provide challenging feedback on the DWI's decision to place the Group in Transformation. This meeting provided an opportunity for the Committee to engage in strategic discussion with the DWI in relation to its performance. Following this meeting the Committee will meet the Chief Inspector again in FY 26 to undertake a review of the Group's Water Quality Performance.</p> <p>The Committee's ongoing engagement with the Group's regulators has helped to shape operational and strategic responses to the Group's existing and emerging legislative and regulatory operational requirements.</p> |
| Reviewing in detail the Group's response to incidents | <p>The Committee considered the Group's operational response to Storms Bert and Darragh in 2024 and acknowledged the proactive operational remediation works undertaken, at speed, to reconnect customer supply, and to supply customers with bottled water while works were undertaken.</p> <p>The Committee also reviewed the Group's Serious Incident Review following a burst main at Bryn Cowlyd which impacted up to 40,000 properties.</p> <p>The Committee considered proposed actions, noting those in the process of being delivered and will continue to monitor delivery of plans to address all review findings and recommendations.</p> |
| Monitoring operational performance against key performance indicators for drinking water and environmental standards | <p>At every meeting, the Committee receives Monthly Management Reports and reviews Ofwat's Performance Plan including the Service Commitment Plan. Updates are received from the:</p> <ul style="list-style-type: none"> Managing Director of Water Services, Asset Planning and Capital Delivery; Managing Director of Wastewater Services, Business Customers and Energy; and Regulatory correspondence updates from the Director of Quality, Policy and Compliance. <p>The Committee evaluates updates received against 'dashboards', which set out areas of improvement related to KPIs identified by the Committee. Feedback and scrutiny provided in response to these updates informs the group's operational and strategic planning to meet key environmental and regulatory standards.</p> <p>At its June 2024 meeting, the Committee scrutinised the Group's EPA Recovery Plan and supported the continued focus on returning to a 3-star company during AMP8. Within this review, the Committee considered the Group's EPA governance structure which continues to evaluate performance in light of the recovery plan, identifies key areas of focus and questions effectiveness.</p> <p>In March 2025, the Committee reviewed and supported the Group's pollution reduction plans to meet the requirements of the Water (Special Measures) Bill which received royal ascent on 24 February 2025.</p> |

| Priorities for FY 25 | Committee activity and outcome |
|---|---|
| Regulation | <p>During the year the Committee has continued to monitor the Group's compliance with regulatory and legislative requirements and responses to emerging issues. The Committee acknowledged the evolving regulatory and legislative landscape that the Group operates within and has maintained oversight of the compliance through consideration and scrutiny of regular updates in relation to:</p> <ul style="list-style-type: none"> Regulatory Issues and Correspondence, at each meeting Environmental Permit Compliance Wastewater Treatment – Quality and flow compliance; and Regulatory Enforcement. <p>At its March 2025 meeting, the Committee spent time considering the Group's performance against its Per Capita Consumption and Leakage Undertakings and scrutinised plans for the ongoing identification and resolution of unpermitted Storm Overflow discharges.</p> |
| Reviewing updates of progress against key operational strategies | <p>The Committee received regular progress updates on operational strategies, including:</p> <ul style="list-style-type: none"> Water Treatment Works Strategy Drought Plan Cryptosporidium Prevention Strategy Poly and perfluoroalkyl substances (PFAS) strategy Sewer Flooding Supply Interruptions Pollution Prevention Strategy Regulations 26 (water treatment and disinfection), 27/28 (Risk Assessment) and 29/30 (Contamination from Pipes) of the Water Supply (Water Quality) Regulations 2016 Sludge Strategy Iron and Customer Acceptability of Water Water Quality <p>The rate of progress implementing the operational strategies was considered, short and medium-term priorities were agreed and consideration was given to the need to evolve operational practice to respond to emerging challenges.</p> |
| Deep dives on technical issues | <p>The Committee spent additional time on 'deep dive' sessions related on issues that benefited from a detailed review. During the year, these included:</p> <ul style="list-style-type: none"> 2025 Drought Plan Preparations Storm Harvester <p>The update on the 2025 Drought Plan provided the Committee with a detailed overview of the Drought Management Plan 2025 which will be produced in line with both the Welsh Government Guiding Principles and Natural Resources Wales Technical Guideline. The Committee noted that the plan had also been informed by customer engagement activity following post incident reviews in 2023 and learning from recent drought periods with feedback shared by the Committee being to be incorporated within final drafts of the plan.</p> <p>The Committee also received a teach in on the Group's use of Storm Harvester Technology which makes use of artificial intelligence and the Group's monitoring equipment to prevent pollution and flooding incidents. This update served to enhance the Committee's understanding of key enabling smart technology that will support delivery of the Group's Wastewater transformation plans.</p> |
| Continued oversight of the 'pipes in dams' capital projects at a number of our reservoir locations | <p>The Committee recommended the annual report on Dam Safety to the Board for approval noting that the report demonstrated that the Group had met its responsibilities as an undertaker for dams that are registered under the Reservoirs Act 1975 (the Act), as now amended by the Flood and Water Management Act 2010, Schedule 4 (Reservoirs).</p> <p>The Committee noted that the Group had invested nearly £26 million in improving and maintaining its Dam estate and continued to make good progress on the Pipes in Dams programme. That programme started in 2018 with 23 of the 26 priority sites initially identified now complete and the remaining either on site or planned for early in AMP8. The Committee as part of the full Board visited the new spillway being constructed at Llyn Celyn dam in July 2024.</p> |

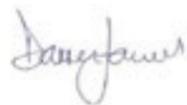
CORPORATE GOVERNANCE REPORT

CONTINUED

| Priorities for FY 25 | Committee activity and outcome |
|----------------------------|---|
| Risk and compliance | <p>Alongside its performance and compliance oversight, the Committee has considered relevant strategic risk reports (including 6-monthly reviews of emergent environmental regulatory risk and a review of risks linked to the most commonly used chemicals within water treatment processes to establish adherence to BS:EN standards) and mitigation plans.</p> <p>Additionally, the Committee has maintained oversight of the Group's control and compliance processes through regular updates from the Group's Chief Risk Officer and noted an overall Satisfactory opinion for FY 24.</p> <p>The Committee's oversight in this area has enabled Committee Members to provide informed insight and challenge with discussions related to prioritisation of operational activity to ensure that activity is prioritised for those areas carrying the greatest level of risk.</p> |
| Governance | <p>To support the Group's response to the investigation by Ofwat and EA into wastewater treatment compliance (the Wastewater Investigation) the Committee reviewed the compilation and assurance approach adopted and recommended approval of submissions to the Board.</p> <ul style="list-style-type: none"> The Committee also reviewed: Its Terms of Reference Look back review of Duties Forward Schedule of agenda items for 2024 to 2025 and plans for 2025 to 2026 <p>The Committee's look back of duties set out within the Terms of Reference concluded that the Committee had discharged its duties during FY 25.</p> <p>The Committee's review of its performance concluded that the Terms of Reference remained appropriate.</p> |

Focus areas for FY 26

- Maintaining oversight of the Group's transformation plans to improve performance within clean and wastewater service provision to supporting movement to 3- and 4-star EPA ratings and delivery of improved clean water metrics,
- Overseeing compliance with key PR24 performance metrics, and project delivery plans.
- To oversee implementation of the Group's Health and Safety Strategy and AMP8 Construction Health and Safety plans ensuring that these processes are suitable for the significant increase in capital projects during AMP8.
- Reviewing and tracking progress against the Wastewater Investigation improvement plans through periodic compliance updates to the Committee.



Darren James
Chair of the Performance and Safety Committee
6 June 2025

Audit and Risk Committee Report



“ THE COMMITTEE HAS MAINTAINED RIGOROUS OVERSIGHT OF THE COMPANY'S FINANCIAL REPORTING PROCESSES, INTERNAL CONTROLS AND RISK MANAGEMENT FRAMEWORK THROUGHOUT THE YEAR. ”

Darren Pope
(from 1 January 2025)
Chair of the Audit and Risk Committee

Other members:

- Debra Bowen Rees (until 14 January 2025)
- Tom Crick (from 14 January 2025)
- Jane Hanson (Until 31 December 2024 as Chair)
- Joanne Kenrick
- Lila Thompson (from 14 January 2025)
- Peter Perry
Mike Davis

Meetings held: 6

I was delighted to be appointed as Audit and Risk Committee Chair in January 2025, having previously served on a number of company boards and audit committees. All members of the Committee are independent Non-Executive Directors, and the Board is satisfied that the Committee has sufficient experience of the water sector and of financial matters to perform its duties effectively.

Other regular attendees at meetings of the Committee include the CEO, CFO, Finance Director, Chief Risk Officer, Chief Internal Auditor, Group Secretary and representatives from the Group's External Auditor, Deloitte (the External Auditor). The Committee also has unrestricted access to management, legal and other independent professional advice to support the discharge of its duties. During the year, the Committee held separate private sessions with the Chief Risk Officer, Chief Internal Auditor and External Auditor without management present.

The Audit and Risk Committee supports the Board by providing oversight and challenge to the company's systems for reporting and managing risk and for maintaining the integrity of its operational and financial reporting. During the year, the Committee has focused on assurance over external regulatory reporting and submissions and has carried out detailed reviews of the Group's financial resilience, via second and third line assurance processes to ensure that ongoing and planned audit and compliance reviews are aligned to the Group's strategic risks. This is alongside a thorough review of the risks that could have a very high impact on the business but are assessed as low or very low likelihood. Through positive relationships with the external and internal auditors the Committee has gained assurance that

the internal controls framework remains robust, and that risks are identified, escalated, and managed in line with our corporate appetite. The Committee has delivered all its duties that are outlined in this report.

Principal responsibilities

The Committee has an extensive agenda focusing on the audit, risk and assurance processes within the business, which it deals with in conjunction with management, External Audit, Internal Audit and the Group Finance and Regulatory Compliance and Assurance teams. The Committee Terms of Reference (found here: <https://corporate.dwcymru.com/en/library/terms-of-reference>) set out 10 duties that the Committee undertakes on behalf of the Group and its subsidiaries, which have informed the agenda and key areas of focus for the Committee during FY 25.

On behalf of the Board, the Committee oversees:

- the integrity of the Group's financial statements, including ensuring that the Group provides clear, complete, fair, balanced and understandable financial reports to all stakeholders;
- the appropriateness and effectiveness of internal control systems, including those concerning public interest disclosures (whistleblowing);
- the effectiveness and reliability of the Group's Enterprise Risk Management Framework;
- the integrity and sustainability of the systems of internal control as reviewed by the Internal Audit and other assurance functions; and
- the effectiveness, performance, objectivity and independence of Internal and External Audit.

CORPORATE GOVERNANCE REPORT

CONTINUED

| Priorities for FY 25 | Committee activity and outcome |
|--|--|
| Financial reporting | <p>The Committee reviewed financial performance in detail at half-year and year-end (financial statements), considering significant judgements and estimates and the Group's Going Concern status prior to recommending approval of financial statements to the Board.</p> <p>The Committee reviewed the draft FY 25 Annual Report and Accounts and confirmed to the Board that the contents represented a fair, balanced and understandable assessment of the Group's performance and financial position.</p> |
| Going Concern and Long-Term Viability Statement | <p>The Group's Going Concern Statement (found at page 163) was reviewed and the Committee challenged evidence and assumptions underpinning the prospects of the Group over a period of at least 12 months. The Committee noted that there were no material uncertainties to disclose in relation to the Group's ability to continue as a going concern, with a high level of liquidity noted.</p> <p>The Group's FY 25 Long-Term Viability Statement is set out on pages 56 to 59. The Committee agreed the Group's 2024/25 Long-Term Viability Assessment (LTVA) approach and recommended the LTVA Statement for approval by the Board at respective meetings of the Committee and Board held in June 2025.</p> |
| Internal Audit | <p>The role of Internal Audit is to provide independent and objective assurance that the Group's risk management and internal control systems are well designed and operate effectively, and that any corrective action is taken in a timely manner.</p> <p>During FY 25 the Chief Internal Auditor reported regularly on progress against the FY 25 Internal Audit Plan and the outline Internal Audit Plan for FY 26 was reviewed and approved by the Committee at the February and May 2025 meetings of the Committee. During the year management responses to unsatisfactory and limited opinion internal audit reports were considered by the Committee and subsequently kept under review to ensure progress was made to remedy control weaknesses.</p> <p>The Audit and Risk Committee received regular confirmation from Internal Audit on management's progress in addressing audit findings throughout the year. The positive way in which management have addressed the vast majority of actions in a timely manner was noted and is a positive indicator as to the Group's culture and engagement with Internal Audit.</p> <p>Whistleblowing and Special Investigations Reports were shared with the Committee and detailed public interest disclosures made or referred to the Internal Audit function, and the outcomes and lessons learned from the investigation of such allegations. The Committee recommended approval of the Group's updated Whistleblowing Policy to the Board at its May 2024 meeting.</p> <p>The effectiveness of the Internal Audit function was monitored regularly using a variety of inputs, including the Committee's review of the audit reports produced, Committee interaction with the Chief Internal Auditor, and updates at each Committee meeting on progress against the Internal Audit Plan. In line with the Chartered Institute of Internal Auditors (CIIA) Internal Audit Code of Practice and the FRC Guidance on Audit Committees, an independent and objective external quality assessment of Internal Audit should be undertaken at least every five years. The last external review of the effectiveness of the Internal Audit function was undertaken by Protiviti in October 2023 and concluded that the Internal Audit function 'Generally Conforms' to the Institute of Internal Auditors Standards.</p> |
| Internal control and Risk Management Systems | <p>The Committee maintained oversight of the operation of the Group's systems of internal controls and assurance, including detailed reviews of risk and compliance with relevant statutory, licence and regulatory obligations. The Committee has also considered plans for compliance with Provision 29 of the Code and will continue to review progress against the Group's mapping of material controls to support a Board declaration on the effectiveness of the Group's material controls for FY 27 and beyond.</p> <p>The Group's Enterprise Risk Management Framework was considered at each meeting of the Committee, it being noted that strategic risk objectives would be influenced by the PR24 Final Determination and coordinated with an AMP8 review of strategic risks.</p> <p>The Committee reviewed and approved the Internal Audit Charter, which sets out the scope of work for the Group's internal audit function and confirms its independence. The Committee was satisfied that the charter continued to reflect the appropriate detail required by the latest CIIA codes of practice and the Global Internal Audit Standards published in January 2025.</p> <p>Business Systems and Quality Audit Plans were reviewed by the Committee following review of plan coverage by the Dŵr Cymru Executive and Performance and Safety Committee.</p> <p>The Committee took assurance that Internal Audit had considered the adequacy and effectiveness of the Company's risk management and control environment and concluded that controls were operating satisfactorily during the period.</p> |

| Priorities for FY 25 | Committee activity and outcome |
|-------------------------|--|
| Governance | <p>In addition to scheduled Committee meetings, the Committee also reviewed and scrutinised the assurance processes undertaken to finalise the Company's PR24 Draft Determination response, 2024 Prospectus Update, Sustainable Finance Framework and the Company's response to the Wastewater Investigation, and provided comfort to the Board that complete and reliable assurance has been obtained.</p> <p>The Committee considered and provided feedback to the Board on the Group's regulatory submissions and assurance processes relating to the Annual Performance Report (APR) and Risk and Compliance Statement (and associated Ring-Fencing Certificate), together with an Internal Controls update in advance of the Board's formal approval of the APR.</p> <p>The Committee considered and approved key corporate policies and procedures scheduled for review. These included the Group's Treasury and Taxation strategies prior to publication, and the Group's Anti Bribery and Corruption, Anti-Fraud, Hospitality and Gifts and Conflicts of Interest Policies which were recommended to the Board for approval in accordance with the Board's Terms of Reference.</p> <p>Progress against Supplier Payment Terms was considered in accordance with the Prompt Payment Code, the Committee noting continued positive progress against compliance targets.</p> <p>Plans to amend the Committee's Terms of Reference and Work Plan were shared by the Group Secretary and would be finalised during FY 26 to reflect the Committee's refined focus on risk following the re-organisation of the Group's Committee structure in January 2025 (see page 101 for further detail). The Group Secretary's review of Committee performance for FY 25 was shared with the Committee and concluded that the Committee was working well and had discharged the duties set out within the Committee's Terms of Reference for FY 25.</p> <p>The Committee received regular updates on key compliance areas, including Group vehicle operator licence, data protection, taxation and insurance arrangements to take reassurance that the Group has adequate and robust systems in place to manage regulatory requirements and emerging events.</p> |
| External auditor | <p>In accordance with the FRC Audit Committees and the External Audit: Minimum Standard, the Committee undertook a full internal effectiveness review of the External Auditor at its September 2024 meeting, which incorporated assessment of the External Auditor by the Committee, key Executives and relevant senior managers, including an evaluation of whether the External Auditor met the minimum standards of qualification, independence, expertise, effectiveness and communication.</p> <p>Updates from the External Auditor were shared at each of the scheduled Committee meetings and included half-year and end-of-year reports to the Committee. Such updates set out the policy and procedures by which the Committee satisfies itself that there are no factors that may, or may be seen to, impinge upon the independence and objectivity of the external audit process, particularly the level of fees relating to non-audit work. External Audit Management Representation letters were approved by the Committee and signed by the Chief Financial Officer on behalf of the Group.</p> <p>The External Auditor presented their audit plan for FY 25 to the Committee in September 2024 and reported on progress against it at subsequent meetings of the Committee. The audit plan also highlighted key Corporate Reform matters, including updates to the Code and key revisions focused on internal controls and the requirement for a Board declaration of effectiveness for material controls (Provision 29 of the Code).</p> <p>During FY 25 no regulatory inspection of the quality of the Group's audit has taken place.</p> <p>The Committee has recommended to the Board that Deloitte LLP be proposed for reappointment for the year ending 31 March 2026 at the forthcoming AGM on 4 July 2025. See overleaf for more details, and on the decision to re-appoint the External Auditor.</p> <p>There are no contractual obligations that restrict the Committee's choice of auditor; the recommendation is free from third-party influence; and no auditor liability agreement has been entered into.</p> |

CORPORATE GOVERNANCE REPORT

CONTINUED

Financial reporting and significant estimates and judgements

| Key judgement and estimates | Subject of Audit and Risk Committee review | Conclusions |
|--|--|--|
| Charge for Bad and Doubtful Debts | The approach to setting the bad debt charge. | Having assessed cash collection performance and enhancements to provisioning processes, the Committee concluded that bad debt provisions were appropriate. |
| Going Concern status | Assessment of the Group's Going Concern status. | Having assessed financial liquidity at year-end and forecasted financial metrics, the Committee concluded that the group remained a going concern and that it was appropriate to prepare annual financial statements on that basis |
| Infrastructure Renewals Expenditure (IRE) | Classification between operating expenditure and capital expenditure. | Having assessed the process undertaken by the Group and third party expert review, the Committee concluded the IRE split between operating and capital expenditure was appropriate. |
| Legal claims and provision | The approach taken for the assessment and accounting treatment of legal and regulatory penalties. | The Group's proposed provision for future prosecutions was appropriate, noting historic and predicted levels of financial penalty. |
| Fair value estimation – Derivative Financial Instruments | The approach taken to the assessment of fair value estimation and capitalisation. | In accordance with IFRS 13 the Committee agreed that the Group's interest rate derivative (swap) contracts should be recorded on the balance sheet at fair value. |
| Reasonableness of the defined benefit pension liabilities assumptions | The assumptions that are applied to the pension valuation including discount, inflation and mortality rates. | The Committee considered that the assumptions for discount, inflation and mortality rates used to calculate projected liabilities were appropriate. |
| Recognition of revenue not yet invoiced | The approach taken to derive revenue serviced but yet to be invoiced | The Group's proposed accrual for un-billed revenue was appropriate, noting consumption was based on historic customer trends. |

The above matters are discussed in more detail in the External Auditor's Report at page 144 and within the Group's Financial Statements at page 158.

Non-audit services and fees

The Group's policy is that the External Auditor will not generally be used for non-audit services, and that all non-audit matters are subject to the Group's Procurement Policy and management approval pursuant to the Group's Policy for the Provision of Non-Audit Services. All non-audit fees paid to the External Auditor must be approved by the Committee in advance in line with the Committees delegated authority. There is a cap on fees for non-audit work across the Group of 70% of the 3-year average statutory external audit fee in any financial year, applicable from the financial year starting 1 April 2022.

During FY 25, audit fees for the Group's financial statements totalled

£657,000 (FY 24: £577,000), fees for other audit-related assurance services were £112,000 (FY 24: £106,000) and fees for other non-audit-related services amounted to £156,000 (FY 23: £141,000). As a result, non-audit fees accounted for 13% (FY 24 28%) of the average of the last 3 years' audit fees, which is well within the limit. For further details of the non-audit services provided by Deloitte, see Note 3 to the Financial Statements on page 176.

Focus areas looking ahead to FY 26:

- Ensuring that the Group is ready and able to implement changes to the UK Corporate Governance Code including changes to Provision 29 of the Code, which will apply to

financial years beginning on or after 1 January 2026, and will require Boards to make a declaration in relation to the effectiveness of their material internal controls.

- Overseeing progress with the Group's updated AMP8 Enterprise Risk Management (ERM) Framework.
- Monitoring the Group's long-term viability in the context of changing regulatory and financial landscapes.



Darren Pope
Chair of the Audit and Risk Committee
6 June 2025

Technology Committee Report



“THE GROUP'S USE OF EXISTING AND EMERGING TECHNOLOGY SOLUTIONS WILL ENABLE THE BUSINESS TO BETTER UNDERSTAND ITS SYSTEMS AND NETWORKS TO SUPPORT BOTH PERFORMANCE IMPROVEMENT, PREVENTION OF INTERRUPTIONS TO SERVICE AND THE ONGOING PROVISION OF CLEAN, SAFE AND SUSTAINABLE WATER DELIVERY.”

Prof. Tom Crick MBE
Chair of the Technology Committee

Other members:

- Barbara Moorhouse (until 31 December 2024)
- Joanne Kenrick
- Peter Perry
- Rob Norris, Chief Technology Officer (CTO)

The Managing Director of Water, Asset Planning and Capital Delivery attends all meetings of the Committee.

Meetings held: 3

The Technology Committee has supported the Board through the provision of oversight of the role of technology in executing the Group's business strategies including, but not limited to, major technology investment, technology strategy, operational performance and technology and cyber security trends that may impact service delivery.

Noting the Group's improved performance within the delivery of information technology (IT), operational technology (OT) and Cyber Security domains, and its sector leading Smart Technology innovation, the Technology Committee will be stood down during FY 26. Moving forward, IT controls will be reviewed and monitored by the Audit and Risk Committee, with Information Technology and deep dives, cyber security briefings and strategic approvals to be referred to the Board and OT being dealt with at Performance and Safety Committee. This is to ensure continued oversight of these vital areas of the business.

Principal responsibilities

During FY 2025 the Committee's principal responsibilities have included the review and approval of strategies developed for the Group's IT, OT, and information security provisions; including oversight of cyber risk protection and mitigation to support the achievement of the Group's medium-term business objectives in the most efficient manner and in accordance with the Group's identified risk appetite.

The Committee Terms of Reference ([corporate.dwrcymru.com/en/library/terms-of-reference](https://www.dwr.gov.uk/corporate/dwrcymru.com/en/library/terms-of-reference)) set out 11 distinct areas over which the Committee retains a duty to oversee, scrutinise and review the IT, OT and Information Security provisions of the Group. These areas and duties have informed the agenda and key areas of focus for the Committee during FY 25.

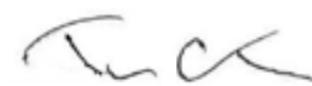


CORPORATE GOVERNANCE REPORT

CONTINUED

| Priorities for FY 25 | Committee activity and outcome |
|----------------------|--|
| Strategy | <p>The Committee received strategic updates at each meeting during FY 25, which focused on:</p> <ul style="list-style-type: none"> The remainder of the AMP7 Investment Plan and its alignment to the Group's Technology and Cyber Strategy. The Committee considered the current strategy, the technology and Cyber Threat landscape, and team/partner capability, in the context of the AMP7 delivery plan and AMP8 Technology & Cyber Security plan, preparation in line with the Group's longer-term plans. Completion of the Group's journey to Cloud. The Committee monitored management's oversight of the relationship with, and performance of, a key Cloud support partner alongside the Cloud programme's progress and governance oversight. Updates on key upgrade projects such as the upgrade of the Debt Management Solution and Development Services Customer Application. Implementation and use of Generative-AI solutions across the organisation Progress with AMP8 Investment planning and the development of the Group's AMP8 ITS and Enterprise Applications Strategies. <p>Throughout FY 25 the Committee has maintained oversight of the Group's SAP S/4HANA Programme, an upgrade for the Enterprise Finance, Procurement, Data Analytics, Resource Scheduling and Works Management Solution. This work is being undertaken as the current systems are end-of-life and will build on the digital foundation implemented in AMP7 to enable the Group to further modernise the business by investing in new 'plug and play' technologies. This enables the 2050 vision by meeting rapidly evolving consumer expectations, enhancing cyber security, embracing big data analytics and cloud services.</p> <p>Through this work the Committee has monitored the Group's discovery, procurement and governance processes to provide re-assurance to the Board that appropriate frameworks are in place to deliver this key strategic programme of work in line with agreed timetables.</p> <p>Deep dive reviews of the Group's Data, Analytics, and Smart strategies were undertaken by the Committee which highlighted the innovative and transformational work undertaken by the Group to support performance improvements.</p> <p>The Committee maintained oversight of the development and refinement of the Group's AMP8 Technology Investment plan, which is aligned to the Group's business priorities. The plan, which the Committee has scrutinised during FY 25, is built on a clear understanding of the key technology platform drivers including system obsolescence, while keeping a strong focus on cyber security and resilience.</p> <p>This process has required a deeper understanding by ITS of the Group's direction and challenges and the opportunities to exploit technology platforms, to deliver business efficiency and transformation to improve customer and field force experience. This will be supported by the exploitation of Cloud technologies, Generative-AI, the S/4HANA programme and the fostering of an innovation-led culture.</p> <p>Business Continuity and ITS Disaster Recovery plan updates were shared with the Committee, which provided reassurance regarding the governance models in place and the robustness of operational plans for critical infrastructure and applications.</p> |

| Priorities for FY 25 | Committee activity and outcome |
|---------------------------------------|---|
| Information and Cyber Security | <p>The Committee received updates from the Chief Information Security Officer (CISO) at each meeting on progress with the Group Information Security Plan, including:</p> <ul style="list-style-type: none"> Key information security risks, including KPI and KRI (Key Risk Indicators) reporting; Confirmation of completion of significant milestones within the Cyber Security Programme and the delivery of incremental improvements to Cyber Security capabilities; and Updates on progress to strengthen the cyber culture and awareness within the Group to achieve an improved and more mature level of cybersecurity. <p>The Committee received regular updates on the prevailing cyber and information security threat landscape including heightened cybersecurity threats (e.g. Denial-of-Service (DoS) and ransomware attacks) globally and across Critical National Infrastructure organisations. The Committee and senior Security Operations colleagues reviewed the Group's plans for cyber resilience in the context of this input.</p> <p>The Committee reviewed the Group's response to cyber attack incidents during the year and the outcome of participation in cyber incident response exercises led by Defra at the National Cyber Security Centre.</p> <p>The Committee also reviewed the Group's progress against plans to improve supply chain security resilience and internal cyber security culture. Senior Security Operations colleagues also provided a teach in session to Board Members to improve their understanding of the prevailing threat landscape and enhance their cyber security resilience.</p> <p>The Committee noted steps taken to improve the Group's Cyber Security maturity, including the outcome of an Attack Surface Management review which included external validation of the Group's processes.</p> |
| Operational Technology | <p>The Committee received updates on Operational Technology (OT) performance and security measures at each of its meetings and monitored the wider use of technology to protect the Group's operational assets.</p> <p>The Committee also received updates on the Group's progress towards compliance with the NIS Regulations 2018.</p> <p>The Committee reviewed the impact on the Group of the discontinuation in 2025 of the UK's Public Switched Telephone Network (PSTN), the legacy analogue public telecommunications infrastructure. The Group will continue to monitor the management of this transition, which is being delivered through both a Group and industry response via the Water UK Operations Strategy Group, considering different technology solutions appropriate to our affected assets.</p> |
| Governance | <p>The Committee has noted the continued strengthening of the Group's cyber resilience throughout IT and Security operations, which have been supported by the ongoing ITS Transformation Programme. With increasing global cyber threats, especially for CNI organisations, the Group has adopted a risk-averse stance and will continue to invest in appropriate cyber security technologies and infrastructure, as well as further developing its cyber culture.</p> |



Prof. Tom Crick MBE
 Chair of the Technology Committee
 6 June 2025

CORPORATE GOVERNANCE REPORT

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ESG Committee Report



ESG COMMITTEES ARE CRUCIAL FOR BUSINESSES TO NAVIGATE THE COMPLEXITIES OF SUSTAINABILITY, ENSURING LONG-TERM VALUE CREATION AND POSITIVE SOCIETAL IMPACT.

Debra Bowen Rees
Chair of the ESG Committee

Other members:

- Jane Hanson (to January 2025)
- Alastair Lyons (to December 2024)
- James Bevan (from February 2025)
- Tom Crick (from January 2025)
- Lila Thompson
- Peter Perry
- Mike Davis
- Samantha James (DCE ESG Lead and as Interim CFO from November 2024)

Meetings held: 4

See page 86 for Committee meeting attendance.

Environmental, Social and Governance matters are at the heart of the Group's Purpose, which is focused on our customers and the long-term interests of the communities we serve. The ESG Committee therefore plays a crucial role within company board structure to ensure that the Group not only complies with its regulatory ESG requirements but also effectively manages ESG-related risks and proactively considers and addresses the growing expectations of stakeholders regarding sustainable and ethical business practices, including critical issues such as climate change, social responsibility, and sustainable finance frameworks.

While oversight of performance improvement sits with the Performance and Safety Committee (PSC) the ESG Committee will continue to oversee the development of the Group's plans and strategies to manage emerging environmental and sustainability issues including the Group's journey to Net Zero and its strategic responses to extreme weather events and climate change which continue to challenge the sectors infrastructure and assets.

With the effects of climate change set to worsen over the coming years, the water sector will need to find long-term sustainable solutions that are affordable to customers. This is a challenging task, but is one that the Group, with the oversight of the ESG Committee will endeavour to meet.

Principal responsibilities

To support these aims, the Committee:

- Provides oversight on behalf of the Board in relation to the Group's ESG strategies and activities and ensuring that they are aligned with and integrated into the broader business purpose and strategy.
- Advises upon, and recommends to the Board for approval, appropriate ESG strategic goals, short and long-term targets, and key ESG metrics; including monitoring progress against agreed ESG objectives, including compliance with public commitments on ESG issues.
- Oversees the Group's interactions with and responsibilities towards its stakeholders in relation to ESG-issues, most notably its employees, customers, suppliers, and the communities in which the Group operates.
- Identifies current and emerging ESG-related issues, standards, good practice, and regulatory or legislative developments.
- Monitors year end carbon performance and noting progress against prior year targets.
- Providing oversight of the Group's environmental existing and emerging non-financial reporting obligations and advising the Audit and Risk Committee in respect of these.

The Committee continues to support the Board in its oversight of, the Group's ESG; strategies, risks and opportunities through the ongoing review of performance against core ESG Key Performance Indicators (KPIs) and ESG Strategic Objectives (see pages 62 to 75). This work is supplemented by further detailed updates and deep

dive reviews related to those KPIs which have been deemed most material to the Group, its communities and key stakeholders following review by the Dŵr Cymru Independent Environmental Advisory Panel (IEAP) and Independent Challenge Group (ICG).

As a Committee, we are focused on driving improvements for our customers, workforce and the environment, both now and over time.

Our main effort during FY 26 will be to oversee the development of the Group's updated ESG Strategy, which will align with operational and investment plans for PR24, the Group's long-term sustainability plans and the Welsh Water 2050 Strategy (Found here: <https://corporate.dwrcymru.com/en/about-us/our-plans>) and which will be recommended to the Board for approval once completed.

The Committee Terms of Reference (Found here: <https://corporate.dwrcymru.com/en/library/terms-of-reference>) set out 8 distinct areas over which the Committee retains a responsibility to oversee, scrutinise and review on behalf of the Group. These areas and duties have informed the agenda and key areas of focus for the Committee during FY 25, a summary of which is set out below.

| Focus areas in FY 25 | Committee Activity and Outcome |
|----------------------|---|
| Strategy | <p>The Committee reviewed performance against the Group's 10 ESG Objectives, and undertook deep dive reviews of the following areas:</p> <ul style="list-style-type: none"> Long Term Planning and Sustainability Sustainable Fitch Rating feedback. Adapting to future challenges (see Climate Adaptation Reporting below) Working to create tangible benefits in the communities we serve. Attracting and retaining a diverse workforce to reflect the communities we serve Ensuring affordability, including updates on planning ahead of AMP8. <p>Committee Members supported development of the Group's Sustainable Finance Framework which will provide investors with a clear and focused summary of the Company's ESG strategy and will support and sit alongside the Group's update Bond Prospectus. Each of these documents will support the Group's AMP8 financial plans. (See page 64 for further detail).</p> <p>Outside of the Objectives the Committee received a teach-in on the requirements and expectations of the EU Taxonomy and Corporate Sustainability Reporting Directive (CSRD) non-financial reporting frameworks and considered options for reporting moving forward. Further updates will be shared with the Committee during FY 26 to inform future decision making in this area.</p> |
| Environment | <p>Net Zero Carbon Strategy</p> <p>The Committee has received regular updates on the progress towards the delivery of the Group's Net Zero Carbon strategy (see page 64 for further details), including within updates linked to the Group's Climate Adaptation strategy and Carbon Accounting Policy (See Below)</p> <p>The Committee considered and recommended for approval by the Board formally changing the Group's near-term energy self-generation target – See ESG Objective 2 on page 64.</p> <p>Carbon Accounting Policy</p> <p>The Committee reviewed the Group's Carbon Reporting Methodology at its April and August 2024 Committee meetings and supported proposals to adopt a Location-Based carbon reporting methodology. Further details can be found at page 66.</p> <p>Climate Change</p> <p>The Committee scrutinised the Group's ongoing response to ESG Objective 3 – Adapting our assets and services to mitigate climate change risks. Further detail related to the Group's progress against ESG Objective 3 and implementation of the Group's Climate Change Adaptation Plan can be found at page 67. A copy of the Climate Change Adaptation Plan can be found here: https://corporate.dwrcymru.com/en/about-us/our-plans.</p> |

CORPORATE GOVERNANCE REPORT

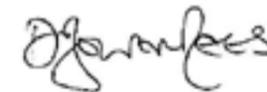
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| Focus areas in FY 25 | Committee Activity and Outcome |
|----------------------|---|
| Environment | <p>Biodiversity</p> <p>Colleagues provided the Committee with a detailed overview of the Biodiversity Net Gain/Net Biodiversity Benefit (see page 62 for further details) legislative landscape that would impact many of the Group's AMP8 investment schemes.</p> <p>This update provided context to the Committee's subsequent review and recommendation to Board for approval of the Group's 2024 Biodiversity Action Plan, Making time for Nature, in November 2024. A copy of the Group's Biodiversity Action Plan and Biodiversity Strategy can be found here: https://corporate.dwrcymru.com/en/community/environment/conservation-and-biodiversity.</p> <p>Nature Based Solutions</p> <p>The Group is committed to the use of Nature Based Solutions (NBS) to reduce the environmental impact of its operations on the environment. In April 2024 the Committee reviewed the efficacy of NBS and scrutinised the costs and implementation of a key NBS project. Following that review the Committee highlighted to the Board, the regulatory difficulties the Group had encountered implementing further projects which would inform future investment and capital planning discussions.</p> <p>The Committee acknowledged the Group's efforts to gather evidence and case studies to support greater use of NBS, as a research led, evidence driven organisation, seeking to contribute to the development and use of innovative technologies to support achievement of ESG and performance requirements.</p> <p>While the Committee continues to maintain oversight of the Group's key ESG strategies and policies, it is supported by the Performance and Safety Committee in reviewing and maintaining oversight of the Group's operational environmental performance. See page 105 for further detail of the Performance and Safety Committee.</p> |
| Social | <p>Key Stakeholder Relationships</p> <p>The Committee reviewed key stakeholder relationships to support the Committee's understanding of the Group's interaction with stakeholders on ESG issues and to increase its understanding of stakeholder expectations and the Group's impact on the outside world.</p> <p>At its February 2025 meeting the Committee received updates from the Group's Managing Directors regarding regulators, Governments, customers and other stakeholders to achieve the Group's social and environmental objectives, including. Improvements to river catchment management schemes and the support provided to the Uganda Epics Project which seeks to improve access to clean water and sanitation in eastern Uganda.</p> <p>Sustainable Procurement</p> <p>The Committee considered and challenged progress made to deliver the Group's Sustainable Procurement Policy at its April 2024 Meeting, including plans to develop a new Sustainable Supplier Code. Updates on the impact of the Group's expenditure on the Welsh Economy and how it directly and indirectly supports high levels of economic activity in Wales were also noted at this meeting. See page 74 for further detail on the Group's procurement practices.</p> <p>Diverse Workforce</p> <p>The Committee received a presentation from the Business Support and People Director on the results of the FY 24 Staff Engagement Survey and progress made to attract and retain a diverse workforce to reflect the communities we serve.</p> <p>Customers and the Communities We Serve</p> <p>At its August 2024 meeting the Committee received updates from the Customer Strategy and Engagement Director and the Managing Director – Household Customer Services regarding engagement with our customer base, including ongoing work with vulnerable customers and the introduction of the Group's 'Cymuned' (Community) Support Fund which offers short-term support to working households who find themselves in a situation where their bills exceed their income. The Committee heard that, as of July 2024, the Group had supported 131,313 households via its social tariff offerings, and a further 15,173 with its other financial assistance schemes. For further detail on the Group's Social Tariff's and other financial assistance schemes, see page 68.</p> |

| Focus areas in FY 25 | Committee Activity and Outcome |
|----------------------|--|
| Governance and Risk | <p>ESG Reporting</p> <p>The Committee reviewed ESG reporting in the Annual Report and Accounts, scrutinised the Group's Climate Change Adaptation report and the Group's approach to emerging non-financial reporting frameworks.</p> <p>The Committee considered and recommended for final approval by the Board, the ESG narrative reporting in the FY 25 Annual Report and Accounts.</p> <p>ESG Rating and Accreditations</p> <p>The Committee received the Sustainable Fitch ESG Rating Report with a score of 2 (highest being 1, lowest being 5) based on its FY 24 ESG reporting. The Committee noted the recommendations the report made to maintain and further improve this score at Its November 2024 Meeting and will track achievement of these recommendations throughout FY 26.</p> <p>ESG Risks</p> <p>The Committee reviews ESG risks and opportunities and progress against climate change risks on a 6- monthly basis. These risks are mapped against the Group's Enterprise Risk Management (ERM) Framework with Committee discussions informing the ongoing management of risk in this area, including the ongoing monitoring of ESG Investment, Asset Resilience and Energy Security risks</p> <p>ESG Committee Effectiveness</p> <p>The Committee reviewed and updated its Terms of Reference at year end, which aligned with the UK Code of Corporate Governance and the Chartered Governance Institute UK model terms of reference, and considered within the reviewed its performance against the duties set out within these. The Committee acknowledged that no material amendments were proposed to its Terms of Reference and concluded that it had made good progress during FY 25 against its agreed duties.</p> |

Focus areas looking ahead to FY 26

- Reviewing and recommending to the board, approval of an updated ESG strategy and re-defined ESG KPIs to support delivery of PR24 plans. This will include a review of material ESG KPIs that will be monitored and reported to the relevant Board Committees, prioritising those areas which are the most important to our stakeholders.
- Overseeing the implementation and delivery of the Biodiversity Action Plan and reviewing and recommending to the Board the Group's updated Biodiversity Strategy,
- Overseeing the implementation of the Group's Sustainable Procurement Strategy.
- Reviewing the Group's progress towards the achievement of its Carbon Reduction Targets to Net Zero.
- In conjunction with the Audit and Risk Committee and supported by independent third-party assurers, overseeing the development of the Group's non-financial reporting disclosures.
- Monitoring the Group's progress against recommendations made by Sustainable Fitch, acknowledging the importance of the Group's ESG rating to its sustainable financing requirements.
- Considering and advising upon the Group's non-financial reporting commitments, including the EU Taxonomy and CSRD.



Debra Bowen Rees
 Chair of the Environment, Social and Governance Committee
 6 June 2025

CORPORATE GOVERNANCE REPORT

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5 Remuneration Committee Report



“ IT IS CRITICAL THAT WE ARE ABLE TO ATTRACT AND RETAIN TALENTED EXECUTIVES WITH THE SKILLS AND EXPERIENCE TO LEAD US THROUGH THESE CHALLENGING TIMES ”

Joanne Kenrick

Chair of the Remuneration Committee

Other members:

- Professor Tom Crick (until 14 January 2025)
- Alastair Lyons (until 31 December 2024)
- Jane Hanson (from 1 January 2025)
- Alison Wilcox (from 1 January 2025)
- Darren Pope (from 1 January 2025)

Meetings held: 8

See page 86 for further details on dates of, and attendance at, Remuneration Committee meetings.

Structure of this report

Section 1: The Chair's Statement

Sets out an overview of the Remuneration Committee's activities during the year, the proposed changes to the Remuneration Policy for the start of AMP8, and the business context and pay decisions for our Executive Directors and the workforce as a whole.

Section 2: The Alignment of Pay, Performance and Remuneration Principles

Outlines the remuneration principles underpinning our pay philosophy, which have been reviewed as we always do at the start of an AMP and in light of developments since they were set.

Section 3: Revised Remuneration Policy For 2025 to 2027

Sets out our revised remuneration policy for the start of AMP8, subject to Member approval at the 2025 AGM.

Section 4: Pay in FY 25

Shows the amounts paid to our Executive Directors in respect of FY 25, and how we performed against the targets set for variable pay.

Section 5: Pay Decisions for FY 26

Outlines the Committee's approach to implementing the Remuneration Policy for FY 26 for Executive Directors.

Section 6: Other Important Information

Shows other key statutory information as required by the Directors' Remuneration Reporting Regulations.

Section 1: Chair's statement

Dear Glas Members

On behalf of the Board, I am pleased to present our FY 25 Remuneration Report which this year includes the Directors' Remuneration Policy which will be presented for Member approval at the AGM on 4 July 2025.

Business and Regulatory context

Business context

As explained within the Chief Executive's review (page 20), Welsh Water continues to operate against a challenging backdrop of conditions. The last 12 months have seen continued heightened public interest in our sector, extreme weather conditions and the effects of climate change impacting operations along with increased customer and regulatory expectations.

We, in common with companies across the Sector, have significant work to do to restore public confidence. We are disappointed that Welsh Water remains classified as a "lagging company" by Ofwat, and that we are included on a DWI Transformation Plan, and are taking actions to address these issues.

In December, Ofwat published the Final Determination for AMP8, setting out the framework for our operations for the next five years. The AMP8 determination will enable us to continue to roll out significant investment in our infrastructure, which will improve our operational performance. However, this takes time, and in a remuneration context it is necessary to consider the interaction between the steps we are taking now, and their influence on our long-term goals to come out of lagging, improve our EPA rating and exit DWI transformation.

It is against this demanding backdrop and commitment to improving key areas of performance that the Remuneration Committee has designed the Directors' Remuneration Policy for AMP8 and made its decisions on remuneration out-turns for the Executive Directors for FY 25.

Despite the challenges, and considering the time it will take for improvement initiatives to deliver benefits, the Committee is pleased that high standards of customer service have been maintained (Welsh Water remains in the upper quartile within the Sector), and progress has been made in improving performance against several of the 12 metrics used by Ofwat to assess us as a 'lagging' company in 2024.

As we enter AMP8, the Committee believes it has made the necessary adjustments to the Remuneration Policy to ensure that is well aligned with the challenges ahead, and that will clearly and transparently incentivise our Executive Directors and their teams with the critical actions and outputs required of the business over the next five years. Further details of the major factors influencing our review are set out below.

Legal and Regulatory Context

The Water Companies (Special Measures) Act received Royal Assent on 24 February 2025. From a remuneration perspective this confers powers to Ofwat to set rules for the water companies in England and Wales enabling Ofwat to prohibit the payment of performance-related pay to directors where performance falls below specified standards.

At the time of writing this Report, the final rules have not been published. Accordingly, the decisions made by the Committee this year in relation to incentive payouts for the year ended 31 March 2025, and also the new Directors' Remuneration Policy, are based on the Committee's understanding of the draft version of rules as set out in Ofwat's recent consultation. As explained more fully below, the final version of the rules and their interpretation may impact some of the decisions outlined in this report.

Executive Director Changes

During April 2025 we announced that both Peter Perry and Mike Davis, our current two Executive Directors, will be leaving Welsh Water during FY 26. The Board has commenced the process of finding successors for both positions.

It is vitally important that our remuneration package is sufficiently competitive to enable us to recruit successors for Peter and Mike. In common with the whole sector, Welsh Water faces unprecedented challenges, requiring exceptional and experienced leaders. As the Committee has developed our new Directors' Remuneration Policy, we have paid close attention to a range of market benchmarks, the changes

to the regulation on remuneration in the sector and the strategic priorities of the business. When recruiting our new Executive Directors, the Committee will determine the remuneration packages (including salary positioning), considering the skills and experience of candidates on a case-by-case basis, always within the over-arching policy framework and in the light of market positioning.

Stakeholder Context

The Committee is fully aware of the many stakeholders that are impacted by the remuneration decisions that it makes.

Principally, we have a duty to our customers to ensure that we always act responsibly and in their interests. Through our customer services initiatives, coupled with our long-term improvement programme to be executed over AMP8, our mission is to transform our infrastructure and ensure that customers receive value over the long-term. This is a transformation programme which requires time and leadership expertise, and the Committee has given careful thought to developing a remuneration policy which will appropriately reward skilled and experienced individuals capable of delivering this.

Our Members are pivotal in representing the customers and communities that we serve. We recognise the valuable contribution of our Members in giving their time to engage with us on remuneration matters. In particular during FY 25 I held sessions with our Members to explain the work of the Committee and solicit feedback on our proposals for the remuneration policy. This feedback was invaluable in helping us to challenge our thinking and to shape and refine the policy that we are now presenting.

Finally, the Committee has a duty to always consider our employees and the wider organisation when making decisions on Executive Director remuneration. Directly, this means understanding the workforce pay context in the decisions that we make.

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Indirectly, it means ensuring that our remuneration policy and frameworks incentivise the right behaviours in our leaders, including supporting and enhancing the culture of the Company. In this challenging time for the Water Industry, we recognise the dedication and commitment of all of our workforce and will continue to ensure that the decisions we make are balanced, pragmatic and sensitive to the needs of our employees.

Overview of the new Directors' Remuneration Policy

The Policy Review Process and Factors Driving the Review

The Committee commenced the triennial Policy review in Summer 2024. One of the Committee's first priorities was to critique the twelve Policy Principles which have underpinned our approach to Executive Remuneration for many years. The findings from this critique were that the Principles remain broadly appropriate, but in some cases they are no longer being fulfilled by the operation of the Policy itself.

As a result, we are proposing only very minor updates to the Principles, detailed below but some changes to how we position the Policy to ensure that it is appropriate for the current needs of the business and the external factors affecting the Water Sector. That said, the core structure of the policy is unchanged, continuing to comprise fixed pay (salary, pension and benefits), and two performance-related incentive plans, namely the Annual Variable Pay (AVP) and Long-Term Variable Pay (LTVP) schemes.

The key factors driving our proposed changes are:

1. **Changes to the regulatory regime making our current pay model unviable.** We have previously operated a policy which aims to provide balance with a below-market base salary positioning, through a "variable pay" construct. Variable pay is connected to the achievement of performance hurdles, but with the reasonable expectation of a level of performance which will lead to a regular payout, varying around a target level, taking account of the lower salary. However, changes to the regulatory regime since 2023, with Ofwat's unprecedented powers of intervention on performance-

related pay decisions, mean that our existing variable pay plans are no longer fit for purpose.

2. **Perspective of external stakeholders.** During the review, we chose to proactively engage with the Regulator regarding remuneration and have considered their feedback. Additionally, the Committee is acutely aware of public opinions and sentiments concerning the water industry. The Committee used these factors to develop its proposals and engaged with the Members of Glas Cymru, to understand their views. Following these very constructive sessions, changes have been made to the proposed Policy.

3. **Increasing disparity between our positioning of Executive Remuneration compared to the rest of the UK Water Sector and the private sector where we may also seek to hire, potentially limiting our ability to attract and retain required talent into Executive Director roles.** The Remuneration Committee has been increasingly concerned about the market positioning of remuneration for our Executive Directors. Benchmarking against a variety of relevant reference points indicates that current salaries of both the CEO and the CFO are well below market rates, and increasingly we note that the roles immediately below Executive Director level are commanding salaries that are close to those of the Executive Directors. Noting that we will be recruiting a new CEO and CFO during FY 2026, it is critical that their salaries will be set at a level that we can recruit and retain leaders of the calibre required to address the strategic needs of the business over AMP 8.

4. **Implications of the Water (Special Measures) Act 2025 (the "Act").** The Act came into force on 24th February 2025, which further erodes the Remuneration Committee's ability to pay variable pay. The Act gives Ofwat the power to prohibit the payment of all performance-related pay in certain circumstances, albeit that at the time of writing the final Rules have not been published. Whilst we acknowledge the trigger offences are highly undesirable, and we are wholly committed via our AMP 8 strategy to minimise these, the reality is that this takes time. If

we are not able to pay our most senior talent competitively during this period, then we risk losing them to peers or outside the sector, and we may be unable to recruit replacements of the necessary calibre.

Overview of the New Directors' Remuneration Policy and its application for the CEO and CFO

The table below sets out a summary of the main Policy changes and how the Policy will apply to the current CEO and CFO for the rest of their tenure.

In summary, the Policy proposes a rebalancing of the remuneration packages, reducing Variable Pay potential as a percentage of salary and repositioning salaries to adjust for a very significant market shortfall. In the case of the current Executive Directors, both of whom are currently serving notice, their total target remuneration will remain unchanged, aside from an inflationary increase which is aligned to the rest of the organisation.

Looking forward, as we commence the search for a new CEO and CFO, the Committee is aware that it needs to be able to recruit a high calibre team to continue to drive the business forward. Noting that the current Executive Directors' salaries remain below market, even with the adjustments made, it may be necessary to pay higher salaries to recruit future leaders with the appropriate skills from the external market, and the Committee will report on its decisions in next year's Directors' Remuneration Report.

Members will be asked to approve the new Remuneration Policy, which is currently intended to be effective for three years, at the 2025 AGM.

| Key change | Details | Rationale |
|---|---|--|
| Rebalancing of Packages for the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to correct for market salary shortfall | <p>A recalibration of the salaries of the CEO and CFO is proposed. This will be offset by reductions to variable pay potential as described.</p> <p>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.</p> <p>As a result, for FY 26, for the rest of their tenure, the salaries of the Executive Directors will be:</p> <ul style="list-style-type: none"> CEO: £460,000 CFO: £327,000 | <p>Increases will bring the salary of the CEO closer to (but still substantially below) the market rate relative to the nine other largest water companies in England and Wales, against which we typically compete for talent. For the CFO, the salary will remain within the lower quartile.</p> <p>As a secondary reference point to test positioning, the Committee considered certain companies outside of the sector. In making this judgement we considered (i) other publicly accountable & not for profit infrastructure companies, and (ii) Building Societies which have a similar governance structure (albeit operating in a very different sector).</p> <p>These secondary data points also indicate that these salaries remain modest relative to market.</p> |
| Reduction to Short-Term and Long-Term Variable Pay potential | <p>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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> 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). | <p>The reductions to variable pay as a percentage of salary will ensure that we maintain a balanced Policy that does not become excessive, simply as a result of the increases to base salary. It is critical that we are able to appropriately and proportionately incentivise our Executive Directors both now and, in the future, to achieve the milestones that we have set.</p> <p>The forthcoming regulatory changes means there is currently a reduced likelihood of payout. However, the Committee believes that it is critical to have in place credible schemes which set clear performance expectations for the Executive Directors and other senior leaders, over both the short term and the whole AMP.</p> <p>Even if variable pay is more volatile over the shorter term, the scorecard will provide a focus on the key priorities for the executives, and the Non-Executive Directors will use this to hold management to account.</p> |
| Amendment to the operation of the LTVP | <p>The current facility within the LTVP to provide interim payments annually across the AMP will be removed. There will be a single payout at the end of the five-year AMP8 period.</p> <p>The performance measures will be externally verifiable indicators of our success in the transformation programme.</p> | <p>The transformation programme is long-term in nature, and it will take time to see meaningful change.</p> <p>Therefore, the Committee is removing the facility to provide interim payments, in order to focus on achieving and maintaining performance against five core measures of the success of our transformation programme. These are set out below.</p> |
| Enhanced malus and clawback provisions | <p>Noting the additional regulatory requirements in relation to remuneration, as well as broader changes to the UK Corporate Governance Code regarding the enforceability of malus and clawback provisions, we have extended the period following a payout for a trigger event to three years following the payment date, and reviewed the mechanisms through which we could recover variable pay if required.</p> | <p>Our malus and clawback policies are now aligned to market best practice, and will ensure the enforceability of these should this be required whether due to the regulations or wider reasons.</p> |

CORPORATE GOVERNANCE REPORT

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Operation of the AVP for FY 26

Under the new Policy for FY 26 the Annual Variable Pay (AVP) will have a potential maximum of 75% of salary for the Executive Directors, based on stretching performance targets.

The Committee has determined the weightings for the scorecard of measures for the AVP in FY 26 will be based 80% on Operational metrics and 20% on Stakeholder metrics (comprising 10% Customer, 5% Colleague and 5% other external stakeholders).

This represents an increase in the weighting towards Operational metrics from 60%, and a reduction to the Customer weighting from 30% in total to 10%. The addition of Colleague and external stakeholders is designed to ensure a balanced and holistic perspective of all our main stakeholders. Finally, we have moved the Strategic metrics to the LTVP.

The amendment to these weightings represents the Company's sharp focus on the achievement of key measurable Operational goals which align to the AMP8 determination, while also ensuring that a significant element of the AVP remains aligned to Stakeholder outcomes. In respect of the Customer metric, the Company already ranks strongly against the sector for C-MeX, and so the Committee considers that keeping the measure with a reduction in weighting will continue to drive strong performance while enabling other critical priorities to be targeted.

Further detail on the breakdown of the AVP metrics for FY 26 is set out below.

Operation of the LTVP for AMP8

For AMP8 the Long-Term Variable Pay Scheme (LTVP) will have a potential maximum award for the executive directors of 300% of salary over the 5-year regulatory period (equivalent to a maximum potential award of 60% per annum).

The performance measures for the LTVP will be connected to the achievement of significant industry-recognised milestones during the course of AMP8, requiring a significant improvement in our performance.

This assessment will include the following important measures of success:

- Avoiding logging status;
- Improvement in EPA rating from NRW;

- Exiting the DWI transformation programme;
- Ensuring our long-term financial resilience; and
- Total Operating Expenditure ("Totex") over AMP8.

Each metric will carry equal weighting. Further details of the metrics and their measurement will be set out in the 2026 Directors' Remuneration Report. The Committee will make a single payment following the end of AMP8 (i.e. in the year ending 31 March 2031).

Looking back – pay outcomes in relation to FY 25

The Committee reviewed the outcome of the AVP and LTVP scorecards following the end of the financial year, and the full outcomes are set out in Section 4.

AVP summary

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.

Operational Assessment: Operational goals were set at the beginning of FY 25 to align with the core operational areas in which we were focussing our Service Commitment Plan (published in April 2024). This considered eight measures as detailed below. Stretch payouts were set by reference to the published Performance Commitment for 2025 agreed with Ofwat, which was determined by the Committee to be exceptionally challenging.

The below-target outcome across the eight operational measures was indicative of the stretching nature of the targets and the challenges that the business faced, as detailed above and more extensively across this Annual Report. This meant that three out of eight of the operational measures were below the threshold based on FY 25 performance. Meanwhile, the Company performed strongly in the area of Tap Water Quality CRI, meeting the stretch target. Performance was between threshold and stretch in the areas of Per Capita Consumption, Waste Water Treatment Works Compliance and Category 1 & 2 Pollution Incidents.

Customer Assessment: With regard to customer metrics, we were ranked 3rd in C-MeX (our primary indicator of consumer customer service), which

resulted in this element being rated at the on-target level. For B-MeX, we scored 4.3, which was at the threshold performance level. Finally, the D-MeX threshold was marginally missed.

Strategic Assessment: The Remuneration Committee assessed performance against our individual strategic metrics with all four measures being on target or above. Highlights included strong performance in the kilometres of river improved (a core environmental priority), which was ahead of our stretch target and strong progress in our targets for DEI (female senior managers).

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 noted above 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.

Further detail on the measures and performance against each individual metric is set out below.

LTVP summary

For FY 25, the formula-based scorecard outcome did not result in payouts to the Executive Directors as the threshold levels were not reached. More specifically, our Totex performance reflected the deployment of additional critical investment within the second half of AMP7 in our asset improvement programme and this target was not, therefore, met.

Our aggregate ODI performance was particularly impacted by the penalties incurred during AMP7 due to our leakage performance and, to a lesser extent, other areas.

As FY 25 represented the final year of the LTVP cycle, the Committee reviewed the aggregate payouts under the LTVP over the full AMP7 period, which totalled payouts for the Executive

Directors of 10.6% of maximum. The Committee determined that this below-target payout was appropriate in the context of the challenges faced by the Company in the second half of AMP7.

Ofwat Recovery Mechanism decision in respect of 2024 AVP

In 2023-24, Ofwat published its determinations on variable pay in the sector. The determination for Welsh Water stated that Ofwat considered that bonus payments for the Executive Directors were not justified, and thus, the Company would not be permitted to recover those costs through the cost reconciliation model.

In the light of Ofwat's announcement, the Remuneration Committee undertook a comprehensive review of its decisions. The Committee reflected that Ofwat's decision had centred predominantly on the leakage issues from 2023, which only received final resolution during 2024. This had meant that the penalty incurred was in 2024, but the scheme years to which the incidents related was 2023.

Furthermore, the Committee satisfied itself that the out-turn of the scheme had been relatively low (25.7% of maximum), which reflected the performance of the business at a challenging time for the sector. However,

there were some areas of performance during FY 24 which had been good against the stretching targets set, and therefore did warrant a payment.

Given that the Executive Directors waived their variable pay in 2023 year in full, in large part due to the leakage issues identified by Ofwat as contributing to its 2024 decision, the Committee believed that invoking a clawback of the variable pay awarded was not warranted and that the Company would, therefore, recover the costs of these schemes outside of the cost reconciliation model in line with Ofwat's determination.

Remuneration of the Non-Executive Directors for FY 26

The Committee reviewed the fee for the Chair of the Board, taking into account external market benchmarking and internal relativities. The Committee's conclusion was that it was appropriate to award a 3.5% increase to the Chair, in line with the increase applied to the wider workforce.

The fees of the Non-Executive Directors were reviewed by the Board (excluding the Non-Executive Directors), who decided that it was appropriate to award a 3.5% increase to the base fee, in line with the increase applied to the wider workforce. No changes were made to the supplementary fees for chairing

board committees and undertaking the role of the senior independent director.

Salaries and fees applying for the Non-Executive Directors in FY 26 are set out below.

Conclusion

As always, I thank our Members for their very constructive engagement with our Policy review over the past several months, including their sensitive consideration of the many and diverse factors that the Committee has balanced in designing our Policy. I welcome any feedback or questions from Members in relation to the work of the Committee and our Directors' Remuneration Policy.

The new Directors' Remuneration Policy will be presented for binding Member approval at the AGM on 4 July 2025. The Directors' Remuneration Report, comprising this Chair's Statement and Sections 2, 4, 5 and 6 of this Report will be presented for advisory approval.



Joanne Kenrick
Chair of the Remuneration Committee
6 June 2025

Use of benchmark data to support remuneration decisions

Benchmarking data is used throughout Welsh Water, so as to ensure that our people of all grades in the Company are paid fairly for the roles that they carry out. While the salaries and remuneration of the Executive Directors are the highest in the organisation, this principle of being paid fairly for the role is very important, and so in carrying out its review the Remuneration Committee paid careful attention to market benchmarks.

It is important to note that there is no single reference point when using benchmarking, as no two organisations are directly comparable. The Committee has therefore considered a range of different benchmarks, summarised below:

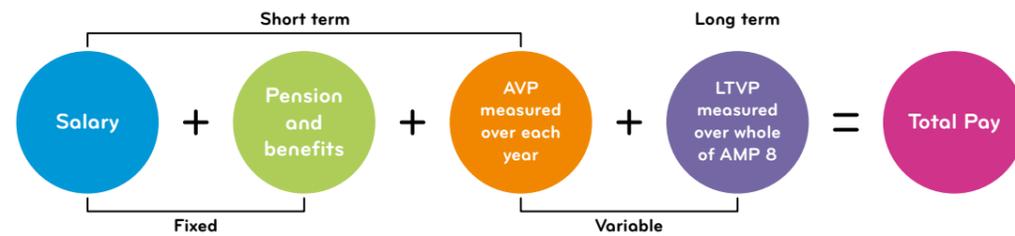
1. **Other UK Water Companies** – the other water companies provide the most direct point of comparison for us. However, as all the sector peer companies are variable in terms of their size and nature of operations, we have considered a variety of "complexity" indicators to help adjust the data. The key indicators that the Committee has used are the Regulatory Capital Value (an externally published figure which is a proxy for the value of the assets), km of pipe managed and number of households served. In all cases, we applied a statistical technique called regression to plot salaries against these reference points. This showed that current market salaries for the CEO would be in the range of approximately £450,000 to £550,000 (before any increases for 2026).
2. **Other infrastructure companies which are not shareholder-owned** – examples include HS2, National Rail and NATS. Salaries for CEOs in these organisations are all above £500,000.
3. **Other not-for-shareholder organisations, such as building societies and co-operatives.** Although these organisations are very different operationally to Welsh Water, they share a similar ethos of existing solely for the benefit of their customers, while also needing to operate commercially in order to succeed. This showed that the building societies pay significantly higher salaries than Welsh Water (offset with lower variable pay), providing a useful secondary check that the proposals are reasonable. The Committee also noted that such organisations are not facing the types of operational challenge that the water sector is currently.
4. **The Welsh market** – Welsh Water is one of the largest companies in Wales. It is commercially run. We looked at disclosed CEO salaries at several other large Welsh headquartered companies, such as Admiral and Principality. Again, these companies are very different operationally to Welsh Water, but provided the Committee with confirmation that the salaries payable at Welsh Water are significantly below the levels at these benchmarks.

CORPORATE GOVERNANCE REPORT

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A summary of the main components of remuneration for the Executive Directors is set out below:

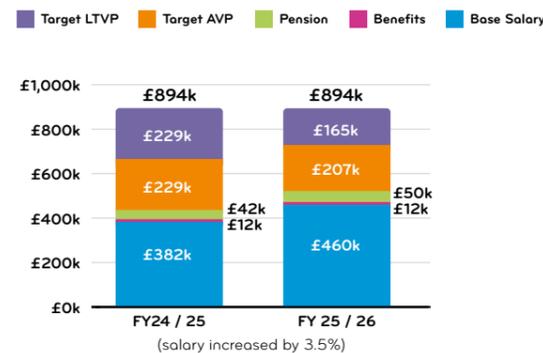
At a glance – Executive Director remuneration for 2025/26



Rebalance of fixed and variable remuneration under the new Policy

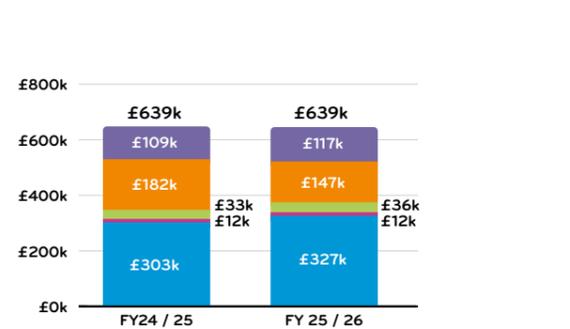
For FY 26, the remuneration packages for the current Executive Directors have been rebalanced to reflect the re-weighted remuneration policy, in which AVP and LTVP maximum potential has been reduced to 75% and 60% of salary annually. Their total target remuneration has been preserved at the same level as previously, save for the same 3.5% inflationary increase as has been awarded across the workforce. This is shown in the charts below:

Peter Perry



| | FY24 / 25 (salary increased by 3.5%) | FY25 / 26 |
|----------------------------------|--------------------------------------|--------------|
| Base Salary | £382k | £460k |
| Benefits | £12k | £12k |
| Pension | £42k | £50k |
| Target AVP | £229k | £207k |
| Target LTVP | £229k | £165k |
| Total target remuneration | £894k | £894k |

Mike Davis



| | FY24 / 25 (salary increased by 3.5%) | FY25 / 26 |
|----------------------------------|--------------------------------------|--------------|
| Base Salary | £303k | £327k |
| Benefits | £12k | £12k |
| Pension | £33k | £36k |
| Target AVP | £182k | £147k |
| Target LTVP | £109k | £117k |
| Total target remuneration | £639k | £639k |

AVP and LTVP measures and weightings

AVP – performance to be measured over the 12 months to 31 March 2026

| Performance Measure | Weighting |
|--|-----------|
| Operational Metrics | 80% |
| 8 individual metrics, each comprising 10% of total AVP potential | |
| Customer | 10% |
| Colleague | 5% |
| Other stakeholder | 5% |

LTVP – performance to be measured over the 5 years to 31 March 2030

| Performance Measure | Weighting |
|--|------------|
| Avoiding lagging status | 20% |
| Improvement in EPA rating from NRW | 20% |
| Exiting the DWI transformation programme | 20% |
| Ensuring our long-term financial resilience | 20% |
| Total Operating Expenditure ("Totex") over AMP8 | 20% |

Remuneration Framework Across Welsh Water

The decisions and debates that we have as a Committee about Directors' and executive remuneration include careful consideration of how we remunerate our employees and feedback from the business as to the wider employee experience.

The workforce pay policy is agreed with our recognised trade unions and follows the terms of our Working Together and Household Customer Services Partnership Agreements.

Fixed pay

The Annual General Salary Award is agreed with our recognised trade unions and annual salary changes are applied consistently across the workforce.

Pension benefits are aligned across the Company with all Group Personal Pension Plan members entitled to receive the same employer contribution as a percentage of salary, in line with best practice.

Variable pay

The Annual Variable Pay Scheme (AVP) (for colleagues below Executive Director level and above Band 5) and the Colleague Reward Scheme (Bands 1-5) use a number of shared key metrics – notably those linked to Customer, Performance and Expenditure. This ensures transparency and a sense of shared ownership of the targets.

The AVP for colleagues above Band 5 includes an element of opportunity based on achievement of personal objectives, as well as on the Company's performance. Maximum opportunity ranges from 10% to 60% of base salary, depending on band.

The Colleague Reward scheme for Bands 1 to 5 does not include a personal element, and the level of payout is based entirely on the Company's performance against the identified metrics. The maximum opportunity under the Colleague Reward scheme is £1,500.

Gender pay gap

Despite a continuing focus on diversity and inclusion and varied activities to improve our pay gap, this year has seen an increase in the median and mean Gender Pay Gap.

Colleague engagement

I continue to meet with a small focus group of colleagues from within the business each year to understand their perspectives on their own remuneration, and to explain and discuss how our principles are applied at Executive Director level.

Workforce Remuneration Highlight for FY 25

- Salary increases for employees effective from 1 April 2024: 4.2%
- Colleague reward scheme payout of £1,000 paid in July 2024
- Employee Variable Pay Schemes Company portion paid in July 2024 at 18.3% of maximum based on performance achieved.
- Gender pay gap for 2024 (reported April 2025): median salary pay gap of 7.6% (2023: 4.8%) and mean of 8.4% (2023: 8.4%) as at snapshot date 5 April 2024.
- The median bonus gap continues to be 0%, however the mean bonus gap increased in 2023-2024 from 11.1% to 14.4%, mainly due to some senior female leaders leaving during the year.
- Ethnicity pay gap: median of 4.9% and mean of 3.1% as at snapshot date of 5 April 2024 (no 2023 comparatives are available as this was our first year of reporting).

Workforce Remuneration highlights for FY 26

- Salary increase for employees effective from 1 April 2025: 3.5%
- Colleague reward scheme payout of £621 to be paid in July 2025
- Employee Variable Pay Schemes Company portion to be paid in July 2025 at 22.1% of maximum based on performance achieved

CORPORATE GOVERNANCE REPORT

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Section 2: The remuneration principles

A core starting point in the 2025 Policy Review has been to critique the Remuneration Principles. This exercise found that the Principles remain relevant and fit for purpose. Some very minor changes have been introduced to reflect regulatory and market changes. Specifically, we have expanded Principle 8 to include an explicit requirement that structures should include enforceable recovery provisions, and we have clarified Principle 3 to refer to Variable Remuneration focusing on the issues of concern to the business.

Our twelve principles are set out below.

| | | | |
|---|--|---|---|
| 1 | 2 | 3 | 4 |
| Remuneration should reward/incentivise the long-term interests of the business, promote its long-term sustainable success and reflect its agreed future strategic approach. | Remuneration should help align the interests of Directors and employees with the Group's customers and reflect the Company's Purpose and values. | Variable Remuneration should be focused on the issues of key concern to the business – water and environmental quality, customer service and financial performance. | Remuneration should reflect Dŵr Cymru's aim to be one of the best-performing companies in the sector. |
| 5 | 6 | 7 | 8 |
| Remuneration targets should be stretching in relation to past performance and in comparison with other companies in the sector. Where possible, they should be hard numbers which can be audited. | Remuneration is intended to incentivise management in the absence of shareholders and share options. | Remuneration should be fair and competitive in relation to the sector and internally so as to help attract and retain high-calibre individuals. | A meaningful but not excessive proportion of remuneration for the Executive Directors should be variable so as to achieve the right balance in relation to risk-taking, and there should be appropriate recovery mechanisms and Remuneration Committee discretion, to avoid any risk of reward for failure. |
| 9 | 10 | 11 | 12 |
| The remuneration structure should be sufficiently clear that those affected by it understand what it is aiming to achieve. | Remuneration will be transparent to Glas Members and regularly subject to their approval. | Design and quantum of remuneration should take account of the Company's non-shareholder model, and the views of Members and other stakeholders. | Decisions made by the Committee should take account of workforce remuneration and related policies, and the alignment of incentives and reward with culture. |

Section 3: Remuneration Policy for 2025 to 2028

The AMP8 Remuneration Policy will be presented for approval by the Glas Members at the AGM to be held on 4 July 2025, and the key elements are set out in the table below:

| | Purpose and link to strategy | Operation | Opportunity | Performance metrics |
|--------------------|---|--|---|----------------------------|
| Base salary | To help attract, retain and motivate high calibre employees | Normally reviewed annually and any increases typically applied with effect from 1 April. Salary reviews will reflect: <ul style="list-style-type: none"> • Role, experience and performance • Wider economic conditions • Increases awarded throughout the rest of the workforce • Periodic reviews of remuneration within the water sector • The relationship between fixed and performance-related pay. | Annual increases generally linked to those of the wider workforce, though the Remuneration Committee retains discretion to award increases to individuals above or below this level where appropriate. Higher than workforce average increases may be awarded if there is a material increase in scope or responsibility of the executive director's role, or where external benchmarking identifies that a market adjustment is required. | Annual Performance Reviews |
| Benefits | To provide a market-competitive benefits package to help attract and retain employees | The principal benefits for Executive Directors are: <ul style="list-style-type: none"> • Private medical insurance • Income protection • Health screening • Car Allowance Other benefits may be provided based on individual circumstances, for example, relocation. | Value of benefits is based on the cost to the Company. | None |
| Pension | To help attract and retain high-calibre employees | All employees, including Executive Directors, are entitled to a maximum employer pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance. If the maximum employer contribution rate for the wider workforce changes then this new rate would also apply to Executive Directors. Life assurance at 4x base salary is provided for Executive Directors and all employees who participate in the DCWW Group Personal Pension Plan or Pension Cash Alternative Plan. | The maximum cash allowance is equivalent to the employer contribution of 11% of salary less employer NI contribution. | None |

CORPORATE GOVERNANCE REPORT

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| | Purpose and link to strategy | Operation | Opportunity | Performance metrics |
|--------------------------------------|---|--|---|---|
| AVP | To incentivise the annual delivery of stretching targets. | <p>AVP targets are reviewed annually by the Committee.</p> <p>Performance is measured against threshold, target and maximum levels.</p> <p>Outturn against targets is determined by the Remuneration Committee after the year-end, based on performance against targets.</p> <p>Awards earned are paid as cash, are not pensionable, and are subject to clawback provisions (see details on page 132).</p> <p>AVP awards may be varied (either increased or decreased) at the discretion of the Committee to better align with the performance achieved, including to reflect the experience of customers.</p> <p>The AVP rules allow the Committee to defer the payment of any awards until the completion of an ongoing investigation.</p> | Maximum AVP potential of 75% of salary, for the achievement of stretching performance targets | Measures are selected by the Committee each year and will typically include (but may not be limited to) Customer and Operational measures taking account of the regulatory measures contained within our Business Plan and the AMP8 Final Determination. |
| LTVPS | <p>To align the long-term focus of the Executive Directors with those of Welsh Water's customers and stakeholders.</p> <p>To incentivise achievement of the Company's long-term strategy.</p> | <p>Cash awards based on stretching performance targets.</p> <p>Performance against significant industry-recognised milestones will be assessed over the whole 5-year period of AMP8.</p> <p>Following the AMP8 Final Determination LTVPS awards may be varied (either increased or decreased) at the discretion of the Committee to better align with the performance achieved. Awards are subject to clawback provisions (see details on page 132).</p> <p>The LTVPS rules allow the Committee to defer the payment of any awards until the completion of an ongoing investigation.</p> | The maximum potential award for executive directors is 300% of salary over the 5-year regulatory period (i.e. equivalent to an average annual maximum potential award of 60% per annum) | Measures are selected by the Committee at the start of the AMP based on industry-recognised milestones. |
| Non-Executive Directors' Fees | To provide an appropriate level of fee to attract and retain individuals with a broad range of experience and skill to support the Board in the delivery of its duties. | <p>The Remuneration Committee determines the fee payable to the Chair of the Board. Separately, the Executive Directors and the Chair approve the fees payable to the Non-Executive Directors.</p> <p>The Company may make a payment in respect of any associated tax liability where this is considered to be appropriate.</p> | Non-Executive Directors receive a base fee. Additional fees may be paid to reflect additional time commitments and/or responsibilities, for example to the Senior Independent Director and to committee Chairs. | The fees for the Board Chair and the NEDs are subject to review annually. Increases are typically made in line with the average annual increase across the workforce. Higher increases may be made in the event that there is a significant change in the role, for example to take account of higher time commitment or increased scope. |

| | |
|--|--|
| New appointments | <ul style="list-style-type: none"> Base salary levels will be set to reflect the experience of the individual, tested against market benchmarking data and internal relativities. If it is considered appropriate to appoint a new Executive Director on a below market salary, they may be subject to a series of increases to the salary positioning over an appropriate time frame subject to performance in post. This approach will apply to both internal and external appointments, when appropriate. The Executive Director will be eligible to participate in the AVP and LTVPS as set out in the remuneration policy table. The performance-related pay award will be pro-rated to the number of complete months worked during the relevant performance period. All employees including new Executive Directors are automatically enrolled in the DCWW Group Personal Pension Plan with a maximum employer contribution of 11% or the opportunity to opt out and receive a cash allowance of 9.6% (11% less employer NI contribution). Should it be the case that the Remuneration Committee considers it necessary to buy out incentive pay which an individual would forfeit on leaving their current employer, such compensation, where possible, will be structured so that the terms of the buyout mirror the form and structure of the remuneration being replaced. |
| Policy for payments to departing executives | <ul style="list-style-type: none"> The Executive Directors have service contracts that are subject to a 12-month notice period and which do not provide for compensation to be payable in the event of early termination by the Company. At the Company's discretion, an Executive Director may be paid base salary alone in lieu of notice. A significant element of mitigation is built into the contract should the Company choose to exercise its option to make a payment in lieu of notice. When an Executive Director leaves via redundancy and is not required to work their notice period, they will be entitled to Statutory Redundancy and Enhanced Redundancy in line with the Company's redundancy policy plus up to 12 months' pay in lieu of notice together with pay in lieu of accrued but untaken holidays. In addition, and consistent with market practice, in the event of the termination of an Executive Director's employment, the Company may contribute towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements. Should an Executive Director resign, they will be expected to work their notice period unless an alternative arrangement such as garden leave or a reduced notice period is agreed. In the event the Company terminates the Executive's employment, the Company will take legal advice and will pay to the Executive only such amount as the Executive is legally entitled to receive. In the event of cessation of employment performance-related pay awards will be treated in line with the relevant scheme rules which describe the treatment of any payment with reference to 'good' or 'bad' leaver terms. In the event of cessation of employment AVP and LTVP awards will be treated in line with the relevant scheme rules which describe the treatment of any payment with reference to 'good' or 'bad' leaver terms. Good leavers would include departure due to ill-health, disability, death, or any other reason at the discretion of the Remuneration Committee. Under the AVP bad leavers will normally forfeit all unpaid awards. The Remuneration Committee may decide whether to make a payment for the year of departure, whether awards are reduced for the time in employment, when performance conditions are assessed, when any payment is made, and whether any additional conditions should apply. Under the LTVP, if an Executive Director were to leave due to dismissal or misconduct they would forfeit any award. The Remuneration Committee, in determining the final awards, may apply judgement to assess performance in the round. When assessing performance in the round, the Remuneration Committee may take into account (inter alia) wider market, regulatory and stakeholder considerations. |

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Malus & clawback provisions

The Remuneration Committee may apply discretion to reduce AVP and/or LTVP awards in whole or part using either malus or clawback. Malus is a reduction factor which is applied to bonus payments which have not yet vested, and clawback is applied to seek recovery of bonus payments already paid. There is a period of three years following the payment of the relevant award in which the Committee may commence an investigation into any potential trigger.

Examples of malus and clawback triggers are:

- A breach of the Regulatory Rules as specified by Ofwat
- Misstatement or error in the data comprising the scorecard assessment.
- An error in the incentive calculation.
- Gross misconduct.
- Corporate failure.
- Serious reputational damage.

In the case of gross misconduct, corporate failure or reputational damage, this will incorporate specific triggers as set out in the Ofwat regulations.

Section 4: Remuneration Outcomes for FY 25

Single Figure of Remuneration for Executive Directors (Audited)

| | Peter Perry | | Mike Davis | | |
|--|--|--------|------------|--------|-----|
| | FY 25 | FY 24 | FY 25 | FY 24 | |
| | £'000s | £'000s | £'000s | £'000s | |
| Salary | 369 | 355 | 293 | 281 | |
| Benefits ¹ | 2 | 1 | 2 | 1 | |
| Other ² | 12 | 8 | 12 | 8 | |
| Pension ³ | 36 | 34 | 28 | 27 | |
| Fixed Pay | Total Fixed Pay | 419 | 398 | 335 | 317 |
| | Annual variable pay – AVP ⁴ | 82 | 91 | 65 | 72 |
| | Long-term variable pay – LTVPS | - | - | - | - |
| Variable Pay | Total Performance-Related Pay | 82 | 91 | 65 | 72 |
| Total Single Figure of Remuneration | | 501 | 489 | 400 | 389 |

¹ Taxable benefits relate to private health cover and group income protection.

² As reported last year, both Executive Directors received a car allowance of £8,500 in FY 24 and an increased car allowance of £12,000 in FY 25.

³ This represents pension alternative cash plan payments, equivalent to 11% of salary less Employer NIC and is therefore lower than the maximum pension contribution shown on page 126.

⁴ The Executive Directors' AVP entitlements will be withheld until the final publication of Ofwat's rules on performance related pay, after which there will be greater clarity as to the final Ofwat rules on variable pay for FY25.

Annual variable pay – outcome for FY 25

The table below shows the performance against the targets for AVP in FY 25. Where the final outcome for a particular target is not available as at the date of this report, the award reported is based on a current best estimate. These values may therefore change.

| Element | Weighting | Metric | Threshold performance | Target performance | Maximum performance | FY 25 Performance achieved | Percentage of bonus earned |
|---|-----------|--|-----------------------|--------------------|---|----------------------------|----------------------------|
| Customer service | 62.5% | C-MeX (Ranking) | 5th | 3rd | 1st | 3rd | 11.2% |
| | 18.75% | D-MeX (Ranking) | 11th | 9th | 6th | 13th | 0% |
| | 18.75% | B-MeX (Score out of 5) | 4.3 | 4.4 | 4.5 | 4.3 | 0.6% |
| Total % of Salary for Customer Service | | | 3% | 18% | 30% | | 11.8% |
| Operational performance | 10% | Tap water quality (CRI Score) | 7.7 | 5.1 | 4.5 | 4.5 | 5% |
| | 10% | Interruptions to supply (mm:ss) | 23:16 | 12:39 | 10:00 | 137:44 | 0% |
| | 10% | Leakage (Ml/d) | 261.6 | 218.7 | 208 | 249.7 | 1.2% |
| | 10% | Mains repairs (Nr/1,000km) | 146.2 | 134.2 | 131.2 | 163.8 | 0% |
| | 10% | W and WW Treatment Works compliance (%) | 97.34 | 98.67 | 99 | 98.71 | 3.3% |
| | 20% | Pollution incidents: Cat 3 (Nr/10,000km) | 27.86 | 21.17 | 19.5 | 36.41 | 0% |
| | 20% | Pollution incidents: Cat 1 – 2 (Nr) | 7 | 3 | 2 | 7 | 1% |
| | 10% | PCC (l/h/d) | 150.7 | 149.2 | 148.8 | 148.2 | 3% |
| Total % of Salary for Operational Performance | | | 5% | 30% | 50% | | 13.5% |
| Strategic Goals | 25% | PR24 finalisation and AMP8 readiness | Satisfactory | Good | Excellent | Good | 3% |
| | 25% | Km of river improved | 418 | 478 | 569 | 576 | 5% |
| | 25% | Credit Rating performance | 2 notches | 1 notch | current | 1 notch | 3% |
| | 25% | % of female senior managers | 17% | 23% | 29% | 24% | 3.3% |
| Total % of Salary for Strategic Goals | | | 2% | 12% | 20% | | 14.3% |
| Total % Award Achieved (before Remuneration Committee Discretion Assessment) | | | | | | | 39.6% |
| Remuneration Committee Discretion Assessment | | | | | The Committee considered performance across the whole Company and may adjust the formulaic out-turn to reflect this holistic assessment | | (17.5%) |
| Final Committee Assessment | | | | | | | 22.1% |

CORPORATE GOVERNANCE REPORT

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Discretionary review of AVP for FY 25

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 noted above 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 39.6% to 22.1% of the maximum, which is the same level at which the annual award has 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.

Further information on target setting process

The ranges set out for each metric under the AVP are set on an individual basis by the Remuneration Committee every year, taking into account a range of factors. Set out below are the principles considered by the Committee in relation to each of the areas of the AVP.

Customer Service Metrics

All customer service metrics are set by reference to historic performance. Threshold performance in FY 25 was based on the prior year scores with target and stretch both being an improvement on prior years. In respect of our direct-to-consumer C-Mex score, which formed 62.5% of the Customer Service component in FY 25, the on-target was to be ranked third in the sector, which represents an upper quartile ranking, and was achieved.

Operational Goals

In relation to the Operational Goals (i.e. those connected directly to our regulatory commitments), the Committee set the stretch targets by reference to our published Service Commitment plan. This document set out the steps we planned to take to address certain core areas where we needed to improve, thereby meaning that the targets themselves were very clearly focussed on delivery in focused and very challenging areas.

The ranges were set as follows:

- Threshold performance: prior year performance was set as the start to earn point, meaning that in no instances would AVP be paid for any performance that was below the FY 24 baseline performance.
- On-target performance: set at an appropriate level based on internal forecasts, between threshold and stretch. In some cases this was not a linear interpolation between points.
- Stretch performance – in all cases, this equated to our externally published and very stretching Service Commitment Plan.

Strategic Goals

A small number of metrics were chosen, being those which represented a set of key wider Company priorities. The Committee, as with other targets, selects those metrics which are inherently areas of key focus for the Board, and are, by definition, stretching.

In all cases, the stretch targets required a significant degree of challenge. In the case of credit rating, the stretch target was “maintaining the current score” which because of the wider context of the industry, in which all companies were downgraded during FY 25, was impossible to meet.

Long-term variable pay (LTVPS) – outcome for FY 25

For FY 25, the performance achieved for each target was as shown below. The 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.

| Element | Weighting | Threshold level of performance (10% achievement) | Target level of performance (60% achievement) | Maximum level of performance (100% achievement) | Performance achieved | % of element earned |
|---|-----------|--|---|---|----------------------|---------------------|
| Totex Performance | 50% | £639m | £607m | £591m | £828m | 0% |
| Overall ODI outcomes for performance development measures | 50% | £(1.2)m | £(0.3)m | £2.6m | £(30.4)m | 0% |
| Total (as % of maximum award) | | | | | | 0% |

Details of the performance achieved for each of the performance development measures which contributed to the overall LTVPS assessment for FY 25 are as follows:

| Measure | Units | Threshold level of performance achievement | Target level of performance achievement | Maximum level of performance achievement | Performance achieved | Outcome Delivery Incentive (ODI) £m |
|---|-------------------------------|--|---|--|----------------------|-------------------------------------|
| CEO | | 5% | 30% | 50% | | |
| CFO | | 3% | 18% | 30% | | |
| Acceptability of drinking water | Contacts per 1,000 population | 2.48 | 2.40 | 1.58 | 2.7 | (2.7) |
| Water mains bursts | # per 1,000km of Mains | 130.5 | 128.4 | 131.2 | 163.8 | (3.3) |
| Lead supply pipes replaced | Number | 7,000 | 7,000 | 9,000 | 3,310 | (3.3) |
| Leakage | % | 11.7 | 14.7 | 14.7 | (15) | (6.7) |
| Km of river improved | Km | 418 | 418 | 418 | 576 | 7.8 |
| Sewer collapses | # per 1,000km of Sewer | 7.2 | 7.2 | 7.2 | 6.2 | - |
| Surface water removed from sewers | Roof equivalents | 862,150 | 862,150 | 862,150 | - | (0.3) |
| Community education | Individuals | 74,000 | 75,000 | 75,000 | 101,034 | 0.1 |
| Visitors to recreational facilities | Individuals | 775,000 | 830,000 | 830,000 | 1,218,196 | 0.4 |
| Per capita consumption | % | 3.4 | 4.8 | 6.3 | (2.1) | (7.5) |
| Combined sewer overflow storage systems | m ³ | 27,049 | 27,049 | 27,049 | 33,500 | 0.0 |
| Delivery of reservoir enhancement programme | Sites | 26 | 26 | 26 | 26 | - |
| Delivery of zonal studies programme | Zones | 17 | 17 | 17 | 14 | (7.3) |
| Direct procurement for customers: Cwm Taf Water supply strategy scheme (underperformance) | Date | 31/3/25 | 31/3/25 | 31/3/25 | 31/3/26 | (1.4) |
| Direct procurement for customers: Cwm Taf Water supply strategy scheme (outperformance) | Date | 31/3/25 | 31/3/25 | 31/3/25 | 31/3/26 | - |
| Delivery of a new visitor centre | Delivered | Delivered | Delivered | Delivered | Delivered | - |
| Delivery of the Company's South Wales Grid water supply resilience scheme | % complete | 95 | 95 | 95 | 19 | (6.1) |
| Total | | (1.2) | (0.3) | 2.6 | | (30.4) |

CORPORATE GOVERNANCE REPORT

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Long-term variable pay – outcome for AMP7

Under the LTVPS for the period 2020 to 2025, performance was assessed annually against interim goals. Interim payments are made up to 60% of maximum for each of the two elements: Totex performance; and Overall ODI outcomes for performance development measures.

At the end of the period, as well as in-year performance, aggregate performance was considered over the whole five-year period of the AMP, which could result in payment or recovery of any under or overpaid amounts in the final year. The aggregate performance across the whole of AMP7 is summarised below.

| | | 2021 | 2022 | 2023 | 2024 | 2025 | Total |
|---|---|--------------|--------------|--------------|--------------|---------------|---------------|
| Totex (50% of LTVP) (figures in £'000) | Threshold | 684 | 690 | 694 | 646 | 639 | 3,353 |
| | Target | 649 | 655 | 659 | 614 | 607 | 3,184 |
| | Stretch | 633 | 639 | 643 | 599 | 591 | 3,105 |
| | Actual | 659 | 653 | 687 | 683 | 757 | 3,439 |
| ODI (50% of LTVP) | Threshold | (1.7) | (2.8) | (3.1) | (3.4) | (1.2) | (12.2) |
| | Target | (1.3) | (1.5) | (1.8) | (2.0) | 0.3 | (6.3) |
| | Stretch | - | 0.5 | 1.4 | 2.6 | 2.6 | (7.1) |
| | Actual | (4.9) | (4.9) | (8.1) | (6.0) | (30.4) | (54.3) |
| | Total Payout per year (% of maximum) | 4.6% | 6.0% | 0% | 0% | 0% | 10.6% |

As at the end of AMP7, a total award of 53.1% of salary had been paid to the CEO and 31.8% to the CFO as interim payments (i.e. 10.6% of the maximum award). The Committee considered this to be a fair reflection of the challenges faced over the AMP, while also noting that in the earlier years of the AMP the inflationary environment and operational challenges were less pertinent allowing the Totex targets for those years to be partially met. Accordingly, no final adjustment to the payments under the LTVPS for AMP7 was considered necessary.

Fees for Chair and Non-Executive Directors (Audited)

| Non-Executive Directors | Total Fees £'000s | |
|--------------------------------|-------------------|-----------------|
| | FY 25 | FY 24 |
| Alastair Lyons ¹ | 185 | 237 |
| Jane Hanson ¹ | 119 | 73 |
| Graham Edwards ² | - | 23 |
| Joanne Kenrick ² | 83 | 78 |
| Debra Bowen Rees | 68 | 66 |
| Tom Crick | 68 | 66 |
| Lila Thompson | 63 | 63 ⁷ |
| Barbara Moorhouse ³ | 57 | 71 |
| Darren James ⁴ | 19 | - |
| Darren Pope ⁴ | 19 | - |
| Alison Wilcox ⁴ | 16 | - |
| James Bevan ⁵ | 9 | - |

- Alastair Lyons was Chair of the Board until he left the Board on 31 December 2024, when Jane Hanson became Chair. The fees shown reflect this.
- Graham Edwards was Senior Independent Director until he left the board on 7 July 2023, when Joanne Kenrick became Senior Independent Director. The fees shown reflect this.
- Barbara Moorhouse joined the Board on 16 January 2023 and left the Board on 31 December 2024
- Darren James, Darren Pope and Alison Wilcox all joined the Board on 1 January 2025.
- Sir James Bevan joined the Board on 11 February 2025.
- Lila Thompson was actually paid £64,000 in FY 24 which included a £1,000 underpayment in respect of FY 23.

No Non-Executive Director received any benefits or additional remuneration above their base fees. They are entitled to reimbursement of travel and accommodation expenses incurred in performance of their duties, in line with the Group's normal policies.

No payments were made in FY 25 to past directors including any payments for loss of office.

Section 5: Pay decisions for FY 26

Executive Directors

Base salary

As explained, the Committee reviewed salary levels for the Executive Directors as part of the Remuneration Policy review and decided to rebase the packages in order to adjust for a significant market imbalance to base salaries, while preserving total target remuneration (other than to take account of a 3.5% inflation adjustment which was in line with the workforce).

The new salaries of the CEO and the CFO are set out below:

| £ | Base salary FY 26 | Base salary FY 25 | % increase |
|-------------|----------------------|----------------------|------------|
| Peter Perry | 460,000 | 369,430 | 24.5% |
| Mike Davis | 327,000 | 292,798 | 11.7% |

As announced, during FY 26 we will be recruiting a new CEO and a new CFO. This will require us to consider a range of skills and experience across different candidates. The Remuneration Committee will give extremely careful consideration to many factors including:

- candidate specific factors such as their skills, experience and any existing remuneration commitments;
- company needs and the importance of attracting and retaining excellent leaders for the long-term; and
- external factors, such as market benchmark data for the sector and other comparable organisations.

when determining their packages.

Benefits and pension

Benefits and pension arrangements will not change for FY 26.

All employees, including Executive Directors, are entitled to a maximum pension contribution of 11% of salary. Eligible employees have the opportunity to opt out and receive a cash allowance equivalent to 9.6%. Benefits in the year will also include private medical insurance, life assurance, group income protection, health screening and a car allowance.

CORPORATE GOVERNANCE REPORT

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Annual variable pay

For FY 26 annual variable pay of up to 75% of salary may be earned, based on performance achieved. The performance measures used are set out below and have been set with reference to the aims under the 2025 to 2030 (AMP8) business plan.

The Committee has determined the weightings for the scorecard of measures for the AVP in FY 26 will be based 20% Stakeholder and 80% Operational. 50% of the overall scorecard measures will relate to environmental performance.

A more detailed breakdown of the measures and their weightings for FY 26 is set out below.

| | Stakeholder Performance | Operational Performance |
|--|--|-----------------------------------|
| Measures (percentages are as a proportion of the AVP available) | C-MeX (10%)* *Ofwat's measure of customer service for households | Discharge permit compliance (10%) |
| | Employee (5%) | Acceptability of water (10%) |
| | Other external stakeholder relationships (e.g. Ofwat, government) (5%) | Storm overflows (10%) |
| | | Compliance Risk Index (10%) |
| | | Leakage (10%) |
| | | Bathing water compliance (10%) |
| | | Cat 1 – 3 pollutions (10%) |
| | | Cat 1 – 2 pollutions (10%) |
| How much of the scheme? | 20% | 80% |

Long-term variable pay scheme

The Long-Term Variable Pay Scheme (LTVPS) will have a potential maximum award for the executive directors is 300% of salary over the 5-year regulatory period of the AMP (equivalent to 60% of salary per annum).

As we continue to consider the implications of the Water (Special Measures) Act 2025 on the operation of the LTVPS, we are currently finalising the detail of how to assess each measure and there will be full disclosure in next year's Directors' Remuneration Report.

| Measure | Water Company Performance Report | Environment Performance Assessment | DWI transformation status | Long-term financial resilience | Totex |
|--------------------------------|--|---|---|--|--|
| Target | <ul style="list-style-type: none"> Out of the lagging status in the Ofwat assessment. The assessment from Ofwat will depend on the number of targets met / failed with an expectation that a company can expect to be lagging if it fails at least half the measures included in the assessment. | <ul style="list-style-type: none"> Improving our EPA rating from 2 stars NRW and EA publish an annual Environment Performance Assessment (EPA) Report, assessing environmental performance across all companies. Companies are classified either 4-star (industry leading), 3-star (good performer), 2-star (requires improvement) or 1-star (poor performer). | <ul style="list-style-type: none"> Exiting the DWI transformation programme is dependent on the delivery of all related DWI Notices. Achievement of this measure will be evidenced by DWI confirming delivery of the Notices and the exit of their 'transformation' programme. | <ul style="list-style-type: none"> This will be measured by our credit rating. It will require us to maintain an investment grade credit rating or above | <ul style="list-style-type: none"> Internal business plan total expenditure (totex) targets for the AMP and individual years are approved by the Board. The achievement of this award is dependent on the outturn of the totex position at the end of each year. |
| How much of the scheme? | 20% | 20% | 20% | 20% | 20% |

Fees for Chair of the Board and Non-Executive Directors

The fees payable to the Chair of the Board were reviewed in March 2025 and the Committee (in the absence of the Chair of the Board) resolved that the Chair of the Board's fee should be increased by 3.5% in line with the increase applied to the wider workforce.

In March 2025, the Chair of the Board and the Executive Directors reviewed the fees for the Non-Executive Directors and resolved that the base fees should be increased by 3.5% in line with the increase applied to the wider workforce.

There is no increase to the fees for additional Board responsibilities.

Fees for FY 26 will be as follows (all figures are £):

| Role | FY 26 | FY 25 |
|---|---------|---------|
| Chair of the Board | 255,855 | 247,202 |
| Non-Executive Directors' base fee | 65,585 | 63,376 |
| Fees for additional Board responsibilities (added to the NED base fee) | | |
| Senior Independent Director | 10,000 | 10,000 |
| Audit and Risk Committee Chair | 12,500 | 12,500 |
| Performance and Safety Committee Chair | 12,500 | 12,500 |
| Remuneration Committee Chair | 10,000 | 10,000 |
| Environment, Social and Governance (ESG) Committee Chair | 5,000 | 5,000 |

Section 6: Additional information

CEO pay ratio

This is the sixth year that we have applied the CEO Pay Ratio Reporting requirements for UK listed companies which compares the CEO's pay to the 25th percentile, median, and 75th percentile for employees. In order to calculate the ratio we have applied Methodology A from the UK Government guidance, which the Committee considers is the most accurate and robust method.

| Year | Methodology | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|--------------------|-------------|---------------------------|------------------|---------------------------|
| FY 25 ¹ | A | 14:1 | 11:1 | 8:1 |
| FY 24 | A | 14:1 | 11:1 | 8:1 |
| FY 23 | A | 11:1 | 8:1 | 7:1 |
| FY 22 | A | 19:1 | 15:1 | 12:1 |
| FY 21 | A | 28:1 | 23:1 | 18:1 |
| FY 20 | A | 22:1 | 18:1 | 14:1 |

¹ The calculation includes the withheld AVP entitlement. If this entitlement is not paid, the ratio will be re-stated in next year's annual report.

There has been no change to median due to the salary increase of the workforce increasing by the same percentage as the CEO and the CEO's AVP outturn being similar to the outturn last year.

| FY 25 £ | 25th percentile pay | Median pay | 75th percentile pay |
|-----------|---------------------|------------|---------------------|
| Total pay | 34,945 | 46,621 | 59,665 |
| Salary | 30,360 | 31,444 | 49,235 |

Methodology notes

- The pay ratios reflect our remuneration principles and our approved Remuneration Policy. Total remuneration is considered to be fair and competitive and to reflect wider economic conditions, enabling us to attract and retain the necessary skills and talent.
- The variable pay elements have been estimated for the wider workforce, as individual payments are not finalised until July 2025.

How does the Chief Executive's pay compare to previous years?

| | FY 16 | FY 17 | FY 18 | FY 19 | FY 20 | FY 21 | FY 22 | FY 23 | FY 24 | FY 25 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total remuneration for Chief Executive (£'000) | 746 | 629 | 679 | 607 | 685 | 892 | 675 | 792 | 489 | 501 |
| Total CEO remuneration net of pension accrual (£'000) | 604 | 629 | 601 | 624 | 678 | 555 | 602 | 380 | 489 | 501 |
| Annual variable pay outcome (%) | 70 | 75 | 65 | 67 | 60 | 50 | 40 | nil | 26 | 22.1 |
| Long-term plan outcome (%) | 65 | 65 | 27 | 25 | 19 | 23.1 | 30 | nil | nil | nil |

CORPORATE GOVERNANCE REPORT

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How does the total spend on executive pay and total staff pay compare to other expenditure?

| £m except percentages | | | Change | |
|---------------------------------------|-------|---------|--------|------|
| | FY 24 | FY 25 | £m | % |
| Total expenditure | 876.4 | 1,042.9 | 164.5 | 19 |
| Employee remuneration costs | 176.8 | 197.2 | 20.4 | 12 |
| Customer return of value | 14 | 14 | - | - |
| Executive Director remuneration costs | 0.9 | 0.8 | (0.1) | (11) |

Board Directors' service contracts and letters of appointment

The effective dates of the service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors in place at 31 March 2025 are as follows:

| | | | |
|--|--|---|---------------------------------------|
| Joanne Kenrick 1 November 2015 | Tom Crick 1 October 2017 | Debra Bowen Rees 1 January 2020 | Jane Hanson 1 January 2021 |
| Peter Perry 1 April 2020 | Lila Thompson 6 September 2022 | Mike Davis 1 January 2020 | Darren James 1 January 2025 |
| Darren Pope 1 January 2025 | Alison Wilcox 1 January 2025 | James Bevan 11 February 2025 | |

Enquiries for the inspection by Members of the above service contracts and letters of appointment should be made via email to the Company Secretary at company.secretary@dwrcymru.com

Summary of Member votes on the Remuneration Policy and Annual Report on Remuneration

Members approved the Remuneration Policy for AMP7 at the 2020 AGM, and last approved the Annual Report on Remuneration at the 2024 AGM with the votes as follows:

| | Vote for |
|--|----------|
| Members (present in person or by proxy) who voted in favour of the Annual Report on Remuneration at the 2024 AGM | 99% |
| Members (present in person or by proxy) who approved the Directors' Remuneration Policy for 2020 to 2025 at the 2023 AGM | 97% |

Responsibilities of the Committee

The Committee is responsible for recommending to the Board and Glas Members for approval: (i) the Executive Directors' Remuneration Policy via a binding vote at least every three years (or earlier, if coinciding with a new AMP cycle) and (ii) the Annual Report on Remuneration via an advisory vote every year.

The Committee determines the remuneration for the Chair of the Board, the Executive Directors and DCE members within the parameters of the approved Remuneration Policy. No colleagues are present or participate in any discussions in respect of their own remuneration. In exercising its responsibilities, the Remuneration Committee has oversight of workforce remuneration policy and other related policies, and of the alignment of incentives and rewards with the Company's culture and Purpose, taking these points into account when setting the Executive Remuneration Policy and annual remuneration decisions.

The Committee's remit is set out in detail in its terms of reference which is available at <https://dwrcymru.com/termsreference>.

Advisers to the Committee

During FY 25, the Committee received independent advice from Korn Ferry, who are signatories to the Remuneration Consultants Group Code of Conduct, and their advice is governed by the Code.

The Committee is satisfied that the advice received from Korn Ferry was independent and objective. The fees payable to Korn Ferry were £201,694 plus VAT (FY 24: £85,589 plus VAT). The higher fees in FY 25 reflected that significant additional work was required, specifically in respect of the Remuneration Policy review.

DIRECTORS' REPORT

The Directors present their report together with the Group's audited Financial Statements for the financial year ended 31 March 2025.

The performance review of the Company can be found within the Strategic Report on pages 01 to 14, particularly the Chair of the Board's statement, Our Year at a Glance (pages 4 to 5), Performance Outcomes (pages 18 to 19), CEO's Review (pages 20 to 23) and the Financial Review (pages 24 to 29). The Strategic report includes detailed information relating to the Group, its business model and longer-term strategy, sector context, the operation of its business, future developments and the results and financial position for FY 25. The Corporate Governance Report, set out on pages 80 to 143, is incorporated by reference to this report and, accordingly, should be read as part of this report.

Details of the Group's process for addressing the principal risks and uncertainties facing the Group are set out in the Risk Management section from pages 30 to 29.

Financial performance

The Group 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 Financial Review from page 24 to 29.

Dividend policy

Glas Cymru Holdings Cyfyngedig is a company limited by guarantee and does not have share capital. 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 within the Group, but outside the regulatory ringfence, 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 1, 15 and 16 to the financial statements found at page 158.

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 our Strategic Report.

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 pages 88 to 91.

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 pages 77 and 93.

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 on pages 76 to 79.

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 on pages 80 and 143.

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.

DIRECTORS' REPORT

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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). The Company has identified registrable relevant legal entities (RRLEs) within the Group structure.

Greenhouse gas emissions

In line with our commitment to transparent and best practice reporting, at page 55 of this report 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 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 Group'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.

Human rights

We are committed to respecting human rights in relation to colleagues and our supply chain (see page 74 for information on our Sustainable Procurement Policy, Supply Chain Compliance Standards, and Anti-Slavery Policy). Our internal Code of Conduct is supported by several Group 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>

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Financial Review on pages 24 to 29.

Annual general meeting (AGM)

The Glas Cymru AGM will be held on Friday 4 July 2025.

Going concern

The financial statements for FY 25 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 163.

By order of the Board



Nicola Foreman
Company Secretary

6 June 2025

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;

- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Corporate Governance Statement (within the Directors Report) as if the Company were required to

comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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.

We consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and to provide the information necessary for stakeholders to assess the Group's position and performance, business model and strategy.

By order of the Board



Nicola Foreman
Company Secretary

6 June 2025



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLAS CYMRU HOLDINGS CYFYNGEDIG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLAS CYMRU HOLDINGS CYFYNGEDIG

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Glas Cymru Holdings Cyfyngedig (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2025 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; 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 consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in reserves;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 28 of the financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

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

We are independent of the Group and the parent 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. The non-audit services provided to the Group and parent company for the year are disclosed in note 3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

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

3. Summary of our audit approach

| | |
|--|--|
| Key audit matters | <p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> Valuation of the provision against household and non-household trade receivables in Dŵr Cymru Cyfyngedig; Valuation of the measured income accrual in Dŵr Cymru Cyfyngedig; and Classification of capital programme expenditure in Dŵr Cymru Cyfyngedig. <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">  Newly identified  Increased level of risk  Similar level of risk  Decreased level of risk |
| Materiality | The materiality that we used for the Group financial statements was £14m (2024: £12m) which was determined on the basis of Total Assets, equating to 0.15% (2024: 0.15%) of Total Assets. |
| Scoping | Our scoping has resulted in over 99% (2024: over 99%) of Group's revenue, 99% (2024: 99%) of loss before tax and 99% (2024: 99%) of total assets, being subject to audit testing. |
| Significant changes in our approach | The valuation of the measured income accrual in Dŵr Cymru Cyfyngedig has been included as a key audit matter in the current year due to the presumed risk of fraud in revenue as required by the auditing standards. |

4. Conclusions relating to going concern

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

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

- reviewing the 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;

INDEPENDENT AUDITOR'S REPORT

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- 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 group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

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

5. Key audit matters

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

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

5.1 Valuation of the provision against household and non-household trade receivables in Dŵr Cymru Cyfyngedig

Key audit matter description

Dŵr Cymru Cyfyngedig supplies water to residential and business customers within Wales and parts of England and the provision for impairment of receivables represents the portion of customers who do not, or cannot, pay their bills. Management estimates the expected credit loss for their receivables when calculating the appropriate level of bad debt provision.

As at 31 March 2025, the provision recorded was £90.2 million (2024: £84.2 million) which incorporates management's estimate of the future impact of external economic factors on customers' ability to pay their outstanding bills to Dŵr Cymru Cyfyngedig.

The provision for trade receivables at Dŵr Cymru Cyfyngedig is based on the historical cash collection of debt invoiced to measured and unmeasured customers over the prior three years, which is considered by management to be representative of the collection risk on the receivables population. Management refined their methodology in year to further disaggregate the receivable population into risk categories. This disaggregation separates customers into household and non-household groups and further categorises them by the risk (high, medium and low) based on historic recoverability. An assessment is then made for the impact of

future economic conditions, for which management have considered factors including expected movements in household disposable income and unemployment rates.

The key audit matter was focussed on the appropriateness of the assumption that cash collection rates over the prior years is a reasonable expectation for the determination of lifetime expected credit losses under IFRS 9 Financial Instruments.

The bad debt provision is discussed in note 1 of the financial statements as an accounting judgement and an accounting estimate. The accounting judgement is in relation to the collective impairment losses on receivables with similar credit risk being calculated using cash collection rates on measured and unmeasured receivables disaggregated into three separate risk levels. The accounting estimate relates to the probability of failing to recover a debt and is based on expected credit loss, determined by past experience and expected future movements in cash collection rates.

The Audit and Risk Committee also considered this as a significant area of focus as discussed in the Audit and Risk Committee Report on page 110. The bad debt provision is discussed in note 11 to the financial statements. Management has included this as a source of estimation uncertainty in note 1 to the financial statements.

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

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

- obtaining an understanding of relevant controls over the determination of the bad debt provision, including controls over the supporting data and assumptions;
- testing the completeness and accuracy of the data included within the bad debt provision calculation;
- assessing the appropriateness of management's methodology against the requirements of IFRS 9;
- testing the accuracy of debtor ageing for each debt category;
- evaluating the reasonableness of economic data used within management's assessment;
- evaluating management's assumptions used in the calculation of the bad debt provision and challenge whether this represents lifetime expected credit loss, including the use of data analytics to calculate the cash collection rates in the last year using source data from the billing system; and
- assessing the appropriateness of the disclosures relating to the key assumptions, and the range of sensitivities disclosed.

Key observations

We are satisfied that the assumptions applied in assessing the expected credit losses, are reasonable and that Dŵr Cymru Cyfyngedig's bad debt provision has been appropriately calculated using relevant data, in accordance with IFRS 9 Financial Instruments.

INDEPENDENT AUDITOR'S REPORT

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5.2 Valuation of measured income accrual in Dŵr Cymru Cyfyngedig

Key audit matter description

Over half of the customers served by Dŵr Cymru Cyfyngedig have their usage measured by a meter. Meter readings are taken periodically by the business from which an invoice will be raised and revenue recorded. Management estimates the water and waste usage for all customers to cover the period from the last recorded meter reading and the year-end date. This estimated usage is utilised to record accrued income for measured revenue.

As at 31 March 2025 the measured income accrual was £92.9m (2024: £93.6m) which incorporates management's best estimate of the consumption of measured customers since the last meter read.

The measured income accrual at Dŵr Cymru Cyfyngedig is based on the two most recent historical meter readings for measured customers, which is considered by management to be representative of average consumption. This estimated consumption is combined with tariff and standing charge data to produce an estimated measured income accrual.

The key audit matter was focussed on the appropriateness of the assumption that historic consumption rates are accurately determined and provide a reasonable expectation for the customer level estimated consumption up to 31 March 2025.

The valuation of measured income accrual in Dŵr Cymru Cyfyngedig has been considered a key audit matter with a potential risk of fraud in the current year as prescribed by the auditing standards.

The measured income accrual is disclosed in note 11 to the financial statements.

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

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

- obtaining an understanding of relevant controls over the valuation of the measured income accrual;
- deploying bespoke analytics procedures to perform an independent calculation of the measured income accrual using the underlying consumption data;
- assessing and challenging the key assumptions in the methodology;
- testing the accuracy of the underlying consumption data which the model relies upon to mitigate the risks presented by IT control deficiencies; and
- testing a sample of measured customers to assess the appropriateness of manual adjustments made by management.

Key observations

We are satisfied that the valuation of the measured income accrual is appropriate as at 31 March 2025.

5.3 Classification of capital programme expenditure in Dŵr Cymru Cyfyngedig

Key audit matter description

Dŵr Cymru Cyfyngedig has a substantial capital programme which is agreed with the regulator ('Ofwat') at the beginning of each AMP, and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure assets and operational structures.

During the year, Dŵr Cymru Cyfyngedig has invested £645 million (2024: £520 million) of capital in water and wastewater assets as part of the AMP 7 planned investment programme. The investment is split between capital additions of £466 million (2024: £341 million) which are added to the balance sheet, and infrastructure renewals expenditure of £121 million (2024: £101 million) which are maintenance costs expensed to the income statement.

The residual balance of capital investment includes adopted assets of £162 million (2024: £162 million) and capitalised interest of £17 million (2024: £17 million). Included in capital additions of £341 million is £100 million (2024: £88 million) of people costs capitalised.

As the determination of whether expenditure is capitalised or expensed in the period directly affects the group's reported financial performance, including against financial covenants and key metrics assessed by external credit rating agencies, we identified a key audit matter relating to the overstatement of capital expenditure. There is a high degree of judgement involved in determining whether costs, including employee costs, meet the relevant criteria for capitalisation and therefore are included in the carrying value of Property, Plant and Equipment ('PPE'), or alternatively should be expensed immediately. A risk has also been identified in the judgement in determining whether costs, both initial and subsequent expenditure, meet the relevant criteria for capitalisation and therefore are included in the carrying value of PPE, or alternatively should be expensed immediately.

The Audit and Risk Committee also considered this as a key judgement as discussed in the Audit and Risk Committee report on page 121. Further details are included within the critical accounting judgements note in note 1 to the financial statements and within note 8 Property, plant and equipment.

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

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

- obtaining an understanding of relevant controls over the classification of capital programme expenditure;
- testing a sample of costs to evaluate whether the costs are in respect of enhancements to assets; and
- evaluating the appropriateness of the accounting treatment for capitalising people costs by reference to the requirements of IAS 16 'Property, Plant and Equipment' and assessing the policies, procedures and assumptions used in estimating the value of people related costs that are directly attributable to capital projects.

Key observations

We are satisfied that costs capitalised are in respect of enhancements to the assets and that the assumptions made in respect of capitalisation of people related costs

INDEPENDENT AUDITOR'S REPORT CONTINUED

that are considered directly attributable to the construction of the asset are reasonable.

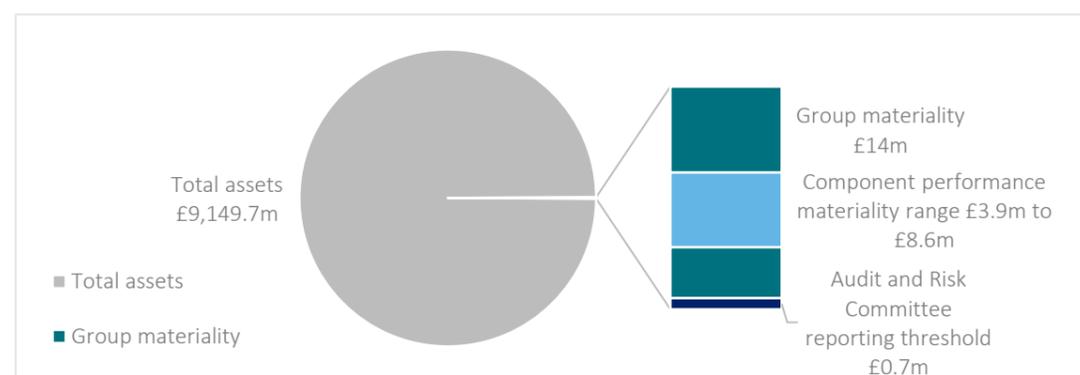
6. Our application of materiality

6.1. Materiality

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

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

| | Group financial statements | Parent company financial statements |
|--|---|---|
| Materiality | £14.0 million (2024: £12.0 million) | Materiality £6.0 million (2024: £5.3 million) |
| Basis for determining materiality | We determined the Group materiality with regards to a percentage of total assets (2025: 0.15%; 2024: 0.15%) | We determined the parent company materiality with regards to a percentage of net assets (2025: 0.17%; 2024: 0.15%). |
| Rationale for the benchmark applied | Given the group's key focus is on the maintenance and investment in the assets it owns and operates, we consider total assets to be the most relevant benchmark. We have also considered the appropriateness of our materiality in regards to other metrics, such as revenue and the Group's Regulatory Capital Value. | The parent company does not trade or exist for profit generating purposes, so materiality has been determined using net assets. |



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

| | Group financial statements | Parent company financial statements |
|--|---|--|
| Performance materiality | 65% (2024: 65%) of Group materiality which equates to £9.1 million (2024: £7.8 million) | 65% (2024: 55%) of parent company materiality which equates to £3.9 million (2024: £3.4 million) |
| Basis and rationale for determining performance materiality | The factors we considered in setting performance materiality included: <ul style="list-style-type: none"> the quality of the control environment and whether we are able to rely on internal controls in our substantive testing; and the number and value of uncorrected misstatements identified in our previous audit in the prior year. | |

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.7 million (2024: £0.6 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The Regulated Water and Wastewater business is primarily comprised of Dŵr Cymru Cyfyngedig and Dwr Cymru Financing (UK) plc and was subject to an audit of the entire financial information using performance materiality of £8.6 million (2024: £7.4 million). Of the Group's four (2024: four) reporting components, we subjected three (2024: three) to an audit of the entire financial information for Group purposes. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

This represented 99% (2024: 99%) of Group's revenue, 99% (2024: 99%) of loss before tax and 99% (2024: 99%) of total assets, being subject to audit testing.

At the group level we also tested the consolidation process and carried out analytical procedures at an aggregated Group level to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to an audit of the entire financial information.

7.2 Our consideration of the control environment

The group uses SAP as a financial accounting software platform. With the involvement of our information technology specialists, we obtained an understanding of relevant General Information Technology Controls within the group's financial accounting software platform and supporting applications, systems and tools,

INDEPENDENT AUDITOR'S REPORT CONTINUED

including access controls, change management controls and controls around segregation of duties. We were unable to place reliance on the relevant IT systems due to findings within the General Information Technology Controls. Accordingly, a fully substantive audit was performed.

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the group's business and its financial statements. We have evaluated management's documentation regarding the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Financial Statements. Whilst management has acknowledged the risks posed by climate change, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the Financial Statements for the year ended 31 March 2025 as disclosed in note 1 of the Financial Statements.

We performed our own qualitative risk assessment of the potential impact of climate change on the company's account balances and classes of transactions and did not identify any additional reasonably possible risks of material misstatement as a result of climate change. We also deemed that climate-related risks have no significant impact on our key audit matters. Our procedures were performed with the involvement of climate change and sustainability specialists and included reading disclosures included in the Strategic Report to consider whether they are materially consistent with the Financial Statements and our knowledge obtained in the audit and evaluating whether appropriate disclosures have been made in the Financial Statements.

With the involvement of our Environmental, Social and Governance ('ESG') specialists, we:

- evaluated the financial statement disclosures to assess whether climate risk assumptions underpinning specific account balances were appropriately disclosed; and
- read the climate change-related statements (as disclosed in the Strategic Report) and considered whether the information included in the narrative reporting is materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- management's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries 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 group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and

INDEPENDENT AUDITOR'S REPORT CONTINUED

- the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations
- the matters discussed among the audit engagement team and shared with relevant internal specialists, including tax, valuations, pensions, treasury & pricing, IT, and ESG regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: Valuation of the measured income accrual in Dŵr Cymru Cyfyngedig.

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

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group'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 and safety.

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of the measured income accrual in Dŵr Cymru Cyfyngedig as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

13. Opinions on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the requirements of the Companies Act 2006 that would have applied were the company a quoted company.

14. Corporate Governance Statement

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

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 163;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 56 to 59;
- the directors' statement on fair, balanced and understandable set out on page 142;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 56;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 110; and
- the section describing the work of the Audit and Risk Committee set out on pages 109 to 112.

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

15.1. Adequacy of explanations received and accounting records

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

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

We have nothing to report in respect of these matters.

15.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

16. 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Delyth Jones

Delyth Jones FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Cardiff, United Kingdom

6 June 2025



CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH

| | Note | 2025 £m | 2024 £m |
|---|------|------------|------------|
| Continuing activities | | | |
| Revenue | 2 | 919.5 | 927.9 |
| Operating costs: | | | |
| Operational expenditure | 3 | (400.3) | (370.3) |
| 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 | (391.2) | (386.7) |
| | 3 | (928.0) | (881.4) |
| Operating (loss)/profit | | (8.5) | 46.5 |
| (Loss) on disposal of fixed assets | | - | (0.1) |
| (Loss)/profit before interest | | (8.5) | 46.4 |
| Financial expenses: | | | |
| Financial income | 4 | 29.1 | 21.2 |
| Financial expenses | 4 | (231.1) | (270.0) |
| Fair value gains on derivative financial instruments | 4 | 64.5 | 30.1 |
| Settlements accruing in the year | 4 | 39.7 | 37.4 |
| Profit on termination of derivative financial instruments | 4 | 16.5 | - |
| Other movements on derivative financial instruments | 4 | 8.3 | (7.3) |
| | | (137.5) | (218.7) |
| Loss before taxation | | (146.0) | (172.3) |
| Taxation | 5 | 34.9 | 41.4 |
| Loss for the year | | (111.1) | (130.9) |

The Company has taken the exemption under section 408 of the Companies Act 2006 not to present a parent Company income statement. The profit of the parent Company for the year to 31 March 2025 was £1.6 million (2024: £1.2 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH

| | Note | 2025 £m | 2024 £m |
|--|------|------------|------------|
| Loss for the year | | (111.1) | (130.9) |
| 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) |
| Total items that will not be reclassified to profit or loss | | (24.4) | 126.2 |
| Total comprehensive loss for the year | | (135.5) | (4.7) |

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH

| | Note | 2025 £m | 2024 £m |
|--|------|------------|------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 7,539.3 | 7,303.3 |
| Intangible assets | 9 | 196.0 | 201.4 |
| Trade and other receivables | 11 | 0.6 | 2.2 |
| Other financial assets: | | | |
| - derivative financial instruments | 15 | 0.7 | - |
| - employee benefits | 21 | 52.5 | 31.6 |
| | | 7,789.1 | 7,538.5 |
| Current assets | | | |
| Inventories | | 8.5 | 7.9 |
| Trade and other receivables | 11 | 711.1 | 645.7 |
| Cash and cash equivalents | 12 | 638.4 | 167.1 |
| Other financial assets: derivative financial instruments | 15 | 2.6 | 1.2 |
| | | 1,360.6 | 821.9 |
| Total assets | | 9,149.7 | 8,360.4 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 13 | (732.4) | (627.9) |
| Provisions | 17 | (1.4) | (5.4) |
| Other financial liabilities: | | | |
| - borrowings | 14 | (624.3) | (237.7) |
| - derivative financial instruments | 15 | (68.6) | - |
| | | (1,426.7) | (871.0) |
| Net current (liabilities) | | (66.1) | (49.1) |
| Non-current liabilities | | | |
| Trade and other payables | 13 | (886.1) | (740.4) |
| Employee benefits | 21 | (3.2) | (2.6) |
| Provisions | 17 | (4.6) | (4.8) |
| Other financial liabilities: | | | |
| - borrowings | 14 | (4,398.9) | (4,008.7) |
| - derivative financial instruments | 15 | (280.9) | (398.6) |
| Deferred tax - net | 6 | (762.8) | (812.3) |
| | | (6,336.5) | (5,967.4) |
| Total liabilities | | (7,763.2) | (6,838.4) |
| Net assets | | 1,386.5 | 1,522.0 |
| Reserves | | | |
| Revaluation reserve | 7 | 1,546.9 | 1,696.2 |
| Retained earnings | | (160.4) | (174.2) |
| Total reserves | | 1,386.5 | 1,522.0 |

The financial statements on pages 158 to 200 were approved by the Board of Directors on 6 June 2025 and were signed on its behalf by:


P Perry
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

| | Revaluation reserve £m | Retained earnings £m | Total reserves £m |
|-------------------------------|---------------------------|-------------------------|----------------------|
| At 1 April 2023 | 1,692.0 | (165.3) | 1,526.7 |
| Loss for the year | - | (130.9) | (130.9) |
| Actuarial gain net of tax | - | 19.8 | 19.8 |
| Revaluation net of tax | 106.4 | - | 106.4 |
| Transfer to retained earnings | (102.2) | 102.2 | - |
| At 31 March 2024 | 1,696.2 | (174.2) | 1,522.0 |
| Loss for the year | - | (111.1) | (111.1) |
| 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 | 1,546.9 | (160.4) | 1,386.5 |

PARENT COMPANY BALANCE SHEET

| | Note | 2025 £m | 2024 £m |
|-------------------------------|------|----------------|------------|
| Assets | | | |
| Non-current assets | | | |
| Investment in subsidiaries | 10 | 3,517.9 | 3,502.0 |
| Other financial assets: | | | |
| - loans to Group undertakings | 11 | 21.6 | 21.6 |
| | | 3,539.5 | 3,523.6 |
| Current assets | | | |
| Trade and other receivables | | 3.7 | 3.5 |
| Cash and cash equivalents | 12 | 13.7 | 12.3 |
| | | 17.4 | 15.8 |
| Net assets | | 3,556.9 | 3,539.4 |
| Reserves | | | |
| Retained earnings | | 39.0 | 37.4 |
| Revaluation reserve | 7 | 3,517.9 | 3,502.0 |
| Total reserves | | 3,556.9 | 3,539.4 |

The financial statements on pages 158 to 200 were approved by the Board of Directors on 6 June 2025 and were signed on its behalf by:


P Perry
 Chief Executive Officer

PARENT COMPANY STATEMENT OF CHANGES IN RESERVES

| | Revaluation reserve £m | Retained earnings £m | Total reserves £m |
|-------------------------|---------------------------|-------------------------|----------------------|
| At 1 April 2023 | 4,095.7 | 36.2 | 4,131.9 |
| Profit for the year | - | 1.2 | 1.2 |
| Revaluation | (593.7) | - | (593.7) |
| At 31 March 2024 | 3,502.0 | 37.4 | 3,539.4 |
| Profit for the year | - | 1.6 | 1.6 |
| Revaluation | 15.9 | - | 15.9 |
| At 31 March 2025 | 3,517.9 | 39.0 | 3,556.9 |

CONSOLIDATED CASH FLOW STATEMENT

| | Note | 2025 £m | 2024 £m |
|--|------|----------------|------------|
| Cash flow from operating activities | | | |
| Cash generated from operations | 18a | 409.4 | 380.9 |
| Income tax received | | 0.2 | 0.5 |
| Net cash flow from operating activities | | 409.6 | 381.4 |
| Cash flow from investing activities | | | |
| Interest received | | 23.2 | 21.2 |
| 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 |
| Net cash outflow from investing activities | | (485.0) | (358.3) |
| Net cash flow before financing activities | | (75.4) | 23.1 |
| Cash flows from financing activities | | | |
| Loan issue costs | | (1.2) | (1.9) |
| Long-term loans received | | 200.0 | 230.0 |
| Term loan repayments | | (171.0) | (65.4) |
| Bond issue proceeds | | 743.3 | - |
| Bond issue costs | | (2.2) | - |
| Interest paid | 18b | (185.6) | (193.2) |
| Receipts on derivative financial instruments | 18c | 87.8 | 8.7 |
| Payments on derivative financial instruments | 18c | (7.6) | (11.8) |
| Payments for termination of derivative financial instruments | 18d | (66.9) | - |
| Payment of lease liabilities | | (49.9) | (201.8) |
| Net cash flow from financing activities | | 546.7 | (235.4) |
| Increase/(decrease) in cash and cash equivalents | 19b | 471.3 | (212.3) |
| Cash and cash equivalents at 1 April | | 167.1 | 379.4 |
| Cash and cash equivalents at 31 March | 12 | 638.4 | 167.1 |

PARENT COMPANY CASH FLOW STATEMENT

| | Note | 2025 £m | 2024 £m |
|--|------|-------------|-------------|
| Cash flow from investing activities | | | |
| Interest received | | 1.7 | 1.9 |
| Long-term loan to subsidiary | | (0.3) | (0.2) |
| Net cash flow from investing activities | | 1.4 | 1.7 |
| Increase in cash and cash equivalents | | | |
| Cash and cash equivalents at 1 April | | 12.3 | 10.6 |
| Cash and cash equivalents at 31 March | 12 | 13.7 | 12.3 |

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies, financial risk management and accounting estimates

Accounting policies for the year ended 31 March 2025

Glas Cymru Holdings Cyfyngedig (the Company) is a private company incorporated, domiciled and registered in Wales in the UK. The registered number is 09917809 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. They have been applied consistently to both years presented.

BASIS OF PREPARATION

Glas Cymru Holdings Cyfyngedig is limited by guarantee and is the ultimate parent Company of the Glas Group.

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

The preparation of financial statements under IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on page 170.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Intra-Group transactions and profits are eliminated on consolidation.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

The Company financial statements present information about the Company as a separate entity and not about its Group.

GOING CONCERN

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group and parent Company have adequate resources for a period of at least 12 months from the date of their approval to September 2026 and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting, the Directors have reviewed the resources available to the Group in the form of cash and committed bank facilities headroom, which stands at £485 million at 31 March 2025. The Group presently has £650 million committed borrowing facilities available to use at its discretion and should the Group 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 Group's financing needs for the next 6 years. The Group has evaluated the present market environment and considered the AMP8 refinancing requirement, where the Group will need to refinance over £3 billion. This level of liquidity is considered adequate to meet operational needs in the short-term and means the Group would not require further funding beyond its existing committed borrowing facilities until September 2026.

The Group has maintained active relationships with a number of lenders and monitors market trends, being aware of the regular well-subscribed debt issuances in the sector. Considering the Group's credit ratings being among the highest in the industry, the Directors are confident in the Group's ability to raise the required funds, in a timely manner and at a competitive rate, with alternative options available such as early issuance of AMP8 refinancing, private placement bonds and term loans.

The Directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the Directors would consider undertaking. The financial plan has been subjected to a number of severe but plausible downside scenarios in order to assess the Group's ability to operate within existing covenants and facilities. These scenarios consider: the potential impacts of increased totex costs; 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 Group's ability to continue as a going concern, with gearing and interest covers retaining headroom against the trigger levels specified in borrowing covenants; and while the reduced cash flows weaken the Group'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 Group's ability to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 April 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 financial statements of the Group or parent Company.

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 Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

The Group is also aware of new standards and amendments under development including IFRS 18 and rate regulated activities, 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 Water Services Regulation Authority (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 Group recognises as income on delivery of that performance obligation.
- Infrastructure income and requisitions: third-party contributions towards the Group's obligation to ensure future service provision to the connection or mains over its life; the Group estimates that an average connection lasts for 80 years and defers 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 Group 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, principally comprising organic energy generation and certain other activities which are peripheral and/or complementary to the Group's core water and sewerage business.

1. Accounting policies, financial risk management and accounting estimates continued

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 Group's energy strategy is to enter into contracts which fix the price of consumption less exports of future power purchases in order to reduce the impact of power price variances. 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 and fair understanding of the Group's performance.

INVESTMENTS

The Company's investments comprise equity holdings in wholly owned subsidiaries, as set out in Note 10. These are stated at fair value with any resultant gain or loss being recognised directly in equity, in the revaluation reserve (Note 7).

The fair value has been calculated using an enterprise value referencing a premium adjusted shadow Regulatory Capital Value (RCV) (as defined under the accounting policy for Property, Plant and Equipment below), and deducting net debt, fair value of derivatives and other working capital items. This calculated fair value has first been triangulated against a value-in-use methodology using discounted cash flows from a medium-term forecast to 31 March 2030 reflecting the final determination, and secondly against peer company comparatives. More information is given under Critical Accounting Judgements and Estimates below.

PROPERTY, PLANT AND EQUIPMENT

The economic value of the Group's water and sewerage business is derived from the RCV set by Ofwat during its price reviews every 5 years and accordingly is deemed an appropriate measure of the fair value of its assets. The Group considers that a fair value approach to valuing its assets better reflects the underlying value of the assets than historical cost accounting which understates the assets' current value in use.

As at 31 March 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:

- Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls);
- Operational structure assets (being over-ground operational structures and equipment); and
- 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 Group operates its wastewater activities.

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

BORROWING COSTS

Borrowing costs are general and specific borrowing costs directly attributable to the acquisition, construction and production of qualifying assets which 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.

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; and
- 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 Group 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 Group controls. In limited circumstances, costs incurred in association with the implementation and customisation of a SaaS system may enhance the Group's existing digital infrastructure and would be expected to generate broader future economic benefit. Where this results in an identifiable intangible asset that the Group 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 Group assesses whether a contract is, or contains, a lease. Where a lease is present, a right-of-use asset and lease liability is recognised at the commencement date. The lease liability is measured at the present value of future lease payments due over the term of the lease, with the right-of use asset recognised as property, plant and equipment at cost. This is generally equivalent to the initial measurement of the lease liability.

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

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

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

1. Accounting policies, financial risk management and accounting estimates continued

GRANTS AND CUSTOMER CONTRIBUTIONS

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

CAPITAL EXPENDITURE PROGRAMME INCENTIVE PAYMENTS

The Group's agreements with its construction partners involved in delivering capital expenditure programmes incorporate incentive bonuses 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.

TRADE AND OTHER RECEIVABLES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of change in value. Such investments are normally those with less than 3 months' maturity from the date of acquisition and typically include cash in hand and deposits with banks or other financial institutions.

PENSION BENEFITS

1) DEFINED BENEFIT SCHEME

The asset recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less 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.

2) 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 Group 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 1 year, or in the normal operating cycle of the business.

Derivative instruments utilised by the Group 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 Group. Derivatives are recognised initially and subsequently remeasured at fair value. During the year to 31 March 2025, only 1 of the Group's derivatives qualified for hedge accounting, but the Company elected not to apply hedge accounting (2024: 1). All instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

LOANS RECEIVABLE

Loans receivable are measured at fair value on initial recognition. After initial recognition, loans receivable are subsequently measured at amortised cost using the effective interest rate method whereby interest is credited to the income statement and added to the carrying value of loans receivable at a constant rate in proportion to the loan amount outstanding. The Group and Company recognise 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 settlements) that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested.

Interest income and interest payable are recognised in the income statement as they accrue, 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 Group plans to use until the end of their useful economic life. The Group anticipates that these assets will then be scrapped for negligible proceeds, or proceeds less than their tax base, and therefore no chargeable gain is expected to arise in the future.

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

PROVISIONS

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

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

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

1) CREDIT RISK

The Group's Board-approved treasury policy adopts a prudent approach to cash management and timed deposits are placed for a maximum of 3 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 1 year and commercial paper purchases of up to 1 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).

1. Accounting policies, financial risk management and accounting estimates continued

FINANCING RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

2) INTEREST RATE RISK

The Group is covenanted to hedge at least 85% of its total outstanding financial liabilities into either index-linked or fixed rate obligations. As at 31 March 2025, the 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 Group to inflation risk. Therefore, subject to market constraints and Board approval, the Group may seek to raise new debt through index-linked instruments or to enter into appropriate hedging transactions.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £5,011 million as at 31 March 2025 (2024: £4,224 million), £nil related to floating rate debt (2024: £85 million). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2025 95% (2024: 94%) of the Group's gross debt was at fixed or index-linked to RPI rates of interest after taking into account interest rate and RPI swaps. The hedges established to manage interest rate risks are generally economic in nature, but do not satisfy the requirements in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £346 million in the balance sheet at 31 March 2025 (2024: £397 million) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil as payments are made.

3) POWER PRICE HEDGES

The Group enters into contracts that 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 in the financial statements.

4) REFINANCING RISK

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The Group's policy is to ensure that the maturity profile does not impose an excessive strain on its ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £5,011 million (2024: £4,224 million) can fall due in any 24-month period.

5) LIQUIDITY RISK

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

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

As at 31 March 2025, the 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 £638 million (2024: £167 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), required in order to meet certain interest and other obligations that may not be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the Group's debt financing covenants. The facility has been provided by an insurance provider and is renewable on a rolling 5-year evergreen basis.

6) CAPITAL RISK

The Group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the Group operates, the Group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the Group's borrowing covenants) as a proportion of its Regulatory Capital Value as determined by Ofwat and linked to movements in the Consumer Prices Index (CPIH) and Retail Prices Index (RPI). As at 31 March 2025, the measure of regulatory gearing was 62% (2024: 60%).

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

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

PARENT COMPANY GUARANTEE

The Company has provided a guarantee for each of the following subsidiaries in order for them to take the exemption from the requirement of an audit, in line with the requirements of S479A of the Companies Act 2006:

- Cambrian Utilities Limited, company number 10082803
- Welsh Water Infrastructure Limited, company number 10082776
- Welsh Water Holdings Limited, company number 10079953
- Welsh Water Organic Waste Limited, company number 11468450

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 evaluates 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.

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 Group'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; and
- 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 Group 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 contributes 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.

1. Accounting policies, financial risk management and accounting estimates continued

Management considers 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 customers would increase the provision by £6.5 million.
- A 10% deterioration to the recoverability of the Group's long-term debt collection strategies, from a 90% historical trend, would increase the provision by £1.2 million.

2) PARENT COMPANY'S EXPECTED CREDIT LOSSES

The Company approached its impairment assessment of intercompany loans via historical and forward-looking analyses, using both qualitative and quantitative information.

ACCOUNTING JUDGEMENT

The above assessment led management to conclude that the Company's intercompany loan is of low credit risk. As such, the loan falls within 'stage 1' of IFRS 9's impairment model and 12-month expected credit losses can be calculated. These were determined to be immaterial and therefore no adjustment to carrying values nor additional disclosures were considered necessary.

3) PARENT COMPANY'S INVESTMENT IN SUBSIDIARIES

The Company's investment in its subsidiaries is reported at fair value, using a premium adjusted shadow RCV (as defined under the accounting policy for Property, Plant and Equipment above), and deducting net debt, fair value of derivatives and other working capital items. The calculated fair value has first been triangulated against a value-in-use methodology using discounted cash flows of the Board-approved 5-year financial plan to 31 March 2030, and secondly against peer company comparatives.

ACCOUNTING ESTIMATE

There is an inherent uncertainty involved in valuing the investment using a premium adjusted shadow RCV, with each 1% premium increasing the valuation by £77 million.

4) PENSION BENEFITS

ACCOUNTING ESTIMATE

The results of the latest triennial funding valuation at 31 March 2022 have been used to inform the Group'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. The present value of the pension obligations, which impacts the Group'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).

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

ACCOUNTING JUDGEMENT

The deferred tax liability associated with the pension surplus has been treated 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.

5) FAIR VALUE ESTIMATION

ACCOUNTING JUDGEMENT

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

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

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

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

ACCOUNTING ESTIMATE

All of the Group's treasury derivatives are categorised as Level 2. In accordance with IFRS 13, an adjustment factor has been applied to the swaps based on industry standard practice to take into account credit risk by estimating future cash flows based on applicable interest rate curves. Projected cash flows are then discounted back using discount factors which are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, and market 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 £nil (2024: trading derivatives £1.2 million, treasury derivatives £nil).

Liabilities: trading derivatives £0.7 million, treasury derivatives £348.8 million (2024: trading derivatives £nil, treasury derivatives £398.6 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.

6) 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.

ACCOUNTING JUDGEMENT

The Group capitalises expenditure relating to employee costs on both a direct and an indirect basis, through the use of timesheets and estimation of overhead costs that is attributable to a capital project. Management reviews 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.

1. Accounting policies, financial risk management and accounting estimates continued

7) USEFUL ECONOMIC LIFE IMPACT ON DEPRECIATION

ACCOUNTING ESTIMATE

The estimated useful economic lives of Property, Plant and Equipment (PPE) and intangible assets have been estimated based on management's experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE and intangibles investment to the Group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively. As such, this is a key source of estimation uncertainty. The depreciation and amortisation expense for the year was £391.2 million. A 10% increase in average asset lives would have resulted in a £35.6 million reduction in this figure and a 10% decrease in average asset lives would have resulted in a £43.5 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, Plant 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.

8) CLIMATE CHANGE

The Group is continually reviewing the impact climate change has on its financial statements.

The Group 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 Group 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 Group 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 Group 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 Group'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 Group'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 our TCFD Report on pages 40 to 55, the Group 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 Group 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 Group has and will continue to invest in flood defences 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 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 pages 40 to 55.

9) INCOME FROM CONNECTIONS TO THE WATER AND SEWERAGE NETWORK

ACCOUNTING JUDGEMENT

The Group receives income from developers for new connections to the water and sewerage networks in the form of adopted infrastructure assets. In assessing this income, we have judged the contract to be outside the scope of IFRS 15 and therefore recognised a deferred income balance at the fair value of the assets adopted, which is released to the income statement as an equivalent to 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 Group received infrastructure assets with a fair value of £ 161.7 million (2024: £162.1 million).

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

10) UNBILLED REVENUE RECOGNITION ACCOUNTING ESTIMATE

The Group 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 Group 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 Group has only domestic activities, there is also only one geographical segment; therefore, the disclosures for this segment have also already been given in these financial statements. The Dŵr Cymru Executive is the Group's chief operating decision maker with reports provided to it on this basis.

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

| Group | 2025 £m | 2024 £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) | 12.7 | 11.3 |
| Total revenue | 919.5 | 927.9 |

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 in England and Wales, regulated by the Water Services Regulation Authority (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 Group's core water and sewerage business.

3. Operating (loss)/profit

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

| Group | 2025 £m | 2024 £m |
|--|--------------|--------------|
| Operating expenditure and other operating income | | |
| Power | 72.0 | 76.1 |
| Chemicals | 22.2 | 22.7 |
| Materials and equipment | 11.8 | 9.7 |
| 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 | 58.2 | 55.5 |
| Employee costs (Note 20) | 216.1 | 193.7 |
| Staff costs capitalised or classified to infrastructure renewals expenditure | (98.4) | (88.0) |
| Research and development credit | (0.2) | (0.5) |
| Rates | 18.9 | 26.3 |
| Natural Resource Wales/Environment Agency charges | 18.9 | 17.3 |
| Fees payable to Auditors | 1.1 | 0.8 |
| Atypical weather costs | 15.2 | - |
| Total operational expenditure | 400.3 | 370.3 |
| 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 | 356.7 | 329.6 |
| Movement in deferred income | (11.8) | 14.7 |
| Amortisation of intangible assets | 46.3 | 42.4 |
| Total depreciation and amortisation | 391.2 | 386.7 |
| Total operating costs | 928.0 | 881.4 |

The Group 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 million) 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 Group at nil cost where the assets are initially recognised at fair value within fixed assets and depreciated over their useful economic life with a corresponding movement in deferred income.

Exports of renewable electricity is included within power costs as it is treated as a natural hedge to our consumption. Our energy strategy is to enter into contracts that 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).

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 (loss)/profit continued

SERVICES PROVIDED BY THE GROUP'S AUDITOR

During the year, the Group obtained the following services from its statutory Auditor:

| 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 | 166 | 141 |
| Total audit, audit-related and other assurance services | 1,080 | 824 |
| Total cost of services provided by the Group's Auditors | 1,080 | 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.

4. Financing costs

| Group | 2025 £m | 2024 £m |
|--|----------------|----------------|
| Interest on investments | 27.1 | 20.5 |
| Net interest income on pension scheme liabilities | 2.0 | 0.7 |
| Finance income | 29.1 | 21.2 |
| Financial expenses: | | |
| Interest payable on bonds | (123.5) | (102.0) |
| Indexation on index-linked bonds | (61.5) | (115.3) |
| Indexation on index-linked loan | (7.2) | (11.7) |
| Interest payable on leases | (12.0) | (28.9) |
| Other loan interest | (35.3) | (23.7) |
| Other interest payable and finance costs | (10.4) | (7.0) |
| 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 | (231.1) | (270.0) |
| Settlements accruing on derivative financial instruments | 39.7 | 37.4 |
| Profit on termination of derivative financial instruments | 16.5 | - |
| Fair value losses on interest rate swaps | (6.9) | (42.6) |
| Fair value gains on index-linked swaps | 13.7 | 44.1 |
| Fair value gains/(losses) on trading derivatives | 1.5 | (8.8) |
| Fair value gains on derivative financial instruments | 64.5 | 30.1 |
| Net finance cost | (137.5) | (218.7) |

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

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

4. Financing costs (continued)

When reporting for covenant purposes, fair value gains and losses are excluded from net finance costs:

| | | |
|---|----------------|----------------|
| Net finance cost | (137.5) | (218.7) |
| Fair value losses excluded for covenant reporting | (8.3) | 7.3 |
| Net finance costs for covenant reporting | (145.8) | (211.4) |

5. Taxation

ANALYSIS OF CREDIT IN THE YEAR

| Group | 2025 £m | 2024 £m |
|--|-------------|-------------|
| Current tax | | |
| Adjustment in respect of prior years | 0.5 | 0.1 |
| Total current tax | 0.5 | 0.1 |
| Deferred tax | | |
| Origination and reversal of timing differences | 34.4 | 39.8 |
| Adjustment in respect of prior years | - | 1.5 |
| Total deferred tax (Note 6) | 34.4 | 41.3 |
| Taxation | 34.9 | 41.4 |

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 Group has applied the mandatory temporary exception under IAS 12 in relation to the accounting for deferred taxes arising from the implementation of the Pillar Two rules. As the Group meets the requirements of the 'routine profits test' under the UK's transitional safe harbour, the new rules do impact the Group's tax charge for the current period.

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:

| Group | 2025 £m | 2024 £m |
|---|----------------|----------------|
| Loss before tax | (146.0) | (172.3) |
| Loss before tax multiplied by the corporation tax rate in the UK of 25% (2024: 25%) | 36.6 | 43.1 |
| Effect of: | | |
| Adjustments in respect of prior years | 0.5 | 1.6 |
| Depreciation charged on non-qualifying assets | (2.0) | (2.6) |
| Expenses not deductible for tax purposes | (0.2) | (0.7) |
| Taxation | 34.9 | 41.4 |

NOTES TO THE FINANCIAL STATEMENTS

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5. Taxation continued

CURRENT TAX RECONCILIATION

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

| Group | 2025 £m | 2024 £m |
|--|----------------|----------------|
| Loss before tax | (146.0) | (172.3) |
| Expected tax credit (25%, 2024: 25%) | 36.6 | 43.1 |
| Depreciation in excess of capital allowances | (61.6) | (70.4) |
| Pension costs in excess of payments | 0.5 | 0.2 |
| Expenses not deductible for tax purposes | (0.1) | (0.2) |
| Environmental non-compliance fine | - | (0.5) |
| Fair value movements in derivatives – non-taxable | 15.8 | 21.4 |
| IFRIC 18 – release of income not taxable | 2.9 | 4.1 |
| 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 | 0.1 |
| Tax losses carried forward | 0.3 | (2.9) |
| Current taxation | 0.5 | 0.1 |

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

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

Treasury derivative financial instruments are carried at their fair value. Fair value gains and losses (excluding 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 that have been deducted for tax purposes.

Tax relief is claimed for interest costs which include the effect of the current year cash flows relating to treasury derivative financial instruments. Tax relief is also claimed for interest that is capitalised as part of fixed assets (see Note 4). The Group is entirely UK resident for tax purposes and is funded wholly by external debt, which is fully deductible in accordance with UK tax legislation. The Group has elected to be treated as 'qualifying infrastructure companies' under the Public Benefit Infrastructure Exemption provided for within the corporate interest restriction legislation. As a result, there is no interest restriction for the current period (2024: £nil).

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

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:

| Group | 2025 £m | 2024 £m |
|---|------------|------------|
| At 1 April | 822.8 | 822.1 |
| (Credit) to income statement | (34.4) | (41.3) |
| Charge to the statement of comprehensive income in respect of actual gains on pension benefits | 6.5 | 6.6 |
| (Credit)/charge to the statement of comprehensive income in respect of revaluation of fixed asset | (14.6) | 35.4 |
| At 31 March | 780.3 | 822.8 |

Deferred tax liabilities at 31 March 2025 are disclosed on the balance sheet as £762.8 million deferred tax liabilities and £17.5 million set against the pension scheme surplus under non-current assets.

| Group | 2025 £m | 2024 £m |
|--|--------------|--------------|
| Effect of: | | |
| Tax allowances in excess of depreciation | 329.6 | 346.5 |
| Deferred tax on revaluation of fixed assets | 517.4 | 567.2 |
| Capital gains rolled over | 4.0 | 4.0 |
| Deferred tax on tax losses carried forward | (101.7) | (103.2) |
| Deferred tax on losses on derivative financial instruments | 14.2 | (1.0) |
| Pensions | 17.5 | 10.5 |
| Other tax differences | (0.7) | (1.2) |
| Deferred tax | 780.3 | 822.8 |

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

| | Accelerated tax depreciation £m | Pensions £m | Tax losses £m | Other £m | Total £m |
|---------------------------|--|----------------|------------------|--------------|--------------|
| At 1 April 2023 | 936.1 | 3.7 | (93.4) | (24.3) | 822.1 |
| Charge/(credit) to income | (53.8) | 0.2 | (9.8) | 22.1 | (41.3) |
| Charge/(credit) to equity | 35.4 | 6.6 | - | - | 42.0 |
| At 1 April 2024 | 917.7 | 10.5 | (103.2) | (2.2) | 822.8 |
| Charge/(credit) to income | (52.1) | 0.5 | 1.5 | 15.7 | (34.4) |
| Charge/(credit) to equity | (14.6) | 6.5 | - | - | (8.1) |
| At 31 March 2025 | 851.0 | 17.5 | (101.7) | 13.5 | 780.3 |

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

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 £329.7 million at the balance sheet date (2024: £346.5 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.

The Group has recognised a deferred tax liability of £14.2 million (2024: asset of £1.0 million) in respect of derivative financial instruments, which are carried at their fair value in the accounts. The fair value movements relating to derivatives are not subject to corporation tax in the period in which they arise but are taxable/deductible in later periods when the actual cash flows occur. The maturities of the derivatives are set out in Note 15.

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.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

6. Deferred tax continued

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

The Group has tax losses of £406.7 million carried forward at 31 March 2025 (2024: £412.7 million).

Deferred tax has not been provided on £133.0 million of chargeable gains, which have been rolled over where the new asset has been classified as operational structures, 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%).

The parent Company has no deferred tax balance (2024: nil).

7. Revaluation reserve

GROUP

The economic value of the Group's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during its 5-yearly price reviews. The Group considers that a fair value approach to valuing its assets better reflects the underlying value of the assets than historical cost accounting, which understates the assets' current value in use.

As at 31 March 2025, the total value of tangible and intangible fixed assets for Dŵr Cymru Cyfyngedig has been revalued to the Group '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.

| | 2025 £m | 2024 £m |
|--|------------|------------|
| Revaluation reserve movement | | |
| Revaluation reserve as at 1 April | 1,696.2 | 1,692.0 |
| Revaluation of assets to RCV | (58.5) | 141.8 |
| Depreciation charge on revalued assets | (140.6) | (136.3) |
| | (199.1) | 5.5 |
| Deferred tax on revaluation | 14.6 | (35.4) |
| Deferred tax on depreciation charge | 35.2 | 34.1 |
| | 49.8 | (1.3) |
| Revaluation reserve as at 31 March | 1,546.9 | 1,696.2 |

COMPANY

The movement in the parent Company's revaluation reserve relates solely to the increase in the value of the Company's investment in subsidiaries during the year, by £16 million, from £3,502 million to £3,518 million (2024: decrease of £593.7 million, from £4,095.7 million to £3,502.0 million). This is reflected in the Statement of Changes in Reserves.

8. Property, plant and equipment

| Group | 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 | 3,445.3 | 5,123.9 | 278.8 | 8,890.0 |
| Revaluation | - | 4.9 | - | - | 4.9 |
| Additions net of grants and contributions | - | 241.8 | 271.2 | 7.9 | 520.9 |
| Disposal | - | - | - | (2.5) | (2.5) |
| At 1 April 2024 | 42.0 | 3,692.0 | 5,395.1 | 284.2 | 9,413.3 |
| Reclassification | 36.0 | - | (41.2) | 5.2 | - |
| Additions net of grants and contributions | - | 311.5 | 335.3 | 4.4 | 651.2 |
| Disposal | - | - | - | (0.7) | (0.7) |
| At 31 March 2025 | 78.0 | 4,003.5 | 5,689.2 | 293.1 | 10,063.8 |
| Accumulated depreciation | | | | | |
| At 1 April 2023 | 25.2 | - | 1,621.4 | 273.2 | 1,919.8 |
| Revaluation | - | (51.7) | (85.2) | - | (136.9) |
| Charge for the year | 0.7 | 51.7 | 274.0 | 3.2 | 329.6 |
| Released on disposal | - | - | - | (2.5) | (2.5) |
| At 1 April 2024 | 25.9 | - | 1,810.2 | 273.9 | 2,110.0 |
| Reclassification | (3.0) | - | 8.7 | (5.7) | - |
| Revaluation | - | 29.1 | 29.4 | - | 58.5 |
| Charge for the year | 1.4 | 74.8 | 277.2 | 3.3 | 356.7 |
| Released on disposal | - | - | - | (0.7) | (0.7) |
| At 31 March 2025 | 24.3 | 103.9 | 2,125.5 | 270.8 | 2,524.5 |
| Net book value | | | | | |
| At 31 March 2025 | 53.7 | 3,899.6 | 3,563.7 | 22.3 | 7,539.3 |
| At 31 March 2024 | 16.1 | 3,692.0 | 3,584.9 | 10.3 | 7,303.3 |
| At 31 March 2025 (historic cost basis) | 53.7 | 2,755.3 | 2,637.7 | 22.3 | 5,469.0 |
| At 31 March 2024 (historic cost basis) | 16.1 | 2,465.1 | 2,518.4 | 10.3 | 5,009.9 |

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: £16.4 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 £33 million were reclassified from Operational Structures to Freehold Land and Buildings.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

8. Property, plant and equipment continued

RIGHT-OF-USE ASSETS

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

| Group | 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: £265.4 million) represented the termination of a lease arrangement with the Group retaining ownership of the underlying assets.

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

The parent Company owns no property, plant or equipment.

9. Intangible assets

| Group | Computer software £m | Development costs £m | Total £m |
|--|-------------------------|-------------------------|--------------|
| Cost | | | |
| At 1 April 2023 | 454.6 | 83.8 | 538.4 |
| Additions | 23.1 | 18.1 | 41.2 |
| At 31 March 2024 | 477.7 | 101.9 | 579.6 |
| Additions | 29.0 | 11.9 | 40.9 |
| At 31 March 2025 | 506.7 | 113.8 | 620.5 |
| Accumulated amortisation | | | |
| At 1 April 2023 | 294.8 | 41.0 | 335.8 |
| Charge for the year | 32.9 | 9.5 | 42.4 |
| At 31 March 2024 | 327.7 | 50.5 | 378.2 |
| Charge for the year | 33.7 | 12.6 | 46.3 |
| At 31 March 2025 | 361.4 | 63.1 | 424.5 |
| Net book value at 31 March 2025 | 145.3 | 50.7 | 196.0 |
| Net book value at 31 March 2024 | 150.0 | 51.4 | 201.4 |

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: £1.8 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).

The parent Company owns no intangible assets.

10. Investments Group

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

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

PARENT COMPANY

The parent Company has a £10 investment in Glas Cymru Anghyfyngedig (100% holding) and a £100,000 investment in Welsh Water Holdings Limited (100%). It also has indirect investments in the following subsidiary undertakings:

| | Principal activities | Tax residency | Country of incorporation | Class of capital | Holding |
|--|--|---------------|--------------------------|--|---------|
| Glas Cymru (Securities) Cyfyngedig | Holding company | UK resident | England and Wales | Ordinary shares of £1 | 100% |
| Dŵr Cymru (Holdings) Limited | Holding company | UK resident | England and Wales | Ordinary shares of £1 and redeemable preferred ordinary shares of £1 | 100% |
| Dŵr Cymru Cyfyngedig | Water and sewerage | UK resident | England and Wales | Ordinary shares of £1 | 100% |
| Dŵr Cymru (Financing) UK Plc | Raising finance | UK resident | England and Wales | Ordinary shares of £1 | 100% |
| Cambrian Utilities Limited | Retail services in the competitive market | UK resident | England and Wales | Ordinary shares of £1 | 100% |
| Welsh Water Infrastructure Limited | Competitive business activity in the water sector and other associated sectors | UK resident | England and Wales | Ordinary shares of £1 | 100% |
| Welsh Water Organic Energy Limited | Food waste processing, treatment and recycling | UK resident | England and Wales | Ordinary shares of £1 | 100% |
| Welsh Water Organic Energy (Cardiff) Limited | Operation and maintenance of an anaerobic digestion food waste facility | UK resident | England and Wales | Ordinary shares of £1 | 100% |
| Welsh Water Organic Waste Limited | Tankering of liquid waste for disposal | UK resident | England and Wales | Ordinary shares of £1 | 100% |

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

The parent Company has revalued its investments in subsidiary undertakings to fair value; the carrying value is revalued annually and subject to an impairment review.

| Investment in subsidiaries | 2025 £m | 2024 £m |
|----------------------------|----------------|------------|
| At 1 April | 3,502.0 | 4,095.7 |
| Revaluation | 15.9 | (593.7) |
| At 31 March | 3,517.9 | 3,502.0 |

The parent Company's investments in subsidiary companies are initially recognised at cost and subsequently revalued to fair value. The fair value of investments mainly comprises the fair value of the regulated water and sewerage company, Dŵr Cymru Cyfyngedig which has been valued at an enterprise value of shadow RCV triangulated against a discounted cash flow using the financial plan to 31 March 2025 and PR24 submitted financial model to 31 March 2030.

See also the critical accounting estimates in Note 1.

Revaluation amounts are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

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11. Trade and other receivables

| Group | 2025 £m | 2024 £m |
|--|--------------|--------------|
| Current | | |
| Trade receivables | 637.4 | 559.1 |
| Provision for impairment of receivables | (87.0) | (84.2) |
| Trade receivables – net | 550.4 | 474.9 |
| Prepayments | 12.4 | 15.4 |
| Accrued income | 122.4 | 98.7 |
| Other receivables | 25.9 | 56.7 |
| | 711.1 | 645.7 |
| Non-current | | |
| Other receivables | 0.6 | 2.2 |
| Total trade and other receivables | 711.7 | 647.9 |

The carrying amounts of trade and other receivables approximate to their fair value at 31 March 2025 and 31 March 2024.

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 1 month are past due; the net column shows amounts deemed not to be impaired.

| 2025 Trade receivables | Total £m | Provided for £m | Net £m |
|-----------------------------|-------------|--------------------|-----------|
| Billed in advance | 453.1 | – | 453.1 |
| Under 1 month | 20.1 | (5.8) | 14.3 |
| Between 1 and 6 months | 39.1 | (10.9) | 28.2 |
| Between 6 months and 1 year | 35.4 | (8.5) | 26.9 |
| Between 1 and 2 years | 35.3 | (20.8) | 14.5 |
| Between 2 and 3 years | 27.2 | (19.3) | 7.9 |
| Over 3 years | 27.2 | (21.7) | 5.5 |
| | 637.4 | (87.0) | 550.4 |

| 2024 Trade receivables | Total £m | Provided for £m | Net £m |
|-----------------------------|-------------|--------------------|-----------|
| Billed in advance | 362.6 | – | 362.6 |
| Under 1 month | 26.7 | (1.7) | 25.0 |
| Between 1 and 6 months | 47.2 | (3.0) | 44.2 |
| Between 6 months and 1 year | 31.5 | (2.0) | 29.5 |
| Between 1 and 2 years | 36.3 | (33.1) | 3.2 |
| Between 2 and 3 years | 24.5 | (23.3) | 1.2 |
| Over 3 years | 30.3 | (21.1) | 9.2 |
| | 559.1 | (84.2) | 474.9 |

11. Trade and other receivables continued

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 | 87.0 | 84.2 |

During the year, the Group 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: £39.4 million) and £18.6 million in accrued income (2024: £nil) from one quasi-governmental body.

Accrued income represents contract assets in respect of timing differences between customer bills and Group's year-end.

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

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

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.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

11. Trade and other receivables continued

The Group's trade receivables provisioning methodology applies the simplified approach allowed under IFRS 9 to measure expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables and accrued income. 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%).

Company

The parent Company's loan to Group undertakings of £21.6 million (2024: £21.6 million) represents a loan to a wholly-owned subsidiary, Welsh Water Holdings Limited. The loan attracts interest at a rate of 5% and is repayable on demand. Interest accruing on the loan is included in trade and other receivables.

12. Cash and cash equivalents

| | Group 2025 £m | Group 2024 £m | Company 2025 £m | Company 2024 £m |
|--------------------------|---------------------|---------------------|-----------------------|-----------------------|
| Cash at bank and in hand | 56.4 | 19.6 | - | - |
| Short-term deposits | 582.0 | 147.5 | 13.7 | 12.3 |
| | 638.4 | 167.1 | 13.7 | 12.3 |

The effective interest rate on short-term deposits as at 31 March 2025 was 4.5% (2024: 5.1%) and these investments had an average maturity of 46 days (2024: 1 day). All cash and cash equivalents were held in sterling.

13. Trade and other payables

| Group | 2025 £m | Restated 2024 £m |
|---------------------------------|------------|------------------------|
| Current | | |
| Trade payables | 64.7 | 61.3 |
| Capital payables | 26.9 | 58.0 |
| Social security and other taxes | 4.3 | 4.0 |
| Accruals | 150.9 | 127.3 |
| Deferred income | 485.6 | 377.3 |
| | 732.4 | 627.9 |
| Group | | |
| Non-current | | |
| Accruals | 14.9 | 26.0 |
| Deferred income | 871.2 | 714.4 |
| | 886.1 | 740.4 |

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.

14. Other financial liabilities – borrowings

| Group | 2025 £m | 2024 £m |
|-------------------|------------|------------|
| Current | | |
| Interest accruals | 11.8 | 18.2 |
| Bonds | 489.6 | (0.7) |
| Term loans | 92.5 | 170.3 |
| Lease liabilities | 30.4 | 49.9 |
| | 624.3 | 237.7 |

| Group | 2025 £m | 2024 £m |
|--------------------|------------|------------|
| Non-current | | |
| Interest accruals | - | 4.4 |
| Bonds | 3,573.8 | 3,262.7 |
| Term loans | 729.2 | 615.2 |
| Lease liabilities | 95.9 | 126.4 |
| | 4,398.9 | 4,008.7 |

The parent Company has no borrowings.

Bonds are stated net of £22.1 million (2024: £12.7 million) unamortised issue costs and £0.8 million (£1.6 million) of unamortised issue premium.

A security package was granted by Dŵr Cymru Cyfyngedig (DCC), as part of the Glas Cymru Anghyfyngedig Group's bond programme for the benefit of holders of senior bonds, finance lessors and other senior financial creditors.

The obligations of DCC are guaranteed by the Company, Glas Cymru (Securities) Cyfyngedig and Dŵr Cymru (Holdings) Limited. The main elements of the security package are:

- 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
- a fixed and floating security given by the guarantors referred to above, which are accrued on each of these companies' assets including, in the case of Dŵr Cymru (Holdings) Limited, a first fixed charge over its shares in DCC.

The Group's Class A Bonds of £1,223 million (2024: £1,197 million) benefit from a guarantee from Assured Guaranty UK Limited. 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 guarantors' 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 by Baa3/BBB-/BBB by Moody's, Standard & Poor and Fitch, respectively.

| Term loans | Type | Rate | Maturity | Outstanding balance 31 March 2025 £m |
|------------------------------|--------------|-----------------------------------|-------------------|---|
| Amortising Bank Loans | | | | |
| 24642 tranche 2 | Floating | O/N SONIA paid 6 monthly + 45 bps | 15 April 2025 | 7.5 |
| 26030 tranche 1 | Floating | O/N SONIA paid 3 monthly + 82 bps | 15 September 2026 | 3.8 |
| 26030 tranche 2 | Floating | O/N SONIA paid 6 monthly + 76 bps | 15 December 2028 | 30.0 |
| 88379 tranches 1&2 | Index-Linked | 0.01 bp + RPI | 15 January 2030 | 121.9 |
| 88379 tranche 3 | index-Linked | 0.01 bp + RPI | 15 May 2031 | 68.4 |
| 85397 | Floating | O/N SONIA paid monthly + 80 bps | 15 December 2033 | 225.0 |
| | | | | 456.6 |
| 2017 loan facility | Floating | O/N SONIA paid monthly + 0.03% | 15 November 2025 | 15.1 |
| 2024 loan facility | Floating | O/N SONIA paid monthly + 1.15% | 31 March 2029 | 125.0 |
| 2023 loan facility | Floating | O/N SONIA paid monthly + 120 bps | 19 December 2030 | 150.0 |
| 2024 loan facility | Floating | O/N SONIA paid monthly + 120 bps | 19 December 2031 | 75.0 |
| Total term loans | | | | 821.7 |

NOTES TO THE FINANCIAL STATEMENTS

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15. Other financial assets and liabilities – 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).

| Fair values | Assets £m | Liabilities £m |
|---------------------|--------------|-------------------|
| Group – 2025 | | |
| Current | | |
| Index-linked swaps | – | (68.6) |
| Power hedging swaps | 2.6 | – |
| Total | 2.6 | (68.6) |
| Non-current | | |
| Index-linked swaps | – | (264.6) |
| Interest rate swaps | – | (15.6) |
| Power hedging swaps | 0.7 | (0.7) |
| Total | 0.7 | (280.9) |

| Fair values | Assets £m | Liabilities £m |
|---------------------|--------------|-------------------|
| Group – 2024 | | |
| Current | | |
| Power hedging swaps | 1.2 | – |
| | 1.2 | – |
| Non-current | | |
| Index-linked swaps | – | (376.7) |
| Interest rate swaps | – | (21.9) |
| | | (398.6) |
| Total | 1.2 | (398.6) |

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

One swap was terminated in the year with a termination payment of £63.9 million plus related costs of £3 million included within the profit on termination of derivative financial instruments in the income statement. One swap was terminated in the previous year with a termination payment of £3.9m included within the movement of fair value of derivatives in the income statement.

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

INTEREST RATE SWAPS

At 31 March 2025, an interest rate swap fixed the interest rate on £192 million (2024: £192 million) of floating liabilities held by the Group. The maturity date of the swap is 31 March 2031, and the fixed interest rate is 5.67% per annum, payable quarterly.

INDEX-LINKED LEASE 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.

INDEX-LINKED SWAPS

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) |

15. Other financial assets and liabilities – derivative financial instruments continued

BOND SWAPS

The index-linked swaps have the effect of index-linking the interest rate on £1,150 million of fixed rate bonds by reference to the RPI (2024: £1,250 million).

The principal terms are as follows:

| | |
|-------------------------|---|
| Indexed notional amount | £1,544 million (2024: £1,684 million) |
| Swap maturity | 6 years (2024: 14 years) |
| Interest rate | (0.35)% indexed by RPI (2024: (0.15)% indexed by RPI) |

16. Financing risk management

The policies of the Group in respect of financing risk management are included in the accounting policies note on pages 168 and 169.

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: | | |
| Bonds | 4.7% | 4.9% |
| Term loans | 4.5% | 3.8% |
| Other unsecured loans | 4.6% | 4.6% |
| Lease liabilities | 4.7% | 6.6% |

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

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

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16. Financing risk management continued

B) LIQUIDITY RISK

| Group – 2025 | < 1 year £m | 1-2 years £m | 2-5 years £m | > 5 years £m | Total £m |
|----------------------------------|----------------|-----------------|-----------------|-----------------|-------------|
| Assets: | | | | | |
| Cash and cash equivalents | 638.4 | – | – | – | 638.4 |
| Trade and other receivables | 711.1 | 0.6 | – | – | 711.7 |
| | 1,349.5 | 0.6 | – | – | 1,350.1 |
| Liabilities: | | | | | |
| Bonds | 491.0 | 154.5 | 948.1 | 2,491.9 | 4,085.5 |
| Term loans | 92.3 | 68.4 | 318.9 | 341.9 | 821.5 |
| Other unsecured loans | 0.2 | – | – | – | 0.2 |
| Lease liabilities | 30.4 | 1.2 | 4.5 | 90.2 | 126.3 |
| Trade and other payables | 732.4 | 11.8 | 35.8 | 838.5 | 1,618.5 |
| Derivative financial instruments | 43.2 | (29.5) | 95.9 | 358.7 | 468.3 |
| Future interest payable | 193.1 | 180.1 | 427.9 | 1,232.9 | 2,034.0 |
| | 1,582.6 | 386.5 | 1,831.1 | 5,354.1 | 9,154.3 |

| Group – 2024 | < 1 year £m | 1-2 years £m | 2-5 years £m | > 5 years £m | Total £m |
|----------------------------------|----------------|-----------------|-----------------|-----------------|-------------|
| Assets: | | | | | |
| Cash and cash equivalents | 167.1 | – | – | – | 167.1 |
| Trade and other receivables | 645.7 | 2.2 | – | – | 647.9 |
| | 812.8 | 2.2 | – | – | 815.0 |
| Liabilities: | | | | | |
| Bonds | 0.8 | 481.1 | 499.2 | 2,293.6 | 3,274.7 |
| Term loans | 170.1 | 91.1 | 199.2 | 324.9 | 785.3 |
| Other unsecured loans | 0.2 | – | – | – | 0.2 |
| Lease liabilities | 49.9 | 30.4 | 4.0 | 92.0 | 176.3 |
| Trade and other payables | 627.9 | 15.6 | 46.8 | 678.0 | 1,368.3 |
| Derivative financial instruments | (80.0) | 36.6 | 79.7 | 742.2 | 778.5 |
| Future interest payable | 163.9 | 148.3 | 336.0 | 681.1 | 1,329.3 |
| | 932.8 | 803.1 | 1,164.9 | 4,811.8 | 7,712.6 |

The minimum lease payments under leases fall due as follows:

| | 2025 £m | 2024 £m |
|---|------------|------------|
| Gross lease liabilities | | |
| Within 1 year | 36.4 | 61.5 |
| Between 2 and 5 years | 21.8 | 54.6 |
| After 5 years | 118.4 | 128.5 |
| | 176.6 | 244.6 |
| Future interest | (50.3) | (68.3) |
| Net lease liabilities | 126.3 | 176.3 |
| Net lease liabilities are repayable as follows: | | |
| Within 1 year (Note 14) | 30.4 | 49.9 |
| Between 2 and 5 years | 5.7 | 34.4 |
| After 5 years | 90.2 | 92.0 |
| Total over 1 year (Note 14) | 95.9 | 126.4 |

16. Financing risk management continued

C) FAIR VALUES

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

| | 2025 | | 2024 | |
|-------|------------------|------------------|------------------|------------------|
| | Book value £m | Fair value £m | Book value £m | Fair value £m |
| Bonds | 4,085.5 | 3,527.1 | 3,274.7 | 2,944.1 |

The fair values of all other 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 precedent had been met (2024: £400 million of which £320m remained undrawn).

| | 2025 £m | 2024 £m |
|-------------------------------|------------|------------|
| Expiring in more than 1 year: | 650.0 | 400.0 |

£400 million of the facilities are available for 3 years with a 1-year extension option, 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 cash flow of the Group, 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.

E) CAPITAL RISK MANAGEMENT

| Gearing ratios | 2025 £m | 2024 £m |
|--|------------|------------|
| Total borrowings (Note 14) | (5,023.2) | (4,246.4) |
| Less: cash and cash equivalents (Note 12) | 638.4 | 167.1 |
| Net debt before CTA required adjustments | (4,384.8) | (4,079.3) |
| Unamortised issue costs | (22.1) | (12.7) |
| Swap indexation | (394.0) | (435.0) |
| Post year-end derivative settlements (Note 18) | – | 40.5 |
| Accrued Interest Receivable | 2.8 | 1.0 |
| Cash and cash equivalents outside of GCA Group | (17.4) | (17.4) |
| Adjusted Net debt | (4,815.5) | (4,502.9) |
| Regulatory Capital Value (RCV) | 7,723.1 | 7,475.7 |
| Total capital | 2,907.6 | 2,972.8 |
| Gearing ratio | 62% | 60% |

As set out on page 169, the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat published RCV (Property, Plant and Equipment revaluation is based on shadow RCV, an internal measure, which reflects adjustments to RCV for under or overperformance on measures such as totex and outcome delivery incentives).

Under the Common Terms Agreement, regulatory gearing is calculated as the level of net debt (see glossary) in the whole business securitisation group (under Glas Cymru Anghyfyngedig (GCA)) relative to the Regulatory Capital Value.

NOTES TO THE FINANCIAL STATEMENTS

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17. Provisions

| | Restructuring provision £m | Claims loss provision £m | Other provisions £m | Total £m |
|----------------------------------|-------------------------------|-----------------------------|------------------------|-------------|
| Group – 2025 | | | | |
| At 1 April 2024 | 1.0 | 6.8 | 2.4 | 10.2 |
| Charged to income statement | – | 1.6 | (0.6) | 1.0 |
| 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 1 year | – | 1.4 | – | 1.4 |
| After more than 1 year | – | 2.9 | 1.7 | 4.6 |
| At 31 March 2025 | – | 4.3 | 1.7 | 6.0 |
| | | | | |
| | | | | |
| Group – 2024 | | | | |
| At 1 April 2023 | 3.1 | 4.6 | 15.5 | 23.2 |
| Charged to income statement | – | 1.0 | 2.1 | 3.1 |
| Insured losses | – | 2.4 | – | 2.4 |
| Unused amounts reversed | (1.5) | – | (0.5) | (2.0) |
| Utilised in year | (0.6) | (1.2) | (14.7) | (16.5) |
| At 31 March 2024 | 1.0 | 6.8 | 2.4 | 10.2 |
| Within 1 year | 1.0 | 2.3 | 2.1 | 5.4 |
| After more than 1 year | – | 4.5 | 0.3 | 4.8 |
| At 31 March 2024 | 1.0 | 6.8 | 2.4 | 10.2 |

The parent Company had no provisions at 31 March 2025 (2024: none).

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 Group, where claims are partly or fully covered by insurance, a corresponding insurance receivable is recognised in other receivables. The net loss provision after deducting an insurance receivable of £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 5 years.

OTHER PROVISIONS

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

18. Net cash inflow from operating activities

A) CASH GENERATED FROM OPERATIONS

Reconciliation of operating profit to cash generated from operations:

| Group | 2025 £m | 2024 £m |
|--|--------------|--------------|
| Operating (loss)/profit | (8.5) | 46.5 |
| Adjustments for: | | |
| Depreciation and amortisation | 391.2 | 386.7 |
| IAS 19 pension service cost | 0.7 | – |
| Changes in working capital: | | |
| (Increase)/decrease in trade and other receivables | (70.7) | 1.1 |
| (Increase) in inventories | (0.6) | (2.6) |
| Increase/(decrease) in trade and other payables | 101.5 | (37.8) |
| (Decrease) in provisions | (4.2) | (13.0) |
| | 26.0 | (52.3) |
| Cash generated from operations | 409.4 | 380.9 |

B) INTEREST PAID

| Group | 2025 £m | 2024 £m |
|--|--------------|--------------|
| Interest payable per income statement | 231.1 | 270.0 |
| Less non-cash items: | | |
| Indexation on index-linked bonds | (61.5) | (115.3) |
| 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 |
| Effect of capitalisation under IAS 23 | 18.8 | 18.6 |
| Decrease in interest accruals | 5.2 | 28.4 |
| | (45.5) | (80.7) |
| Lease swap termination payment included in other movements on derivative financial instruments | – | 3.9 |
| Interest paid | 185.6 | 193.2 |

C) NET RECEIPTS/(PAYMENTS) ON DERIVATIVE FINANCIAL INSTRUMENTS

| Group | 2025 £m | 2024 £m |
|--|-------------|--------------|
| Settlements accruing in the year per income statement | 39.7 | 37.4 |
| Adjusted for non-cash items: | | |
| Decrease/(increase) in accrued receipts settled post year-end | 40.5 | (40.5) |
| | 40.5 | (40.5) |
| Net receipts/(payments) on derivative financial instruments per cash flow statement | 80.2 | (3.1) |

D) PAYMENTS FOR TERMINATION ON DERIVATIVE FINANCIAL INSTRUMENTS

| Group | 2025 £m | 2024 £m |
|---|---------------|------------|
| Payment made to terminate derivative financial instrument | (63.9) | – |
| Additional termination costs | (3.0) | – |
| Total payments for termination of derivative financial instruments | (66.9) | – |

NOTES TO THE FINANCIAL STATEMENTS

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19. Analysis and reconciliation of net (debt)/funds

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

A) NET (DEBT)/FUNDS AT THE BALANCE SHEET DATE MAY BE ANALYSED AS:

| | Group | | Company | |
|---------------------------|------------|------------|------------|------------|
| | 2025 £m | 2024 £m | 2025 £m | 2024 £m |
| Cash and cash equivalents | 638.4 | 167.1 | 13.7 | 12.3 |
| Debt due after 1 year | (4,303.0) | (3,877.9) | - | - |
| Debt due within 1 year | (582.1) | (169.6) | - | - |
| Lease liabilities | (126.3) | (176.3) | - | - |
| Accrued interest | (11.8) | (22.6) | 3.7 | 3.5 |
| | (5,023.2) | (4,246.4) | 3.7 | 3.5 |
| Net (debt)/funds | (4,384.8) | (4,079.3) | 17.4 | 15.8 |

B) THE MOVEMENT IN NET (DEBT)/FUNDS DURING THE YEAR MAY BE SUMMARISED AS:

| | Group | | Company | |
|---|------------------|------------------|-------------|-------------|
| | 2025 £m | 2024 £m | 2025 £m | 2024 £m |
| Net (debt)/funds at 1 April | (4,079.3) | (3,806.2) | 15.8 | 14.4 |
| Movement in net cash | 471.3 | (212.3) | 1.4 | 1.7 |
| Movement in debt arising from cash flows | (718.9) | 39.2 | - | - |
| Movement in net (debt)/funds arising from cash flows | (247.6) | (173.1) | 1.4 | 1.7 |
| Movement in accrued interest | 10.8 | 27.7 | 0.2 | (0.3) |
| Indexation of index-linked debt | (68.7) | (127.7) | - | - |
| Movement in net (debt)/funds | (305.5) | (273.1) | 1.6 | 1.4 |
| Net (debt)/funds at 31 March | (4,384.8) | (4,079.3) | 17.4 | 15.8 |

20. Employees and Directors

STAFF COSTS FOR THE GROUP DURING THE YEAR

| | 2025 £m | 2024 £m |
|---|------------|------------|
| Wages and salaries | 181.0 | 163.3 |
| Social security costs | 18.9 | 16.9 |
| Other pension costs – defined benefit scheme | 0.2 | 0.1 |
| Other pension costs – defined contribution scheme | 16.0 | 13.4 |
| | 216.1 | 193.7 |

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 number of people employed by the Group (including Executive Directors) | 4,047 | 3,790 |

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 £m | 2024 £m |
|---------------------|------------|------------|
| Executive Directors | 0.9 | 0.9 |
| Other key personnel | 3.7 | 3.8 |
| | 4.6 | 4.7 |

For further information see the Remuneration Report on page 120.

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

21. Pension commitments

The Group operates a funded defined benefit pension scheme (based on final pensionable salary and pensionable service), the DCWW Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. There were no plan amendments, curtailments or settlements 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 Group 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 Group put arrangements in place via an Employer-Financed Retirement Benefit Scheme (EFRBS) for 4 '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 2 remaining Executive members with entitlements under this arrangement, 1 of whom is in receipt of his benefits.

DEFINED BENEFIT SCHEME

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

| | 2025 £m | 2024 £m |
|---|-------------|-------------|
| Present value of funded obligations | (341.0) | (377.9) |
| Fair value of plan assets | 411.0 | 420.0 |
| | 70.0 | 42.1 |
| 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 |

NOTES TO THE FINANCIAL STATEMENTS

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21. Pension commitments continued

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.

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 IFRIC 14.

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 that 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.

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.

21. Pension commitments continued

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% per annum.

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.

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 scheme's 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 scheme's 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 has 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.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

21. Pension commitments continued

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% per annum. The CMI model is used by UK pension schemes and insurance companies that need to make assumptions about future mortality rates. An increase in the life expectancy assumption of 1 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 CASH FLOWS

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

Under the current Schedule of Contributions, no deficit recovery contributions are expected to be paid for the year ending 31 March 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.

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 |

21. Pension commitments continued

| At 31 March 2025 | Underlying assets | Fair value of derivatives | Total assets | 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

| | | | | |
|--|--------------|---------------|--------------|-------------|
| 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.

22. Lessor

OPERATING LEASE

| | 2025 £m | 2024 £m |
|--------------|------------|------------|
| Lease income | 0.1 | 0.1 |

The Group 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 Group 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 £0.8 million, recognised evenly over the remaining term.

23. Capital and other financial commitments

The Group's business plan at 31 March 2025 forecasts 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 Group 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

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

The parent Company issued an intercompany loan to Welsh Water Holdings Limited, a wholly-owned subsidiary, during the year ended 31 March 2018. As at 31 March 2025, the balance on this loan stood at £21,533,698 (2024: £21,553,698). Interest is chargeable at a fixed rate of 5% and £1,275,366 was charged during the year (2024: £1,077,685). As at 31 March 2025 accrued interest receivable relating to this totalled £3,379,035 (2024: £3,403,669).

NOTES TO THE FINANCIAL STATEMENTS

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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 a Group company, Dŵr Cymru Cyfyngedig, into potential non-compliance with conditions of environmental permits and sewer overflows. The Group 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 IAS37 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.£500 million), i.e. £50 million maximum exposure. The Environment Agency investigation is ongoing, and the Group is co-operating fully with requests for information as they are received.

In February 2025, Dŵr 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 Group 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. Status of the Company

The Company is limited by guarantee and does not have any share capital. In the event of the Company being wound up, the liability of the Members is limited to £1 each.

27. Elan Valley Trust Fund

In 1984 Welsh Water 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 Welsh Water Authority, while preserving the capital value of the fund in real terms. Welsh Water 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 million).

Interest receivable includes £4 million (2024: £3.8 million) in respect of distributions from the Elan Valley Trust Fund.

28. Immediate and ultimate holding company and controlling party

The immediate and ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales, company number 09917809, registered office Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT. The largest and smallest group within which the results of the Company are consolidated is that headed by Glas Cymru Holdings Cyfyngedig.



APPENDIX A

Glossary

| Name | Description |
|------------------------------|--|
| AMP | Asset Management Period e.g. AMP7 ran from 1 April 2020 to 31 March 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 executive and senior management pay |
| Bacteriological failure | 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) |
| CCW | Consumer Council for Water – see Appendix B for more |
| Circular economy | Circular economy principles aim to design out waste, keep resources in use for as long as possible, and regenerate natural systems. In practice, this means moving away from a 'take-make-dispose' model to one where materials, energy and water are reused, recycled, or recovered. |
| 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 |
| Combined sewer | Combined sewer for sewage and rain water run-off |
| Combined storm overflow | Combined storm overflow is part of the system for sewage and rain water run-off |
| Common terms agreement | A common terms agreement establishes common terms across contracts, increasing efficiency and reducing the risk or misunderstandings and disputes |
| Company limited by guarantee | A private company that does not have shareholders or share capital |
| CPIH | Consumer Prices Index – including owner occupiers' housing costs |
| Credit rating | Credit ratings provide an assessment of the credit quality of a company, which can affect the cost of borrowing |
| CRI | Compliance Risk Index is an Ofwat measure designed to illustrate the risk arising from treated water compliance failures |
| CSO | Combined Sewer Overflows act as relief valves to prevent the overloading of sewers which could otherwise lead to flooding of properties and sewage treatment works |
| CSO/SO | Storm Overflows act as relief valves to prevent the overloading of pipe networks which could otherwise lead to flooding of properties and treatment works. A combined storm overflow acts in the same way but where untreated rainwater and wastewater and sewage are carried together in a combined network |
| Defra | The UK Government Department for Environment, Food and Rural Affairs – see Appendix B for more |
| 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 |
| D-MeX | The customer service measures for developer services (new connections) customers |
| Drinking Water Safety Plan | A proactive method of assessing risk to drinking water quality, which better protects public health |
| DWI | Drinking Water Inspectorate – see Appendix B for more |
| EA | The Environment Agency – see Appendix B for more |
| EDI | Equality, Diversity and Inclusion |
| Effluent | Water that flows from a sewage treatment plant after it has been treated |
| eNGO | Environmental non-governmental agency |
| ESG | Environmental, Social and Governance |
| FD | Final Determination of Ofwat's 5-yearly price review |
| FFO | Funds From Operations. FFO/net debt is a measure of the Group's ability to pay its debt using cash generated from operations and is a key metric used by rating agencies including S&P for assessing credit quality |

| Name | Description |
|-------------------------------|---|
| Financeability | The ability of appointed water companies to finance their operations through debt, equity or retained earnings |
| Fugitive emissions | These are unintentional releases of gases such as methane or carbon dioxide, from pressurised equipment, pipes, tanks or treatment processes, often without passing through a stack, vent, or exhaust system. In the water sector, common sources include methane from wastewater treatment and leaks from sludge storage or biogas systems. |
| GDP | Gross Domestic Product |
| Gearing | Net debt expressed as a percentage of regulatory capital value |
| Glas Cymru | Glas Cymru is used to refer to the Group holding company: Glas Cymru Holdings Cyfyngedig. Glas Cymru Cyfyngedig was formed in 2000 to own, finance and manage Dŵr Cymru Welsh Water. During 2015–16 Glas Cymru Cyfyngedig was re-registered 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 |
| ICG | Independent Challenge Group |
| 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 |
| ISO | International Standard Organisation |
| IT | Information technology |
| KPI | Key Performance Indicator |
| Leakage | Water lost between the treatment works and the customer's premises |
| Leverage ratio | Our leverage ratio means that for each £1 we invest in innovation projects, we attract £8 of additional investment from other parties. |
| Liquidity | The availability of readily convertible assets into cash. This represents cash and cash equivalents and revolving credit facilities for the Group |
| 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 |
| Lost time injuries | Injuries arising at work which result in time away from work for treatment and recovery |
| LTDS | Long-Term Delivery Strategy – an Ofwat requirement within PR submissions. |
| LTVPS | Long-term Variable Pay Scheme. A performance-related element of executive and senior management pay |
| 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 (MI) | One megalitre is equal to 1,000 cubic metres or 1 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 |
| NED | Non-Executive director. These members of Glas Cymru's Board are not responsible for the day-to-day running of the business but challenge management and oversee the running of the Group |
| Net Debt | As per definition in our 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 |
| 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 – see Appendix B for more |
| Operating costs | Total operating expenditure of the business, net of any operating income, primarily any profits or losses on the disposal of fixed assets |
| Opex | See Operating costs |
| OT | Operational technology |
| PC | Performance Commitment |
| PCC | Per capita consumption |
| PFAS | Perfluoroalkyl and polyfluoroalkyl substances, colloquially known as forever chemicals |
| PFET | Peak Flow Equivalent Treatment |
| 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 |

APPENDIX A

CONTINUED

| Name | Description |
|--|---|
| PR19 | Ofwat's Price Review process 2019, the 5-year regulatory price-settings for AMP7 (2020 to 2025), culminating in the Final Determination of prices issued to companies in December 2019 |
| PR24 | Ofwat's Price Review process 2024, which culminated in a Final Determination in December 2024, to set prices for AMP8 (2025 to 2030) |
| PSC | Performance and Safety Committee |
| Pumping station | Used to pump water or sewerage from one place to another |
| RainScope | Glas Cymru's approach to managing surface water and overloaded sewers (sustainable urban drainage systems) |
| RCP | Representative Concentration Pathways are climate change scenarios to project future greenhouse gas concentrations. They have been formally adopted by the Intergovernmental Panel on Climate Change, and describe different climate change scenarios, all of which were considered possible depending on the amount of greenhouse gases (GHG) emitted in the years to come. The numeric values in RCP labelling indicate the change in radiative forcing (broadly the net absorption of energy in the Earth's atmosphere) from the year 1750 to the year 2100, with a higher value indicating a likely higher effect on global warming |
| 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 |
| Reportable injuries | Injuries reported to the Health and Safety Executive under RIDDOR regulations |
| Reservoir | A natural or artificial lake where water is collected and stored until needed |
| Return of value | Payments and investment made for the benefit of our customers funded from distributable profits, that could otherwise be paid out to shareholders as dividends in a shareholder-owned company |
| RIDDOR | Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 and as amended. The regulations specify what injuries, diseases and dangerous occurrences must be reported, and how and when |
| Rising main | A pumped pipeline that carries wastewater |
| RPI | Retail Price Index |
| RSPB | The Royal Society for the Protection of Birds |
| SAC | Special Areas of Conservation |
| Safety Takes Every Person (STEP) | Behavioural safety training which emphasises that each individual has responsibility for Health and Safety issues |
| SCC | Supplier Code of Conduct |
| Scorecard | A statistical record used by Welsh Water to measure achievement or progress towards particular goals |
| SDG | Sustainable Development 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 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 |
| Service Incentive Mechanism (SIM) | An Ofwat measure designed to improve the level of customer service that water companies provide |
| 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 |
| SO | Storm Overflow – see CSO/SO above |
| SOAF | Storm Overflow Assessment Framework |
| 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 |

| Name | Description |
|-----------------------------------|--|
| Surface water | Run-off from rainwater that falls on to 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 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 |
| Variation | Variation refers to a change in scope of an existing supplier's licence, frequently a change to the operating area |
| WASC | Water and Sewerage Company |
| Wastewater | Waste matter from properties that is carried away from properties in sewers or drains |
| Wastewater Investigation | Refers to the investigation by Ofwat and EA launched in 2022 into whether water and wastewater companies, including Welsh Water, are operating their sewage treatment works in line with their environmental obligations |
| 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 | 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 |
| WRMP | |

APPENDIX B

Regulation of water companies in Wales

| Name | Description |
|--|---|
| Consumer Council for Water (CCW) | CCW is a non-departmental public body of Defra and the Welsh Government established under the Water Industry Act 1991 (as amended) to represent the interests of consumers by handling complaints, acquiring and publishing information, providing advice, and investigating matters of interest to consumers. CCW is supported by regional committees established under the Act including a Wales Committee. |
| Department for environment, food and rural affairs (Defra) | Defra is responsible for improving and protecting the environment and has a broad remit to play a major role in people's day-to-day lives, from the food we eat and the air we breathe, to the water we drink. Defra aims to make our air purer, our water cleaner, our land greener and our food more sustainable. Its mission is 'to restore and enhance the environment for the next generation, leaving it in a better state than we found it!' |
| Drinking Water Inspectorate (DWI) | The DWI is a statutory body with duties and powers to develop and update drinking water quality regulations (which derive from EU legislation), monitor compliance with such regulations, and implement enforcement action where required. The Chief Inspector is appointed by the Secretary of State and by Welsh Ministers. |
| Natural Resources Wales (NRW) Environment Agency (EA) | NRW and EA are the environmental regulators for Wales and England respectively, with important roles in the regulation and planning of water companies. They set out water companies' environmental obligations in the National Environment Programme (NEP) in Wales, and the Water Industry National Environment Programme (WINEP) in England. |
| Ofwat | Ofwat is the economic regulator for the water industry. Its duties include protecting the interests of consumers, ensuring that water companies carry out their statutory functions, and furthering the resilience of water companies. Ofwat has a range of powers, including setting price limits and performance targets through the 5-yearly price review process. |
| Welsh Government | The Welsh Government has devolved authority over most matters pertaining to the regulation of the water industry in Wales. |

APPENDIX C

Performance measures defined

The following definitions relate to the performance measures we have reported on pages 18 and 19 which we believe provide a reasonable, fair and balanced representation of our overall performance. The measures are presented in alphabetical order.

| Name | Description |
|---|---|
| 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. |
| Business customer satisfaction | This performance commitment measures the average customer score out of 5 from 4 quarterly business customer satisfaction surveys. |
| Score out of 5 | 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. |
| Community education | The total number of children and adults who have participated in the Company's education programme in the year. |
| Credit ratings | Credit ratings represent external agencies' assessments of our creditworthiness and the likelihood we will default on our debts. We report the ratings of the market leading agencies Moody's, Standard & Poor's, and Fitch Ratings. |
| Customer satisfaction | C-MeX is a customer measure of experience and customer satisfaction, calculated from 2 surveys, weighted equally: Customer Experience Survey – a customer satisfaction survey among a random sample of the water company's customers; and Customer Service Survey – a customer satisfaction survey among a random sample of those customers who have contacted their water company. |
| C-MeX rank among water companies | |
| Customer trust | Our ranking on Customer trust as assessed by CCW in their annual Water Matters report. |
| Developer services customer satisfaction | D-MeX is a measure of customer satisfaction for developer services, calculated from 2 components weighted equally: 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. |
| D-MeX rank among water companies | |
| EDI | The proportion of our employees who self-declare their characteristics, supporting an evidence-based approach to our initiatives on equality, diversity and inclusion in our workforce. |
| Energy self-sufficiency | The energy created by own energy generation activities as a proportion of our total energy usage. |
| External sewer flooding | External sewer flooding means any escape of water, within the curtilage of a property, from a sewerage system, irrespective of size, as evidenced by standing water, running water or visible deposits of silt or sewage solids. |
| Fair tax accreditation | This annual independent accreditation certifies that we seek to follow the spirit, as well as the letter of the law; shun corporate tax avoidance such as the artificial use of tax havens; are transparent about profits made and taxes paid. |
| FFO/net debt | The ratio of funds from operations to net debt. |
| Gearing | Net debt expressed as a percentage of regulatory capital value. |
| Gender pay gap | The difference between the median pay for males and the median pay for females in our workforce, on a basis consistent with our annual statutory reporting on the gender pay gap. |
| Greenhouse gas emissions | Total annual operational greenhouse gas emissions, measured using a location-based approach and reported in kilotonnes of CO ₂ equivalents. |
| H&S standards | We follow the principles of ISO 45001 and the standards required to achieve a RoSPA Gold Award and fully expect we will receive confirmation of our 8th consecutive Gold award in July 2025. |
| Interest cover ratio | The ratio of interest costs to debt. |
| Internal sewer flooding | The measure is calculated as the number of internal sewer flooding incidents per 10,000 sewer connections including sewer flooding due to severe weather events. |
| Interruptions to supply | The average number of minutes that customers are without water within our supply area (includes both planned and unplanned interruptions), calculated as the average number of minutes lost per customer for the whole customer base for interruptions that lasted 3 hours or more. |

| Name | Description |
|--|--|
| Leakage | Leakage describes the water that is lost between the treatment works and the customer premises. We have a target to reduce leakage and this is measured as a 3-year average in megalitres per day. |
| Mains repairs | This includes all physical repair work to mains from which water is lost, reported as the number of mains repairs per thousand kilometres of the entire water main network (excluding communication and supply pipes). |
| NRW EPA | NRW annually publishes its Environmental Performance Assessment based on a range of measures. |
| Number of stars | |
| Per Capita Consumption | Per capita consumption (PCC) is the average amount of water used by each person each day. We have a target to reduce PCC, measured as a 3-year average in litres per head per day. |
| Pollution incidents | The number of pollution incidents (caused by blockages or collapsed sewers), per 10,000 km of sewer. |
| Post-maintenance ICR | The ratio of post maintenance cashflows (cash generated from operations pre working capital movements, less maintenance capital expenditure) to net interest paid (cash interest paid less interest received, net of derivative settlements). |
| Priority services for customers in vulnerable circumstances | We provide special assistance to those customers in vulnerable circumstances who are registered on our Priority Services Register (PSR). This measure reports the number of households on the Company's PSR as a proportion of all households in the Company's region. |
| Prompt payment code | We follow the prompt payment code and report the proportion of all invoices settled within 30 days of receipt. |
| Recreational facility visitors | The number of visitors to the Company's recreational sites in the year. |
| Reportable injuries RIDDORs | The number of individual injuries reported in the year to the Health and Safety Executive under RIDDOR. |
| River improvement | The cumulative length of river with improved water quality, as a result of Company action. |
| Km of river improved | This performance commitment is designed to incentivise the Company to deliver its agreed National Environment Programme (NEP) and Water Industry National Environment Programme (WINEP) schemes in a timely manner. |
| Sewer collapses | 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, reported as the number of sewer collapses per 1,000 kilometres of all sewers. |
| Sustainable Fitch rating | ESG Ratings from Sustainable Fitch assess the ESG performance and profile of entities and instruments. They are backed by clear methodologies, with source data derived using the same trusted principles and platforms that underpin Fitch credit ratings. They provide an objective, full assessment of ESG performance at Entity, Instrument and Framework level. A rating of 2 represents 'good' performance. |
| Treatment works compliance % | For our water and wastewater treatment works there is a permit that 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. |
| Unplanned outages % | This measure assesses 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 and the criticality and scale of the assets that are causing an outage. |
| Vulnerable customers on social tariffs | The number of residential customers receiving financial support via our social tariffs. |
| Water quality compliance (CRI) | Water Quality Compliance is assessed using the Compliance Risk Index (CRI). CRI measures risk arising from treated water compliance failures. 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. |

APPENDIX D

Welsh Water 2050 strategic responses

For convenience, we set out in full below, the 18 strategic responses from WELSH WATER 2050: REVIEW AND UPDATE MARCH 2022. That document also contains, for each of the strategic responses, an update on the latest available evidence, research and innovation.

| Strategic Response | Description |
|---|---|
| Safeguarding clean drinking water through catchment management | Catchments as a first line of defence: We will face increased levels of pesticides, fertilisers, nutrients and pathogens in raw water, and increased turbidity of water reaching our water treatment works due to the intensification of agriculture and greater intensity of storms. We will co-create an extensive, innovative programme of catchment management with landowners and partners. |
| Enough water for all | Confronted with an increasing water supply demand gap due to population growth and drier summers due to climate change, we will use our Water Resource Management Plan to ensure the water supply demand balance to 2050. We propose to implement water transfers, demand management measures and leakage reduction programmes to address any deficits, while recognising the possible need to support other parts of the UK. |
| Improving the reliability of drinking water supply systems | Faced with an increased risk of outages due to agricultural run-off, extreme weather events, terrorism and cyberattacks, we will build more flexibility and integration into our water treatment and supply systems. |
| Protecting our critical water supply assets | With increasing risks of disruption (for example, from severe weather events resulting from climate change and increased reliance on technology) and limited customer tolerance of supply outages, we will improve the resilience of critical water assets that have high consequences of failure. |
| Achieving acceptable water quality for all customers | Ageing water mains and more extreme weather events increase the risk of supplying water that is temporarily discoloured or has a poor taste. This will be addressed through a targeted replacement of iron mains. We aim to achieve 0.8–1.3 contacts per 1,000 population by 2050. |
| Towards a lead-free Wales | We have the opportunity to help improve public health and propose a targeted replacement of lead communication and supply pipes, as part of a wider societal effort to address lead in drinking water. |
| Working with customers and communities | We will work with customers and communities to co-create solutions, share knowledge and support initiatives that reduce water use, prevent sewer abuse, and provide wider benefits for communities and the environment. |
| Ensuring affordability of services delivered to customers | With inequality, debt, and poverty on the rise we aim to ensure that our services remain affordable for all customers: both in terms of average bills and for those on social tariffs. We will ensure that we continue to provide the best service in increasingly innovative and efficient ways and pass these savings on to our customers. |
| Supporting customers in vulnerable circumstances | Purpose of Strategic Response: We need to use data effectively, provide personalised customer service and work in partnership with other service providers to give appropriate and effective support to customers in vulnerable circumstances. |
| Addressing our 'worst-served' customers | Faced with increasing customer expectations for a good service at all times, we will address the longstanding service complaints of 'worst-served customers' to ensure that everyone receives an acceptable level of service. We will not charge customers when service does not meet our service standards. |
| Employer of choice | With an ageing population, an increasing shortage of technically skilled employees and increasing demand for more flexible approaches to working, we will need to continue to be an employer of choice attracting, developing and inspiring people from a diverse range of backgrounds, to deliver an excellent service for our customers. |
| Leading-edge customer service | Changing customer expectations, the digital revolution and demographic and lifestyle change are all leading Welsh Water to further develop our customer service culture. We will harness technological change to provide a personalised service for customers through their preferred contact channel. |
| Smart water system management | With the opportunity to capitalise on technological advances, we will improve the service performance and resilience of our assets through remote sensing, data analysis, and automation, thereby solving problems before they impact our business or the environment. |

| Strategic Response | Description |
|---|---|
| Supporting ecosystems and biodiversity | Biodiversity faces threats including habitat loss, fragmentation and overexploitation. In the longer term, temperature and changed rainfall patterns will also impact biodiversity. We will look for ways to help nature, enhance biodiversity and promote ecosystem resilience while we carry out our water and sewerage activities. |
| Using nature to reduce flood risk and pollution | Confronted with urban creep due to demographic change and increased intensity of rainfall due to climate change, Welsh Water is proposing to reduce the risk of sewer flooding and pollution through the development and implementation of sustainable urban drainage systems. We will aim to install sustainable drainage systems in cities and major conurbations (Swansea, Cardiff, Newport, Wrexham, Chester) in partnership with local authorities, of highest risk. |
| Cleaner rivers and beaches | With increasing pressure on the natural environment from population growth, changing land use, climate change and new sources of pollution, we will improve our wastewater assets to do our part to help achieve 'good' ecological status for our rivers, lakes and coastal waters. |
| Protecting our critical wastewater assets | Faced with an increased risk of disruption, for example from an increase in severe weather as a result of climate change, and reduced customer acceptability of pollution events, we will improve the resilience of our critical wastewater assets, which have high environmental and customer impacts of failure. |
| Achieving net zero carbon emissions by 2040 and promoting a circular economy | Faced with a changing climate and increased energy costs we aim to reduce our total carbon emissions by 90% by 2030 and achieve carbon neutrality by 2040. We will also maximise opportunities to reuse treated water and other potentially valuable natural materials, contributing to the circular economy in our local region. |

APPENDIX E

ESG objectives

For convenience, we set out in full below, the 10 ESG objectives extracted from our ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRATEGY and as approved by our ESG Committee in 2022.

| ESG Objective | Description |
|--|---|
| Long-term planning and sustainability | We are custodians of assets that will be relied upon to provide our essential services, and minimise impact on the environment, for many generations to come. Our corporate structure means we are not driven by shareholder dividends – we plan for the long term and take into account the needs of future generations of our customers. We will also work to ensure our procurement policy is sustainable and supports local businesses and the circular economy more generally. |
| Achieving our net zero carbon strategy | We are committed to achieving net zero carbon emissions of both operational and embedded carbon by 2040 – corporate.dwr.cymru.com/en/ journey-to-zero We will work to ensure continuous improvement of our processes in order to minimise our impact on the environment and we ask our key supply chain partners to help us design innovative 'green, nature-based' solutions that benefit the environment and society generally, within the fulfilment of our functions. |
| Adapting our assets and services to mitigate climate change risks | We will continue to adapt our assets to ensure the services we provide are resilient to the impacts of climate change and can meet the challenges of economic development, population growth and changes in customer expectations. We must also mitigate our carbon footprint (see 4 below) so as to reduce to zero our contribution to climate change by 2040. |
| Working to create tangible benefits in the communities we serve | We will establish a clear baseline for current environment, social and governance issues and will measure improvements against that, with a principle of 'net gains' for our operational activities and capital projects programme which deliver tangible benefits to our communities. |
| Ensuring affordability | During 2021–22 we provided financial assistance (via social tariffs and other forms of support) to a total of 139,000 customers and we assisted many more with water efficiency advice and metering, to help them manage their water bills. We are committed to continuing to provide this level of financial assistance to customers during the period 2020–25. |
| Engaging with our customers | We engage with our customers on a regular and long-term basis, through research and focus groups, our community fund grants, and Water Resilient Communities programmes. Customer expectations are changing and developing, and we need to ensure that we meet these expectations while also focusing on the path to achieving the long-term goals we have set in Welsh Water 2050. We are developing a Sustainable Procurement policy, which will deliver benefits to communities through a more localised supply chain. We are also introducing user-centred design for improvements to customer service, and working with a wide range of stakeholders and customers on projects such as the Brecon Beacons Mega catchment initiative. |
| Attracting and retaining a diverse workforce to reflect our communities | Our most important asset is our workforce, and attracting and retaining people with the right skills and diversity of experience, background and personal characteristics to meet the future challenges that our business will face is a key priority. Our culture and values are embodied in our workplace policies such as our Health, Safety & Wellbeing policy, support an inclusive workplace where colleagues can take pride in 'Earning the Trust of our Customers Every Day'. |
| Adapting to future challenges | Our corporate structure and the absence of shareholder dividends allows us to focus on the long term, as well as deliver the needs of customers today. The ESG Committee will focus on monitoring progress against our goals and considering and responding to ESG risks to ensure that we adapt to these and build our responses into our Company strategy. The joint Boards of Glas Cymru Holdings Cyf. and Dŵr Cymru Cyf. also monitor strategic risks and consider, with the Executive, the potential for emerging and 'black swan' risks to impact our business and the services we provide. |
| Demonstrating accountability | We demonstrate accountability through our transparent corporate governance, focusing our business on sustaining and protecting the natural resources available to us, and engaging directly with the communities we serve. We are committed to transparent reporting of our performance and the challenges facing the business, both in our corporate reporting and through our publication scheme where we make information available on our website – corporate.dwr.cymru.com/ en/community/ environment/environmentalinformation-regulations We ensure fair employment practices through our recruitment and Human Resources policies, and we ask our suppliers to sign up to our Supplier Code of Conduct and to take steps to prevent unfair employment practices. Our operational strategies prioritise our environmental commitments – to minimise our environmental footprint and enhance our environment and communities wherever we can. |
| Working collaboratively | In many areas we cannot achieve our objectives by simply working alone; we are already working in partnership with regulators, Governments, customers and other stakeholders to achieve our environmental objectives. We will draw on our experience of contributing to the development of the Wye Nutrient Management Plan where a number of different organisations and sectors worked together towards meeting phosphorous targets (environmental regulators, council bodies, third sector organisations and Welsh Water). A similar collaborative approach is being developed for other Welsh SAC (Special Areas of Conservation) rivers. We need to work closely with Local Authorities and other local organisations, whose support will be vital in helping us manage surface water drainage issues and thereby reduce discharges from SOs. |

APPENDIX F

List of Member names as at 4 June 2025

Glas Cymru has no shareholders and is operated solely for the benefit of the customers of Welsh Water. We currently have 62 independent Members.

A key role of the Members of Glas Cymru is to ensure that the business remains focused on its primary purpose of providing high-quality water and sewerage services to the communities served by Welsh Water. In doing this, Members carry out an important corporate governance role, and for this reason membership is personal and Members are not appointed to represent any particular group or stakeholder interest. Members do not receive a fee. We welcome applications from a diverse and full range of backgrounds in terms of gender, ethnicity, age, sexual orientation and differently abled.

A current list of Members can be found here: [Our Members | Dŵr Cymru Welsh Water](#)

| | | | |
|-------------------|--------------------------|---------------------------|-----------------|
| Goi Ashmore | Cheshire | Ivor Lyons-Pumfrey | Hereford |
| Dr Paul Bevan | Flintshire | Phil Marshall | Sheffield |
| Brian Birtles | Brecon | Simon Morgan | Aberdare |
| Russell Bright | Barry, Vale of Glamorgan | Mohamed Mostafa | Cardiff |
| David Brotherton | Cardiff | Jennifer Owen-Adams | Rhayader |
| Simon Coton | Fishguard | Susan Perkins | Llanelli |
| Robert Davies | Rhondda Cynon Taff | Alan Proctor | Cardiff |
| Will Lloyd-Davies | Carmarthenshire | Satwant Pryce | Cowbridge |
| Candida Diamond | Sutton Coldfield | Mandy Rayani | Swansea |
| Hayley Dunne | Cardiff | Sian Rees | Penarth |
| Llio Elgar | Cardiff | Wayne Reynolds | Carmarthenshire |
| Anwen Elias | Aberystwyth | Oliviah Rix-Taylor | Swansea |
| Rhys Evans | Gwynedd | Emyr Roberts | Cardiff |
| Robert Evans | Maesteg | Ian Roffe | Aberystwyth |
| Callum Firth | Cardigan | Nick Rushbrooke | Conwy |
| Charlotte Fleming | Usk | Helen Scourfield | Pembrokeshire |
| Ananya Ghosh | London | Phil Slee | Swansea |
| Beryl Gibson | Brecon | Thayammal Soorianarayanan | Newport |
| Ian Griffiths | Monmouthshire | Mike Steward | Bridgend |
| John Hannah | Trelewis | Graham Sumsion | Newport |
| Akmal Hanuk | Cardiff | Jackie Symmons | Brecon |
| Janet Haworth | Conwy | Pin-Nee Tang | London |
| Gareth Hopkins | Cardiff | Nia Thomas | Cardiff |
| Jamie Hopkins | Abergavenny | Rhian Thomas | Cardiff |
| Lisa Howells | Carmarthenshire | Steve Thomas | Abergavenny |
| Martin Hughes | Harlech | Adrienne Walsh | Monmouth |
| Dawn Jones | Merthyr Tydfil | Neil Webb | Cardiff |
| Gareth Jones | Denbigh | Mark Woolfenden | Cardiff |
| Gareth Jones | Barry | Agnes Xavier-Phillips | Caerphilly |
| Heledd Jones | Cardiff | Penny Young | Crickhowell |
| Nina Jones | Gwynedd | Waye Zhang | Cardiff |



The production of this report supports the work of the Woodland Trust, the UK's leading woodland conservation charity. Each tree planted will grow into a vital carbon store, helping to reduce environmental impact as well as creating natural havens for wildlife and people.

glas
Glas Cymru Holdings Cyf

 Dŵr Cymru
Welsh Water

Glas Cymru Holdings Cyfyngedig
Company Number: 09917809