

Registered N<sup>o</sup>: 2366777

# Dŵr Cymru Cyfyngedig

Annual report and financial statements  
for the year ended 31 March 2020

Registered office  
Pentwyn Road  
Nelson  
Treharris  
Mid Glamorgan  
CF46 6LY

|   |    |
|---|----|
| Directors and advisers  | 1  |
| Strategic report  | 2  |
| Directors' report   | 7  |
| Statement of Directors' responsibilities                            | 15 |
| Independent auditor's report to the members of Dŵr Cymru Cyfyngedig | 16 |
| Income statement for the year ended 31 March 2020                   | 18 |
| Statement of comprehensive income for the year ended 31 March 2020  | 19 |
| Balance sheet as at 31 March 2020                                   | 20 |
| Statement of changes in equity for the year ended 31 March 2020     | 21 |
| Cash flow statement for the year ended 31 March 2020                | 22 |
| Notes to the financial statements                                   | 23 |

## Directors and advisers

---

### Directors

|               |                                 |                             |
|---------------|---------------------------------|-----------------------------|
| A Lyons       | Chairman                        |                             |
| C Jones       | Chief Executive                 | (resigned 15 May 2020)      |
| P Perry       | Chief Executive Officer         |                             |
| P Bridgewater | Finance and Commercial Director | (resigned 31 December 2019) |
| P M Davis     | Chief Financial Officer         | (appointed 1 January 2020)  |
| M Richards    | Non-executive Director          |                             |
| A Walker      | Non-executive Director          |                             |
| J Warren      | Non-executive Director          |                             |
| G Edwards     | Non-executive Director          |                             |
| J Kenrick     | Non-executive Director          |                             |
| T Crick       | Non-executive Director          |                             |
| D Bowen Rees  | Non-executive Director          | (appointed 1 January 2020)  |

### Company Secretary

N Williams

### Independent auditor

KPMG LLP  
Cardiff

### Solicitor

Linklaters LLP  
London

### Principal banker

National Westminster Bank Plc  
Brecon

# Strategic report

---

The Directors present the Strategic report of Dŵr Cymru Cyfyngedig for the year ended 31 March 2020.

## Principal activities

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

## Business review

The Company is in a strong financial position as at 31 March 2020; gearing remains low at 60% (2019: 58%) and we have retained our sector-leading credit ratings.

**Revenue:** Dŵr Cymru's turnover in the year to 31 March 2020 remained stable at £777m (2019: £780m). A price increase of 0.8% in line with Ofwat's PR14 Final Determination, along with the impacts of increased consumption resulting from a dry summer and new customers have been offset by reduced revenues due to a higher number of customers benefiting from subsidised tariffs.

**Operational items:** Dŵr Cymru incurred total operational costs (excluding exceptional items, infrastructure renewals expenditure on maintaining our underground pipe network and depreciation) of £324m (2019: £334m). This reduction is mainly due to lower expenditure on weather-related events; we spent £16m in 2018-19 as a direct result of the long, dry summer, while at the end of 2019-20 addressing the operational impacts of Storms Ciara and Dennis cost us some £4m. We estimate that the full impact of Storm Dennis, including expenditure incurred in 2020-21, will be around £18m, although ongoing insurance claims will reduce the total cost to the business. Other significant movements include the circa £5m impact of general inflation on our operating costs and a £4m COVID-19-related increase to our bad debt charge, which have been offset by ongoing efficiency initiatives across the organisation including increased energy generation (£5m) and the insourcing of activities (£2m). All water and sewerage companies use a lot of power for treatment and pumping processes. The undulating topography across Wales makes this a particular challenge for us.

Power costs during 2019-20 were £46m (2019: £46m). There remains significant uncertainty over future energy costs, and we have forward purchased a proportion of the estimated power requirements of the business for the current AMP through to 2025.

Water and sewerage companies are not permitted to disconnect supplies to non-paying domestic customers and, as a result, cash collection will always be challenging. The high priority attached to debt recovery in the Retail business has resulted in further collections improvements during the year. We are targeting customers who won't pay their bills, as opposed to those who can't pay, and the reduction comes principally from securing charging orders over property owned by customers, with over 7,000 orders secured over £12m of our customers' debt as at 31st March 2020. We expect collections to be impacted adversely by the COVID-19 pandemic and have factored this into our year-end provision for overall bad debt charge, increasing the charge by £4m to £25m.

**Exceptional items:** in the year to 31 March 2020 we have recognised exceptional items totalling £10.5m. These relate to restructuring costs during the next price control period 2020 to 2025 (AMP7) and comprise severance costs associated with headcount reduction and the cost of one-off payments to colleagues affected by changes to working patterns. The restructuring is on a smaller scale to those we have announced at the beginning of previous regulatory periods, and is focused on delivering identified savings in specific areas of the business, as already communicated to those business areas. We have provided for severance costs totalling £8m, which will be a key enabler of our plans to reduce headcount by around 200 FTEs during the period. There are firm plans in place, with most reductions expected to take place in 2020-21.

During 2019-20 we renegotiated a five-year Working Together Agreement with our recognised trade unions, effective from 1 April 2020, which included modifying certain colleagues' standard working hours and expected levels of overtime. As part of this, we committed to making one-off payments in 2020-21 to some 1,500 colleagues affected by this which will total some £2m. In the light of the COVID-19 pandemic we have temporarily suspended the introduction of these changes; we currently expect that these will come into effect later in 2020-21, once the impact of COVID-19 has been better understood and managed, and we are able to achieve a smooth transition.

**Financing costs:** net interest payable of £165m (excluding accounting gains or losses on derivatives noted below) was £3m lower than the previous year, primarily as a result of lower Retail Prices Index inflation. Dŵr Cymru has a number of derivative swap contracts which fix or inflation-link the cost of debt which were entered into when the Company was highly geared. While these are effective commercial hedges, they do not qualify for hedge accounting under IFRS 9. Changes in market values create volatility in the income statement and fair value losses in 2020 amounted to £18m (2019: loss of £17m). There is, however, no impact on cash flows: the Company intends to hold its remaining swaps to the maturity of the underlying debt and, over the life of the swaps, such gains and losses will revert to zero.

## Strategic report (continued)

---

**Taxation:** the Company continues to invest heavily in capital expenditure for the benefit of our customers. The tax relief for this capital expenditure and the interest we pay to fund it have the effect of delaying corporation tax payments to future periods. A tax credit of £0.8m has been generated from the surrender of tax losses relating to our investment in energy efficient capital expenditure under a Government-approved scheme. The Company has also claimed a tax credit of £1.3m under the Government's Research & Development Expenditure Credit (RDEC) initiative, which has been included within operating expenditure in Note 3.

The total tax credit in the income statement was £2.0 million (2019: £17.8 million credit). This includes a charge of £22.6 million as a result of deferred tax being calculated at 19% (2019: 17%) following the increase to the corporation tax rate announced in the 2020 Budget. If this is excluded from the total tax credit then the effective rate for the year is 16.2% (2019: 16.8%). A reconciliation is provided in Note 5.

**Loss before tax:** the income statement shows a loss before taxation of £152m (2019: loss of £115m) which takes into account the variances discussed above, including inflation and fair value movements.

**Pension funding:** the statement of comprehensive income reports a defined benefit pension scheme actuarial loss of £1m (2019: loss of £20m) and the balance sheet liability as at 31 March 2020 was £87m (2019: £96m). This valuation is on an IAS 19 basis for accounting purposes and is not consistent with the actuarial valuation of the scheme for funding purposes. The latest such valuation of the scheme was completed as at 31 March 2019 and projected a deficit which has since been mitigated by recovery payments totalling £12m during the year ended 31 March 2020. Exposure to any significant additional future liabilities was mitigated by the closure of the majority of sections of the scheme with effect from 1 April 2017.

**Net asset position:** the balance sheet shows net assets of £1,238m at 31 March 2020 (2019: £1,309m). The net book value of property, plant and equipment has risen by £227m (4%), a consequence of revaluing the Group's asset base to Dŵr Cymru's regulatory capital value. Cash balances are £168m (34%) higher than the prior year, following the Group's 2020 bond issues and there has been a corresponding increase in borrowings. The net deferred tax liability has increased by £52m (12%) principally as a result of the increase in the UK corporation tax rate (effective 1 April 2020) from 17% to 19%. Excluding non-cash fair value adjustments for derivative financial instruments, referred to above, the Company has net assets of £1,540m (2019: assets of £1,592m).

**Going concern:** the Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements for the year ended 31 March 2020 have been prepared on the going concern basis. (Full details are provided under "basis of preparation" in note 1 to the financial statements.)

**Capital investment:** Dŵr Cymru's strong financial position has been built up over the last 19 years, and provides a stable base from which it can respond positively to the challenges of economic uncertainty and drive forward its continuing large capital programme. Dŵr Cymru works with an alliance of contracting partners to deliver the capital investment programme at the best value for money for customers. Total net capital expenditure during the year (including infrastructure renewals expenditure) was £456m (2019: £452m).

### Financial key performance indicators

The Company is part of a group controlled by Glas Cymru Holdings Cyfyngedig (Glas Cymru). The Directors of Dŵr Cymru Cyfyngedig use group-wide key performance measures as indicators to the development, performance and position of the Company. These are discussed in the 2019-20 Annual Report and Accounts of Glas Cymru which does not form part of this report (available on the Group's website at [http://www.dwrcymru.com/en/Reading\\_Room\\_Library/Company-Reports.aspx](http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx)).

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

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

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

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

## Strategic report (continued)

---

### Future developments

Working on our Welsh Water 2050 Strategy for the next 30 year period has allowed us to examine the role we play in the communities we serve and to have a meaningful dialogue with our customers about how we will meet the external challenges over time.

Our detailed business plan for the next five year period, 2020-25 seeks to balance ensuring the affordability of the essential services we provide with the investment needed to maintain a resilient infrastructure. All gains eventually go to our customers, so that the interests of the Company and of customers are aligned, and the strategic direction of the Company takes this into account.

As well as delivering excellent service for customers, we need to manage costs carefully to keep bills as affordable as possible. The Board sets the Executive Remuneration policy which includes a significant element of variable pay, dependent on the Executive Directors delivering strong and consistent performance which achieves improved services for customers.

This is reinforced by a focus on transparency and honesty in all communications with our Members, customers and regulators, acknowledging those areas where we can still do better, and building on the progress we have made to deliver better service to customers.

### Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately and are discussed in 2019-20 Annual Report and Accounts of Glas Cymru. These include:

- health and safety major incident;
- major public health incident;
- major supply failure;
- loss of key talent, capability and competence;
- ICT risk;
- Macroeconomic risk and access to funding;
- uncertainty following Brexit; and
- failure to earn the trust and confidence of our customers.

Emerging risks which could affect the Group's ability to achieve its 2020-25 business plan or longer-term strategic goals are also closely monitored. The current such risks identified include:

- occupational health issues
- public health (micropollutants in drinking water); and
- public concern about environmental issues.

The above emerging risks are also discussed in the 2019-2020 Annual Report and Accounts of Glas Cymru.

### Events after the financial year

COVID-19: On 11 March 2020 the World Health Organisation declared the coronavirus outbreak to be a pandemic and the virus has continued to spread throughout the UK after 31 March 2020. The impact of COVID-19 is still being felt at the time of publication- with unprecedented restrictions on the everyday lives of people across the UK.

As a responsible water company with a commitment to the health of our people and the wellbeing of the communities we serve at our core, we acted to ensure that we contributed to the nationwide effort to combat the outbreak. This included acting promptly to mobilise home working for around a third of the company's employees. We quickly relocated our contact centre to home working, with minimal interruption to customer service.

Our key worker employees and our supply partners have continued to work out in our communities and sites to ensure services are maintained to our customers. We stopped routine visits to customer premises, but where these were unavoidable, we made arrangements for them to be carried out safely, both for our colleague and for the customer. We scaled back our work in some areas to focus on essential resilience projects, always following government guidance around work that supported the construction sector.

The government restrictions led us to introduce unprecedented flexibility in working arrangements, to ensure colleagues with children could at the same time fulfil their work and care for the families. The company also committed very early on not to furlough our workforce and to ensuring everyone would be paid at their normal salary rate for the duration of the crisis. In response, our team responded magnificently to protect the water and wastewater essential services that we provide, with individuals adopting amended shift patterns to deal with staff absences, and volunteering for cross- skilling training to enable them to provide cover for colleagues in operational teams. To further support our customer and suppliers, respectively, we suspended our charges to our business customers and put in place arrangements to expedite our payments to our suppliers.

## Strategic report (continued)

---

### Events after the financial year (continued)

We have prepared a baseline financial plan which reflects a view of the estimated impact of the COVID-19 pandemic on the Company; this assumes that lockdown is lifted in early June and social distancing continues into the autumn, with gradual lifting of restrictions. Unemployment is assumed to be around 10%, recovering to pre-pandemic levels by 2023; CPIH falls to an average of 1.5% during 2020 and recovers to the government's long-term target of 2% by December 2021. The estimated impacts on turnover in 2020/21 are an £11m reduction in non-household revenues (6%, demand-driven), offset by an increase in household revenues of circa £8m – a net reduction of £3m (however under regulatory mechanisms lost revenues are recoverable in future years).

This baseline plan has then been subject to a further more extreme downside stress scenario, which assumes an additional drop in CPIH below 1%, recovering to 2% by March 2023 and unemployment at around 12%. Consequential impacts on the Company's cost base are greater pressure on bad debts (circa £9m per annum through to 2022/23) and delays in the delivery of cost efficiencies in 2020/21 (£9 million), as well as further reductions in revenues.

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

Brexit: for the UK as a whole Brexit was a high-profile issue throughout the year to 31 March 2020 and the Company committed much time and effort to assessing its potential impact, in particular that of a "no deal" Brexit on the unrestricted supply of chemicals used in treatment processes. We have worked with the rest of the sector to put in place strong mitigation plans to deal with the potential practical impact of a 'no deal' Brexit. We were very pleased to be able to make a material contribution to UK-wide planning by Peter Perry, our Chief Executive, playing a leading role in the Water UK industry's taskforce in consultation with the UK and Welsh Governments, and regulators. The Directors do not consider that Brexit is likely to have a material impact on the activities of the Company, having regard to its sources of finance and future plans.

### S172(1) statement

This section sets out the Group's Section 172 Statement and should be read in conjunction with the Strategic Report on pages 2 to 6 and the Directors' Report on pages 7 to 14 of this annual report and financial statements. Reference to the Board means the joint Board of Directors of Glas Cymru and Dŵr Cymru Cyfyngedig.

Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders in their decision-making. The Directors continue to have regard to the interests of the Company's employees and other stakeholders, including the impact of its activities on the community, the environment and the Company's reputation, when making decisions.

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

The Board is mindful of the purpose and vision of the Company and is focused on promoting the long-term success of the Company, in particular given its role as the custodians of assets over the long term to enable the delivery of essential services to customers. While the requirement to give due consideration to the Company's stakeholders is not new, this statement has been included in the Annual Report and Financial Statements in order to provide more detail on how the Board engages with our stakeholders.

As part of its involvement in the PR19 price review process, the Board focused on understanding the views of the Company's key stakeholders over the five year period 2020–25 and the longer term. This price review process allowed the Board to reflect on how the Company engages with its stakeholders and opportunities for enhancement in the future.

### Engagement with stakeholders

On pages 20 to 23 of the Strategic Report in the 2019-20 Annual Report and Accounts of Glas Cymru, a copy of which is available to view on our website at [http://www.dwrcymru.com/en/Reading\\_Room\\_Library/Company-Reports.aspx](http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx), we set out details of our principal stakeholders, how and why we engage and the outcomes of those engagement processes. The relevance of each stakeholder group may increase or decrease depending on the matter or issue in question, so the Board seeks to consider the needs and priorities of each stakeholder group during its discussions and as part of its decision-making.

The Board regularly hears from our principal stakeholders, including representatives of Government, our regulators and customers, and about how we engage with them. The stakeholder voice is brought into the Boardroom throughout the annual cycle through information provided by management, and also by direct engagement with stakeholders themselves. In the case of regulators, this can be through their attendance at Board meetings.

In the case of customers, there are opportunities for Board members to observe focus groups, attend meetings of the Customer Challenge Group (an independent group of customer representative organisations), and to review the results of customer engagement exercises.

## Strategic report (continued)

---

### Engagement with stakeholders (continued)

Members of the Board also take the opportunity to listen to customer calls at our contact and operations call centre in Cardiff. The potential impact of the Board's decisions on our communities and customers is a key factor in decision-making, and issues are highlighted in Board papers seeking approval.

### Engagement with the workforce

The Board continues to enhance its methods of engagement with the wider workforce. With effect from 1 October 2019, and following an assessment by the Board of the three formal methods suggested within the 2018 UK Corporate Governance Code (the Code) for workforce engagement, it was concluded that the most effective method for engagement in the Company's particular circumstances would be the involvement of each Non- Executive Director in informal meetings with managers and engagement champions across the business, with the opportunity to feed back action points and observations.

### Engagement with suppliers

We aim to work responsibly with our suppliers. Our capital alliance partnership with our key capital development partners benefit from a capital alliance board, which includes our Managing Directors of Water and Wastewater, respectively, as members. Last year we implemented a contract and supplier management process, which has helped to formalise our relationships with other key suppliers. During the year, the Board reviewed our arrangements and approved the Company's Anti-Slavery Statement that sets out the steps taken to prevent modern slavery and unfair working practices in our business and supply chains.

### Engagement with Glas Cymru members

Glas Cymru Members fulfil an essential corporate governance role. Members receive no financial recompense for their involvement in the Company and are drawn from a wide-range of background and experiences, from across our supply area in Wales and England. They attend two formal meetings a year and have opportunities to meet members of the Board both formally and informally, and to raise any issues or concerns, either directly or via the Company Secretary. Members vote on formal resolutions at the Company's Annual General Meeting, including approval of the Executive Remuneration Policy and other Resolutions in the same way as shareholders' approval is sought under corporate governance requirements, and are also consulted on strategic issues, with their opinions being valued by the Board.

### Engagement with investors

The Board is directly involved in engaging with the views of our investors. Formal communications with our bondholders are subject to Board approval, and members of the Board attend the annual investor meeting held in July every year, where investors have the opportunity to ask questions of the Chief Financial Officer and other members of the Board.

### The role of the executive team

In preparation for taking on the role of Chief Executive Officer from 1 April 2020, Peter Perry undertook an internal reorganisation of senior management, and established a larger Dŵr Cymru executive team with effect from 1 January 2020, to support him in his duties and decision-making. This team, designated as senior management for the purpose of the Code but not for the purposes of section 414C(8) of the Companies Act 2006, comprises the senior functional management roles and, together, is comprised of those with responsibility for interacting with the Company's principal stakeholders. It is envisaged that this change in management structure will further enhance consideration of stakeholder interests in decision-making at both Board and at management level.

The Board has overseen the implementation of measures to ensure that stakeholder interests are always taken into account. Papers prepared by management for Board approval highlight relevant stakeholder considerations to be considered as part of the debate when making decisions, in order to ensure that sufficient consideration is given to stakeholder issues, and that the interests of all stakeholders and differences within these stakeholder groups (for example, the interests of our various customer groups) can be properly balanced.

Examples of where the Board has balanced the interests of different stakeholders in its decision- making include balancing long-term investment with costs, and in relation to bill levels and financial assistance for customers who struggle to pay.

By order of the Board.



N Williams  
**Company Secretary**  
5 June 2020



## Directors' report

---

The Board has prepared a Strategic report (pages 2 to 6) which provides a summary of the development and performance of the Company's business in the year ended 31 March 2020 and comments on likely future developments. Full details and analysis of the operational performance of Dŵr Cymru Cyfyngedig during the year to 31 March 2020 is included in the published 2019-20 Annual Report and Accounts of Glas Cymru.

The Directors have pleasure in presenting their annual report, together with the audited financial statements for the year ended 31 March 2020 on pages 18 to 54.

### Directors and employees

The Directors who held office during the year and up to the date of signing the financial statements are listed on page 1.

At 31 March 2020, the Company had 3,514 employees (2019: 3,630). Our success is fundamentally dependent upon our highly engaged and motivated people and we are committed to developing our people to meet the challenges of operating our business in the future and to encourage a diverse workforce that fully reflects the communities that we serve (see "Corporate social responsibility" below).

### Health and safety

Our health and safety performance for the year is encouraging and reflects the extensive efforts throughout the Company to instil a culture of proactive reporting and a safety-first mindset for every role in the Company. The number of RIDDORs (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) – injuries that need to be reported to the Health and Safety Executive (HSE) – is 8 which is the same as the record low reported last year. However, we consider any serious injury as one too many – and will continue our efforts to reach our ultimate aim of zero lost time injuries.

### Engagement with stakeholders

Details of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the year ended 31 March 2020 are set out within the Strategic Report on pages 5 and 6.

### Corporate Governance

At Glas Cymru, we view corporate governance as a core discipline which generates value for our stakeholders and allows us to deliver an essential public service. Our governance processes are based on transparency and fairness, underpinning the values of the Group and the Company purpose. The Group applies the principles set out in the UK Corporate Governance Code (Code) and Ofwat's Leadership, Transparency and Governance Principles (Ofwat Principles) as required by our Licence from Ofwat, which was amended in 2019 to include an obligation to comply with these Principles. Both the Code and Ofwat Principles are available to download at [www.frc.org.uk](http://www.frc.org.uk) and at <https://www.ofwat.gov.uk/publication/board-leadership-transparency-and-governance-principles>, respectively.

During the year ended 31 March 2020, we have complied with the provisions of the Code, except for Provision 41 that relates to engagement with the workforce to explain alignment of Executive remuneration with wider Company pay policy. Also, during the year ended 31 March 2020, we consider that we have met all four of the objectives under the Ofwat Principles.

For further information on how we have complied with the above, please refer to pages 108 to 153 contained in the Corporate Governance section of the 2019-20 Annual Report and Accounts of Glas Cymru. A copy of the report is available to view at [http://www.dwrcymru.com/en/Reading\\_Room\\_Library/Company-Reports.aspx](http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx) or by emailing the Company Secretary at [company.secretary@dwrcymru.com](mailto:company.secretary@dwrcymru.com).

Also within the 2019-20 Glas Cymru Annual Report and Accounts, is the Directors' Remuneration Report, which contains the new disclosure of the CEO pay ratio to UK employees, and the Report of the Nomination Committee which includes details on the Group's Diversity Policy.

### Innovation

Our innovation portfolio in AMP6 included some 621 ideas and proposals which have been reviewed through our iLab process since we started in April 2015. We have completed some 148 projects, winning 8 innovation awards in the process and worked with 145 partner organisations investing some £1.4m on new technology trials alone.

Our AMP7 proposals include some £76m of investment, the largest element of which include our Catchments work (circa £20m), our Sustainable management of Natural Resources (SMNR) investment's (circa £20m) and monitoring our environment to shape policy and Ofwat's thinking for PR24.

We published our Innovation Strategy and associated Journey Plans (one for each Strategic Response in Welsh Water 2020) in April 2019, to guide our thinking and focus our investments in AMP7. This was well received by the Stakeholders and Regulators

## Directors' report (continued)

---

alike. Our innovation investments continue to be targeted at driving efficiencies, reducing our environmental footprint and improving our health and safety record. As well as investing in driving innovative change, we continue to work closely with our Independent Environmental Advisory Panel (made up of regulators, academics and environmental stakeholders) who advise the business on the science and research we undertake. The Panel continues to assist us in tapping into the expertise and resources available in such bodies and to build our relationship with them, in order to leverage funding and expertise into our science and research work. More generally, we continue to drive elements of the national research agenda through our strategic relationship with the National Environmental Research Council (NERC) and UK Research and Innovation (UKRI), and by participation in water industry research initiatives, most notably through membership of the UK Water Industry Research partnership (UKWIR) which manages and coordinates the common research interests of UK water companies.

Our 2020 Innovation Conference, to which we hoped to have welcomed 700 guests have been delayed to the end of October. This annual event showcases examples of innovation from around the company and with our Alliance partners.

### Energy use and greenhouse gas emissions

|                              |   |        |
|------------------------------|---|--------|
| Net carbon emissions 2019-20 | - | 60,232 |
| Generated from renewables    | - | 122GWh |

Renewables made up 24% of our electricity and gas consumption in 2019-20

Since 2010 we have reduced our carbon emissions by 79%. We monitor and measure our carbon footprint by using the UK water industry carbon accounting tool, which follows the 2013 UK Government Environmental Reporting Guidance and the GHG Protocol Corporate Accounting and Reporting Standard (2015).

As part of our response to climate change and in order to reduce carbon emissions, Welsh Water invests in renewable energy generator technologies (combined heat and power running on biomethane derived from sewage sludge, bio-methane injection into the gas grid, hydro turbines, onshore wind turbines and solar photovoltaics) to supply by 2035, 35% of the energy we need to provide services to our customers. The remaining ~65% is procured from our electricity supplier Ørsted, who provide Welsh Water with 100% renewable energy, which is REGO (Renewable Energy Guarantee of Origin) backed.

### Corporate social responsibility

We see ourselves as more than just a water company providing drinking water and taking away wastewater – we are at the heart of the communities we serve and want to play a positive role to improve the world around us. We are committed to playing our part in ensuring we benefit not just the customers we have now – but also our future customers.

### Education

Our commitment to work for the benefit of future generations, now part of the constitution of the Company, means our education programme is more important than ever. This programme aims to inspire our future customers to become guardians of our water, as a precious natural resource, and educate them on a range of different areas that will benefit the communities they live in. Pupils are able to visit one of our four Discovery Centres – in Cilfynydd Wastewater Treatment Works near Merthyr Tydfil, Cog Moors Wastewater Treatment Works in Vale of Glamorgan, Llyn Brenig Visitor Centre in North Wales, and Elan Valley Visitor Centre in Mid Wales – or through visits to schools across all the areas we serve. Our teachers regularly visit primary and secondary schools to deliver workshops on water efficiency (Love Dŵr) and pollution (Let's Stop the Block). Since the formation of Glas Cymru in 2000, our education programme has expanded to reach more children than ever before. In July 2019, we celebrated reaching a milestone with this programme – with more than half a million children reached. We were joined in the Senedd by Assembly Members, former teachers, the founders of the programme, and by our Board and independent Members to celebrate this achievement – and set out how we intend to build on it in 2020–2025. Through these avenues, over the past year alone, we have reached more than 66,000 young people. We work with organisations like STEM Cymru and Engineering Education Scheme Wales to encourage young people, through secondary school education, to take up careers in the water industry, particularly young women. We also provide comprehensive bilingual online education resources to support teachers.

### Community fund

The Welsh Water Community Fund was launched in 2017 with the aim of supporting projects that benefit health, wellbeing, and the environment in the areas we serve. The Fund gives back to communities where we are carrying out work, and also contributes to the work we do to improve the world we live in for future generations, in line with our public service commitment to work for the good of the communities we serve. Our work with the Community Fund – which includes the Biodiversity Fund to support specifically environmental projects – has continued over the past year, with more than 120 projects awarded up to £1,000 in funding. This means that, since its creation, the Fund has benefitted more than 700 projects in communities we're working in. Our own Colleague Fund, specifically to support colleagues with their own individual fundraising efforts, has awarded more than £7,700 across the year, while nearly £25,000 has gone to support one of our official charity partners, WaterAid.

## Directors' report (continued)

---

### Supporting our communities in the context of COVID-19

In April 2020 the Board agreed to more than double the size of our existing Community Fund to £300,000 to target aid for those impacted by COVID-19. This additional money will be used to support three organisations which are playing a key role in helping community organisations – Business in the Community Wales, Community Foundation Wales and the Trussell Trust Wales. In addition, we have committed £11 million of financial support from the Company to ensure we can provide financial assistance to those of our customers who struggle to pay their bills

### Water resilient communities

The Water Resilient Communities project aims to build a lasting legacy in the areas where we are doing major work, beyond just pipes in the ground. Following the completion of our successful pilot project in Rhondda Fach, we have launched two further projects in Rhyl and Rhymney-Bargoed – and in the first two months of 2020, we worked with 2,500 pupils in the areas with our education programme alone. In Rhondda Fach, we reached 2,000 children with lessons on the water cycle – covering lessons on safety around reservoirs, water efficiency, and how we dispose of waste safely. We also helped save customers £120,000 through lower bills through promotion of our social tariffs, while working with 23 groups and organisations to change the way we do things.

### Stakeholder events

We work with stakeholders throughout the year – engaging with them about the work we do and working in partnership with the local community to minimise any disruption we cause. In the past year, we hosted 136 community information events, sent 153,059 letters to customers about work we're doing, and met with 48 political stakeholders to explain why we're working in their areas. In March 2020, we held an event in the Senedd to launch a series of commitments to the wellbeing of future generations, which set out our plan to enhance the communities we serve over the next five-year investment period. This was attended by around 60 guests, including Assembly Members, and was addressed by Deputy Minister for the Welsh Government, Jane Hutt AM.

### WaterAid

Our commitment to improving the world around us extends beyond the borders of the areas we serve – we support communities in Uganda to build sustainable and safe water and wastewater systems and provide hygiene education. This links to WaterAid's aim to help everyone, everywhere by 2030. That's why Welsh Water has been supporting WaterAid since 1981 – when we co-founded it along with the rest of the industry. Our employees and customers have since given more than £1 million to support WaterAid's work and provide regular school outreach activities with lesson plans based around our replica Ugandan Village in Cilfynydd, which demonstrates just how far some people in Uganda have to carry water to reach their homes. In the past year, colleagues have raised more than £53,000 (2018–19: £77,000) for WaterAid through several fundraising activities.

During the year, as part of our commitment to supporting better infrastructure for water and sanitation systems abroad, our Managing Director of Wastewater Services, Steve Wilson, and Water Services colleagues James Lees and Mark Rychnovsky, visited our funded project in Mbale, Uganda, with colleagues from WaterAid. The trip saw us work with the Ugandan government, water authorities, and individual schemes to see the impact of previous Welsh Water projects, as well as the challenges which the Company could support in future – including sanitation planning, water quality treatment, source protection, systems to detect and prevent leaks, and proposed projects for community engagement to get local buy-in. We are developing a programme to support sharing of knowledge and training to support the Ugandan authorities to expand the schemes in place, and to increase accessibility to clean drinking water and sanitation.

### Prince's Trust Cymru

We have also continued our support of the Prince's Trust Cymru, a charity which helps vulnerable young people get their lives back on track. It supports 11–30 year olds who are unemployed, and those struggling at school and at risk of exclusion. This partnership has included fundraising by colleagues through "Million Makers" – and our team of graduates has raised more than £20,000 through several fundraising activities, including a 10km run, an open mic night and a pub quiz. Our Community Fund also pledges to match funds raised by our colleagues for WaterAid and Prince's Trust to the value of £15,000 each per year, while individual employees can claim up to £200 match funding for their own charity efforts.

### Visitor centre investments

As custodian of approximately 40,000 hectares (90,000 acres) of land that is rich in scenery and biodiversity, we are able to provide extensive opportunities for public recreation, education, health and wellbeing. Our Visitor Centres at Llandegfedd (Gwent), Brenig (Denbighshire), and Elan Valley (Powys), where we provide a range of sporting, recreational and leisure facilities, continue to be popular with customers and attracted over 650,000 visitors in 2019–20. With planned investment in our reservoirs at Lisvane and Llanishen and the redevelopment of Llys-y-Frân, we are working to grow visitor numbers to 830,000 by 2024–25.

## Directors' report (continued)

---

### Lisvane and Llanishen reservoirs

These two reservoirs, situated in the north of Cardiff, were acquired by Welsh Water in early 2016, with a view to restoring them to their former glory and opening them up for the public to enjoy. Alongside the extensive maintenance and safety works, we have been engaging with key stakeholders and the local community to create a shared vision for the site, which is uniquely placed in a major urban conurbation. We have been working closely with NRW and Cardiff Council to develop our access and recreational strategy to maximise public access, while protecting and enhancing the special features of the site. Detailed plans are in development for a visitor hub and watersports facilities, culminating in a planning application to be lodged in 2020. Through working in partnership with Cardiff Council, Cardiff and Vale University Health Board and the local Reservoir Action Group, a £930k ENRAW (Enabling Natural Resources and Wellbeing scheme) grant has been secured from Welsh Government. This will fund the creation of paths around the reservoirs, conservation and learning zones, signage and interpretation and an innovative community engagement programme with education, volunteering and social prescribing strands.

### Llys-y-Frân reservoir

Llys-y-Frân in Pembrokeshire is currently closed for a major redevelopment of the site, supported by £1.7 million European Regional Development Fund grant through Visit Wales. The plans – which aim to realise our ambition of creating a first-class tourism destination in inland Pembrokeshire – include creating a recreational park and activity centre which will attract an estimated 40,000 additional tourists, outdoor enthusiasts and local residents each year. The project includes the refurbishment and expansion of the visitor centre and café, a new Outdoor Activity Centre to enable a range of watersports, a bike pump skills track and an extended cycle trail around the reservoir.

### Elan valley

Elan Valley in Powys is benefitting from a £3.3 million investment over five years with support from the Heritage Lottery Fund, local and national partners. Through the Elan Links partnership, led by Elan Valley Trust, 26 projects are being delivered to protect and restore historic sites, increase access, recreation and learning opportunities; encourage volunteering, education and skills development; and enhance nature and wildlife. The project has seen the charity Tir Coed working with groups to develop woodland management skills and build a Welsh Roundhouse as part of a training project.

### Llyn Brenig

Llyn Brenig in Denbighshire has secured a £128k grant from Visit Wales to support the Osprey project and enable the live streaming of the nest. We are working closely with the RSPB Wales and North Wales Wildlife Trust to take the Brenig Osprey project forward.

### Biodiversity

Since December 2019, under the Environment (Wales) Act 2016, we report on a three-yearly basis on compliance with our duty to strengthen biodiversity and ecosystems across our supply area. We were the first organisation in Wales to publish a biodiversity plan in December 2018. Our plan – Making Time for Nature – highlighted what we are doing across the business to support nature and biodiversity and what we intended to do by 2019. In December 2019 we published “Doing The Right Thing For Nature”, which tracked the progress we have made since our initial plan. This showed we are on track, or progressing, the majority of the commitments we made in our action plan. Examples of projects we have supported through our Biodiversity Fund, set up in 2018 to help support other organisations with their efforts to benefit the environment, include a wetlands biodiversity enhancement project in Llanelli, the restoration of a large pond in Castle Meadows, Abergavenny, a scheme to encourage fishery owners and community groups to adopt a tributary of the River Tywi and improving access of migratory fish to stretches of the Rivers Conwy and Clwyd.

### Our People

As one of the biggest employers in Wales and serving 3.1 million people across our supply area in Wales and England, we are very aware of our responsibility to our employees and to the wider community.

We do not discriminate against applicants or employees on the basis of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation (“protected characteristics” in accordance with the Equality Act 2010) or any other personal characteristic. If an employee is disabled or becomes disabled, we consider any reasonable adjustments that we can make that would help overcome or minimise the impact of the disability in the workplace. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability. We were therefore pleased to have achieved accreditation as a Disability Confident Employer this year.

## Directors' report (continued)

---

### Equality, diversity and inclusivity

We believe in doing the right thing for our customers, colleagues and the Company, and we are committed to recognising and promoting equality, diversity and inclusivity and treating others with dignity and respect at all times. We have recruited "Inclusivity Ambassadors" over the past year to be part of our first-ever inclusivity working group. This group, made up of colleagues across each of the Protected Characteristics defined by the Equality Act, has since been examining the Company's equality, diversity and inclusivity strategy and is building an action plan. By engaging with diverse talent, Welsh Water is able to improve access to skills that are in short supply, creating a larger talent pool, and also enhance our reputation as Employer of Choice. By working to develop a workforce representative of the customers served, Welsh Water will build customer trust, benefitting not only recruitment, but wider business aims also. Working with charities and organisations such as WISE and Stonewall, Chwarae Teg and the Prince's Trust, Welsh Water is able to attract individuals who may otherwise feel that there are significant barriers to employment. Welsh Water's commitment to a gender diverse workforce is supported by our work with WISE, a campaign for gender balance in science, technology and engineering. Following their ten step model means making the right cultural changes that can in turn have a significant impact on attraction, recruitment and retention, as does signing up as a FairPlay employer with ChwaraeTeg and promoting their "Step to Non-Exec" programme, which targets women aged between 21 and 30. We have sponsored some of our female colleagues to take up Non -Executive Director roles within other organisations.

Our work with EU Skills on the Diversity and Inclusion Network Forum means that we are able to work with other companies in diversifying the workforce and ensuring that as a sector we are fair and equal, whilst also retaining this talent to ensure a sustainable and resilient future for the essential services delivered by the sector. As part of our work together within the EU Skills Partnership, we have collectively built and progressed an Inclusion Commitment that already has 32 UK companies participating. Also as part of our membership of the Talent Source Network, Welsh Water is involved in a number of diverse job boards including DESIblitz (a British Asian web magazine).

We work with the Prince's Trust to support the recruitment of our apprentices and graduates to broaden our range of selection methods and to complement our diversity agenda. We also signed up to Disability Confident; and this year successfully achieved our 'Disability Confident Employer' award, and the Business Disability Forum to promote Welsh Water as an employer to individuals with disabilities. We are also working with Remploy to introduce a Disability Work Readiness Programme, a one week work shadowing programme for people with disabilities or health conditions who have been unemployed for at least a year. This also reinforces that we as an employer are committed to employing people with the right skills and attributes regardless of their background or characteristics. To develop our commitment further we have become a Defence Recognised Employer by signing the Armed Forces Covenant, removing the barriers to employment for ex-military and reservists working in Welsh Water.

To improve our ability to attract diverse employees we intend to:

- continue to engage with organisations with links to related talent pools;
- seek relevant ideas and information from our current workforce; and
- change the way we recruit to reach out to different community leaders and gain their support, establishing relationships with key third party organisations who can help us reinforce our credentials as an employer committed to improving diversity.

### Career Paths

We offer a number of different development routes to those choosing to join our business for graduates, degree apprenticeships, various other apprenticeships, and internships and work experience.

### Supporting our colleagues and supply chain

During 2019–20 we have continued to focus on wellbeing issues across our colleague base, and during the year we recruited a further 11 Wellbeing Champions. We have enhanced the training we offer to managers in relation to mental health and have introduced i-act training and developed a Talking Toolkit. We continue to work alongside mental health charity, Mind Cymru, to help us stay focused on reducing the stigma surrounding mental health and we have spoken at events at Natural Resources Wales and Public Health Wales about the work we have done in supporting colleagues who need assistance.

### Human rights

We are committed to respecting human rights in relation to colleagues, and our supply chain. Our Code of Conduct was relaunched in March 2018. This explicitly encourages colleagues to "speak up" if anything doesn't seem right to them, in order to reinforce our culture of "doing the right thing" and individual accountability. The Code of Conduct is supported by several Group policies, as well as associated procedures and guidance, including:

## Directors' report (continued)

---

### Anti-bullying and harassment

We respect human dignity and the rights of individuals. Our Group policy articulates how colleagues should behave towards each other. During 2018 the Executive team and senior managers undertook unconscious bias training to reinforce our commitment to a culture of inclusivity and respect. Unconscious Bias training was made available to all colleagues through eLearning in 2019 and is now part of all new colleagues' induction.

### Safeguarding

We are committed to ensuring that colleagues who work with children and vulnerable adults are properly trained, and this year we have developed our policy in this area to support this. We are now working with a provider to deliver safeguarding training to our colleagues, designated safeguarding leads and their deputies who work with children and vulnerable adults.

### Whistleblowing

A healthy culture where individuals feel able to speak out about anything that causes them concern is an important part of our three lines of defence compliance model. We publicise the availability of our external helpline, which provides an additional confidential and secure means to enable our employees, suppliers, business partners and other stakeholders to raise concerns about conduct which is contrary to our values. We are fully committed to protecting any employee who reports a breach or suspected breach of the Code of Conduct or raises any other public interest disclosure. The Audit Committee receives Whistleblowing reports in private meeting with the Head of Internal Audit at the end of each meeting. Matters are investigated and reported back to the Committee at its next meeting.

### Modern slavery act 2015

Welsh Water is committed to meeting the aims of the Act. We strongly oppose slavery, human trafficking and child labour and we work to raise awareness across the business and in our supply chains. We have made clear to colleagues and suppliers that we will not tolerate slavery and human trafficking in our supply chains or any part of our business. To be trusted to do the right thing is one of our core values. We would never knowingly engage with suppliers or contractors involved in slavery or human trafficking, and reserve the right to terminate our agreements with any third party found to have engaged in unfair employment practices. Our Anti-Slavery Policy sets out Welsh Water's commitment to acting ethically and with integrity in our supply chain arrangements. We regularly review the effectiveness of our policies and procedures, to ensure they remain fit-for-purpose.

During the COVID-19 pandemic we have taken steps to ensure the safety of our capital and operations contractors; we have adopted COVID-19 safe working construction practices, as set out by the Construction Leadership Council, and have re-planned work to enable social distancing, wherever possible, and the use of appropriate PPE. We have amended our payment cycle and all invoices are now paid within 10 days of approval. We have sought to support suppliers and measures include regular communications with key suppliers, the sharing of work plans and frequent discussions on resource availability. We have brought forward work to provide suppliers with continuity of work thereby reducing the need for furloughing. We have engaged with our offshore suppliers to test how workers, now based at home, are being supported. We have invested in additional transport to enable socially distant travel for relevant suppliers. Our Anti-Slavery statement can be found at [dwcymru.com/AR2020-antislavery](http://dwcymru.com/AR2020-antislavery).

### Anti-bribery & corruption and anti-fraud

Our Group policy makes it clear that we will not tolerate any acts of fraud, dishonesty, bribery, corruption, theft or improper disclosure of confidential information. The Group treats these issues very seriously and expects any issues to be reported immediately. This is reinforced by our strict policy on hospitality and gifts from suppliers, which is regularly monitored and enforced. The Audit Committee carries out an annual review of our systems of internal control as part of our ongoing efforts to prevent bribery and corruption in our business and our supply chain.

### Conflicts of interest

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

### 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 in all that we do which includes respecting their data protection rights and in compliance with Data Protection legislation. We have embedded our updated Group-wide policies and procedures (in relation to the collection, use and handling of personal information and individuals' rights) following the coming into force of the Data Protection Act 2018 (the General Data Protection Regulation). The Data Protection Officer and her assistant solicitor continue to raise awareness across the Group that the personal data we hold belongs to individual customers or colleagues, highlighting the importance of protecting their privacy, and keeping our processes under review and adopting them where necessary. Our Privacy Statement is available on our website: [dwcymru.com/AR2020-Statements](http://dwcymru.com/AR2020-Statements).

## Directors' report (continued)

---

### Data protection and information security (continued)

Our policies also reinforce the role of individuals in keeping information secure and accurate. The Audit Committee regularly reviews our approach to cyber security risk. During the year, we maintained our Cyber-Essentials certification and we are working towards ISO27001 accreditation for our information security controls.

### Supplier payment policy

Our review of our creditor payment performance confirms that Welsh Water is among the best companies for prompt payment to its suppliers – with 90% of suppliers paid within 30 days of invoice receipt. In May 2019 we signed up to the UK Government's Prompt Payment Code and have exceeded its requirement to pay 95% of suppliers within 60 days. During the six months to 31 March 2020 our average payment time (from receipt of invoice) was 23 days.

### Political donations

It is Board policy not to make donations to political parties or to incur political expenditure. During the year we agreed to make payments of £45,000 to Citizens Advice to fund a debt adviser providing advice to our customers in Rhondda Cynon Taff, and £19,000 to Step Change to support the work the charity does in providing debt advice to our customers. We are disclosing these payments as both organisations also campaign 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 to be disclosed under section 366 of the Companies Act 2006.

### Financial risk management

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

### Dividend

No dividend was declared or paid in the year (2019: none).

### Welsh Language Scheme

We have adopted the principle that in the context of conducting our public business in Wales we will treat the Welsh and English languages on a basis of equality. We welcome dealing with customers and other stakeholders in Welsh or English and aim to provide an effective standard of service in both languages. We also encourage the use of Welsh amongst our colleagues and run Welsh language lessons to support those wishing to learn or develop their proficiency in the language.

Our Welsh Language Scheme is an approved scheme under the provisions of the Welsh Language Act 1993. We are continuing to work closely with the Welsh Language Commissioner's office to prepare for the implementation of the provisions of the Welsh Language (Wales) Measure 2011.

### Regulatory accounts

Condition F of the Instrument of Appointment, under which Dŵr Cymru Cyfyngedig operates, requires that Dŵr Cymru Cyfyngedig publish additional financial information as an 'appointed business'. A copy of this information will be published on Dŵr Cymru Cyfyngedig's website by 15 July 2020 and will also be available on request from the Company Secretary.

### Group structure

These financial statements for Dŵr Cymru Cyfyngedig cover the year to 31 March 2020. The Company's immediate parent company is Dŵr Cymru (Holdings) Limited. The entire share capital of Dŵr Cymru (Holdings) Limited is owned by Glas Cymru (Securities) Cyfyngedig, which is wholly owned by Glas Cymru Anghyfyngedig. The ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales.

### Disclosure of information to auditor

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

## Directors' report (continued)

---

### **Auditor**

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



N Williams  
**Company Secretary**

Registered office:  
Pentwyn Road  
Nelson  
Treharris  
Mid Glamorgan  
CF46 6LY

5 June 2020



## Statement of Directors' responsibilities

---

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

Company law requires the Directors to prepare the financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that 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 company and to prevent and detect fraud and other irregularities.

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

# Independent auditor's report to the members of Dŵr Cymru Cyfyngedig

---

## Opinion

We have audited the financial statements of Dŵr Cymru Cyfyngedig, (the Company) for the year ended 31 March 2020 which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

## Strategic report and Directors' report

The Directors are responsible for the Strategic report and Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

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

---

### Directors' responsibilities

As explained more fully in their statement set out on page 15, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The purpose of our audit work and to whom we owe our responsibilities

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



**James Ledward (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
3 Assembly Square  
Britannia Quay  
Cardiff  
CF10 4AX

5 June 2020

## Income statement for the year ended 31 March 2020

|   |      | 2020           | 2019           |
|---|------|----------------|----------------|
| Continuing activities                                 | Note | £m             | £m             |
| Revenue   | 2    | 777.3          | 779.8          |
| <b>Operating costs:</b>                               |      |                |                |
| - Operational expenditure                             | 3    | (324.0)        | (333.5)        |
| - Exceptional item                                    | 3    | (10.5)         | -              |
| - Infrastructure renewals expenditure                 | 3    | (96.5)         | (83.9)         |
| - Depreciation and amortisation                       | 3    | (315.1)        | (291.8)        |
|   |      | <u>(746.1)</u> | <u>(709.2)</u> |
| <b>Operating profit</b>                               |      | <u>31.2</u>    | <u>70.6</u>    |
| Profit on disposal of property, plant and equipment   |      | <u>0.4</u>     | <u>0.2</u>     |
|   |      | <b>31.6</b>    | <b>70.8</b>    |
| <b>Financial expenses:</b>                            |      |                |                |
| Financial income                                      | 4a   | 6.1            | 4.9            |
| Financial expenses                                    | 4a   | (171.3)        | (173.4)        |
| Fair value losses on derivative financial instruments | 4b   | (18.1)         | (17.4)         |
|   |      | <u>(183.3)</u> | <u>(185.9)</u> |
| <b>Loss before taxation</b>                           |      | <u>(151.7)</u> | <u>(115.1)</u> |
| Taxation  | 5    | 2.0            | 17.8           |
| <b>Loss for the year</b>                              |      | <u>(149.7)</u> | <u>(97.3)</u>  |

The notes on pages 23 to 54 form part of these financial statements.

## Statement of comprehensive income for the year ended 31 March 2020

---

|  | Note | 2020<br>£m     | 2019<br>£m |
|--|------|----------------|------------|
| <b>Loss for the year</b>                                     |      | <b>(149.7)</b> | (97.3)     |
| <b>Items that will not be reclassified to profit or loss</b> |      |                |            |
| Actuarial loss recognised in the pension scheme              | 21   | <b>(0.9)</b>   | (19.9)     |
| Related deferred tax   | 6    | <b>0.2</b>     | 2.6        |
| Revaluation of property, plant and equipment                 | 7    | <b>132.0</b>   | 132.2      |
| Related deferred tax   | 6    | <b>(52.1)</b>  | (22.5)     |
|  |      | <hr/>          | <hr/>      |
|  |      | <b>79.2</b>    | 92.4       |
|  |      | <hr/>          | <hr/>      |
| <b>Total comprehensive loss for the year</b>                 |      | <b>(70.5)</b>  | (4.9)      |

## Balance sheet as at 31 March 2020

|                                    | Note | 2020<br>£m       | 2019<br>£m       |
|------------------------------------|------|------------------|------------------|
| <b>Assets</b>                      |      |                  |                  |
| <b>Non-current assets</b>          |      |                  |                  |
| Property, plant and equipment      | 8    | 5,748.6          | 5,522.0          |
| Intangible assets                  | 9    | 191.8            | 174.8            |
| Other financial assets:            |      |                  |                  |
| - derivative financial instruments | 14   | 0.2              | 3.8              |
|                                    |      | <u>5,940.6</u>   | <u>5,700.6</u>   |
| <b>Current assets</b>              |      |                  |                  |
| Inventories                        |      | 4.0              | 3.9              |
| Trade and other receivables        | 10   | 574.6            | 572.4            |
| Cash and cash equivalents          | 11   | 658.7            | 490.3            |
| Other financial assets:            |      |                  |                  |
| - derivative financial instruments | 14   | 0.1              | 1.1              |
|                                    |      | <u>1,237.4</u>   | <u>1,067.7</u>   |
| <b>Total assets</b>                |      | <u>7,178.0</u>   | <u>6,768.3</u>   |
| <b>Liabilities</b>                 |      |                  |                  |
| <b>Current liabilities</b>         |      |                  |                  |
| Trade and other payables           | 12   | (564.1)          | (559.7)          |
| Provisions                         | 16   | (6.4)            | (4.1)            |
| Other financial liabilities:       |      |                  |                  |
| - borrowings                       | 13   | (415.3)          | (205.2)          |
| - derivative financial instruments | 14   | (23.4)           | (26.9)           |
|                                    |      | <u>(1,009.2)</u> | <u>(795.9)</u>   |
| <b>Net current assets</b>          |      | <b>228.2</b>     | <b>271.8</b>     |
| <b>Non-current liabilities</b>     |      |                  |                  |
| Trade and other payables           | 12   | (314.4)          | (264.7)          |
| Employee benefits                  | 21   | (87.4)           | (96.2)           |
| Provisions                         | 16   | (8.7)            | (3.4)            |
| Other financial liabilities:       |      |                  |                  |
| - borrowings                       | 13   | (3,760.1)        | (3,608.1)        |
| - derivative financial instruments | 14   | (278.7)          | (261.8)          |
| Deferred tax - net                 | 6    | (481.4)          | (429.6)          |
|                                    |      | <u>(4,930.7)</u> | <u>(4,663.8)</u> |
| <b>Total liabilities</b>           |      | <u>5,939.9</u>   | <u>(5,459.7)</u> |
| <b>Net assets</b>                  |      | <u>1,238.1</u>   | <u>1,308.6</u>   |
| <b>Equity</b>                      |      |                  |                  |
| Share capital                      | 17   | 309.9            | 309.9            |
| Capital redemption reserve         |      | 166.2            | 166.2            |
| Revaluation reserve                | 7    | 778.7            | 764.5            |
| Retained earnings                  |      | (16.7)           | 68.0             |
| <b>Total equity</b>                |      | <u>1,238.1</u>   | <u>1,308.6</u>   |

The financial statements on pages 18 to 54 were approved by the Board of Directors on 5 June 2020 and were signed on its behalf by:



P M Davis  
Chief Financial Officer

Registered N<sup>o</sup> 2366777

## Statement of changes in equity for the year ended 31 March 2020

|                               | Share<br>capital<br>£m | Capital<br>redemption<br>reserve<br>£m | Revaluation<br>reserve<br>£m | Retained<br>earnings<br>£m | Total<br>equity<br>£m |
|-------------------------------|------------------------|--|------------------------------|----------------------------|-----------------------|
| At 1 April 2018               | 309.9                  | 166.2                                  | 717.8                        | 119.6                      | 1,313.5               |
| Loss for the year             | -                      | -                                      | -                            | (97.3)                     | (97.3)                |
| Actuarial gain net of tax     | -                      | -                                      | -                            | (17.3)                     | (17.3)                |
| Revaluation net of tax        | -                      | -                                      | 109.7                        | -                          | 109.7                 |
| Transfer to retained earnings | -                      | -                                      | (63.0)                       | 63.0                       | -                     |
| <b>At 31 March 2019</b>       | <b>309.9</b>           | <b>166.2</b>                           | <b>764.5</b>                 | <b>68.0</b>                | <b>1,308.6</b>        |
| Loss for the year             | -                      | -                                      | -                            | (149.7)                    | (149.7)               |
| Actuarial gain net of tax     | -                      | -                                      | -                            | (0.7)                      | (0.7)                 |
| Revaluation net of tax        | -                      | -                                      | 79.9                         | -                          | 79.9                  |
| Transfer to retained earnings | -                      | -                                      | (65.7)                       | 65.7                       | -                     |
| <b>At 31 March 2020</b>       | <b>309.9</b>           | <b>166.2</b>                           | <b>778.7</b>                 | <b>(16.7)</b>              | <b>1,238.1</b>        |

## Cash flow statement for the year ended 31 March 2020

|   | Note | 2020<br>£m     | 2019<br>£m     |
|---|------|----------------|----------------|
| <b>Cash flow from operating activities</b>                                |      |                |                |
| Cash generated from operations  | 18   | 340.9          | 361.4          |
| Interest paid   |      | (136.8)        | (132.5)        |
| Income tax received   |      | 2.1            | 0.4            |
| <b>Net cash flow from operating activities</b>                            |      | <b>206.2</b>   | <b>229.3</b>   |
| <b>Cash flow from investing activities</b>                                |      |                |                |
| Interest received   |      | 6.0            | 4.8            |
| Purchase of property, plant and equipment                                 |      | (337.0)        | (354.5)        |
| Purchase of intangible assets   |      | (46.1)         | (48.5)         |
| Grants and contributions received   |      | 24.6           | 19.3           |
| Proceeds from sale of property, plant and equipment                       |      | 0.6            | 1.0            |
| <b>Net cash flow from investing activities</b>                            |      | <b>(351.9)</b> | <b>(377.9)</b> |
| <b>Net cash flow before financing activities</b>                          |      | <b>(145.7)</b> | <b>(148.6)</b> |
| <b>Cash flow from financing activities</b>                                |      |                |                |
| Repayment of borrowings   |      | (140.1)        | -              |
| Increase in borrowings  |      | -              | 136.6          |
| Intercompany loan received  |      | 495.6          | -              |
| Long-term loan received   |      | -              | 250.0          |
| Loan repaid to group undertaking  |      | (29.1)         | (21.6)         |
| Payment of lease liabilities (2019: financial lease principal repayments) |      | (12.3)         | (0.9)          |
| <b>Net cash flow from financing activities</b>                            |      | <b>314.1</b>   | <b>364.1</b>   |
| <b>Increase in cash and cash equivalents</b>                              | 19b  | <b>168.4</b>   | <b>215.5</b>   |
| Cash and cash equivalents at 1 April                                      |      | 490.3          | 274.8          |
| <b>Cash and cash equivalents at 31 March</b>                              | 11   | <b>658.7</b>   | <b>490.3</b>   |



# Notes to the financial statements

---

## 1. Accounting policies, financing risk management and accounting estimates

### Accounting policies for the year ended 31 March 2020

Dŵr Cymru Cyfyngedig (the Company) is a private company incorporated, domiciled and registered in Wales in the UK. The registered number is 2366777 and the registered address is Pentwyn Road, Nelson, Treharris, Mid Glamorgan CF46 6LY.

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

#### **Basis of preparation**

The financial statements of Dŵr Cymru Cyfyngedig have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU (Adopted IFRSs). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed assets, financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss. The presentational currency of these accounts is GBP and all balances are shown rounded in £m.

The preparation of financial statements to conform with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on page 32.

#### **Going concern**

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

In assessing the appropriateness of the going concern basis of accounting the Directors have reviewed the resources available to the Company in the form of cash and committed bank facilities as well as consideration of the Company's capital adequacy, along with a baseline plan which reflects a view of the estimated impact of the COVID-19 pandemic on the Company.

This baseline plan assumes that lockdown is lifted in early June and social distancing continues into the autumn, with gradual lifting of restrictions. Unemployment is assumed to be around 10%, recovering to pre-pandemic levels by 2023; CPIH falls to an average of 1.5% during 2020 and recovers to the government's long-term target of 2% by December 2021. The estimated impacts on turnover in 2020/21 are an £11m reduction in non-household revenues (6%, demand-driven), offset by an increase in household revenues of circa £8m – a net reduction of £3m (however under regulatory mechanisms lost revenues are recoverable in future years).

This baseline plan has then been subject to a further more extreme downside stress scenario, which assumes an additional drop in CPIH below 1%, recovering to 2% by March 2023 and unemployment at around 12%. Consequential impacts on the Company's cost base are greater pressure on bad debts (circa £9m per annum through to 2022/23) and delays in the delivery of cost efficiencies in 2020/21 (£9 million), as well as further reductions in revenues.

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

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

#### **Changes in accounting policies and disclosures**

The following new standards, amendments and interpretations have been adopted by the Company for the first time for the financial year beginning on 1 April 2019:

- Annual improvements to IFRS Standards 2015-2017 Cycle
- IFRS 16 'Leases'.

## Notes to the financial statements (continued)

---

### 1. Accounting policies, financing risk management and accounting estimates (continued)

#### Accounting policies for the year ended 31 March 2020 (continued)

##### Changes in accounting policies and disclosures (continued)

- Amendments to IAS 19 'Employee Benefits' which clarifies the accounting for defined benefit plan amendments, curtailments and settlements.
- Amendment to IAS 28 'Investments in associates and joint ventures' which clarifies the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied.
- Amendments to IFRS 9 'Financial Instruments' which clarifies the treatment of financial assets with prepayment features with negative compensation.
- Interpretation 23 'Uncertainty over Income Tax Treatments' which explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

The adoption of these standards, amendments and interpretations has not had a material impact on the financial statements of the Company, except for the adoption of IFRS 16 'Leases' where the impact of adoption of this new standard is set out below:

##### **IFRS 16 Leases**

IFRS 16 revises the treatment of leases in financial statements and largely eliminates the accounting distinction between operating and finance leases.

The Directors have assessed the impact of adopting IFRS 16 and have used the modified retrospective approach on first time adoption, and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The application of IFRS 16 in the year to 31 March 2020 has resulted in the recognition of a £1.4m right-of-use asset (included in property, plant and equipment) and associated lease liability (included in other financial liabilities: borrowings) where previously under IAS 17 there were none, along with a small reduction in operating costs and increase in depreciation in the income statement (£0.2m).

In addition, assets held under finance leases on the balance sheet have been reclassified as right-of-use assets with effect from 1 April 2019.

The Company presents right-of-use assets that do not meet the definition of investment property in property, plant and equipment and lease liabilities in borrowings in the balance sheet.

The Company, applying the practical expedients on a lease-by-lease basis to its portfolio of leases, has elected not to recognise the right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment.

The Company has also elected to apply a single discount rate to the portfolio of leases that are deemed to have reasonably similar characteristics as well as to exclude any initial direct costs in the measurement of the right-of-use asset. The discount rate of 4% is based on the Company's estimated incremental borrowing rate.

##### **IFRS 16 'Leases' Accounting policy**

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payment arising from a change in an index or rate or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

## Notes to the financial statements (continued)

---

### 1. Accounting policies, financing risk management and accounting estimates (continued)

#### Accounting policies for the year ended 31 March 2020 (continued)

The Company has used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular the Company:

- did not recognise right of use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right of use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right of use asset at the date of initial application: and
- used hindsight when determining the lease term.

#### Previous accounting policy under IAS 17 (applying to 2019 disclosures)

Certain assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases). These assets are capitalised and included in 'property, plant and equipment' with the corresponding liability to the lessor included within 'other financial liabilities – borrowings'. Leasing payments consist of a capital element and a finance charge; the capital element reduces the obligation to the lessor and the finance charge is recognised over the period of the lease based on its implicit rate so as to give a constant rate of interest on the remaining balance of the liability.

#### **Future changes to accounting standards**

At the date of approval of these financial statements, the following Standard and Amendments, which have not been applied in these financial statements, were in issue but not yet effective:

##### Standards

- IFRS 17 – Insurance Contracts
- 

##### Amendments

- IAS 1 – Presentation of Financial Statements
- IFRS 3 – Business Combinations
- IFRS 10 – Consolidated Financial Statements
- IFRS 17 – Insurance Contracts
- Conceptual framework

The Directors anticipate that the adoption of these Standard and Amendments in future periods will have no material impact on the financial statements of the Company.

#### **Revenue recognition**

Revenue represents the income receivable in the ordinary course of business for services provided, excluding value added tax. Where services have been provided, but for which no invoice has been raised at the year-end, an estimate of the value is included in revenue. Revenue recognised reflects the value of services provided to customers in the year. Where customers have made payments in advance as at the year end, this is recognised as deferred income.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The Company recognises that contracts with customers are, in a majority of cases, governed by legislative requirements rather than discrete commercial arrangements. As a result, the application of judgement is important in determining the most appropriate treatment of certain income streams.

The key consideration in respect of the Company's activities is where revenues from bundled goods and services require separation, which may result in deferring or recognising revenue immediately. Our core water and sewerage supply services (including retail) constitute more than 95% of total income and there is a clear performance obligation satisfied over a measured period of time; however, there are some peripheral income streams which do require more in-depth consideration. 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:

## Notes to the financial statements (continued)

---

### 1. Accounting policies, financing risk management and accounting estimates (continued)

#### Accounting policies for the year ended 31 March 2020 (continued)

##### Revenue recognition (continued)

Connection charges: these are amounts received from developers for connection to the network which we recognise as income on delivery of that performance obligation.

Infrastructure charges and requisitions: third party contributions towards the Company's obligation to ensure future service provision to the connection or mains over its life; we estimate that an average connection lasts for 80 years and defer the release of charges over that period.

Asset adoptions: usually sewers adopted at no cost, whereby the receipt of the asset is out of scope of IFRS 15 and should therefore be recognised at fair value (with deferral of related non-cash income).

Diversions: payment in return for moving a water or sewer main to accommodate other infrastructure changes. The performance obligation is to move the main, with no additional asset creation, therefore revenue is recognised immediately.

##### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board.

##### Exceptional items

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

##### Property, plant and equipment

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

As at 31 March 2020 the total value of tangible and intangible fixed assets has been revalued to the Company's 'shadow RCV' (Regulatory Capital/Asset Value), being the 31 March 2020 RCV published by Ofwat in its PR19 Final Determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

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

Property, plant and equipment comprise:

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

## Notes to the financial statements (continued)

---

### 1. Accounting policies, financing risk management and accounting estimates (continued)

#### Accounting policies for the year ended 31 March 2020 (continued)

##### **Property, plant and equipment (continued)**

###### Infrastructure assets

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

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

The depreciation charge for infrastructure assets is determined for each component of the network and is based on each component's cost, estimated residual value and the expected remaining average useful life. The useful average economic lives of the infrastructure components range principally from 60 to 150 years.

###### Other assets

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

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

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

###### **Borrowing costs**

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

###### **Intangible assets**

Intangible assets, which comprise principally computer software, systems developments and research and development, are included at cost less accumulated amortisation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when the relevant recognition criteria are met (as per IAS 38).

The carrying values of intangible assets are reviewed for impairment if circumstances indicate they may not be recoverable. Intangible assets are amortised on a straight-line basis over their estimated useful economic lives, which range between 3 and 20 years. These asset lives are reviewed annually.

###### **Leased assets**

IFRS 16, Leases is effective for accounting periods beginning on or after 1 January 2019 and has been applied in these financial statements. This standard revises the treatment of leases in financial statements and largely eliminates the accounting distinction between operating and finance leases, requiring instead that "right-of-use" assets are recognised on the balance sheet with a corresponding liability. Further details, including the previous and new accounting policies, are provided in note 1 under "Changes in accounting policies and disclosures".

All other leases that do not involve right-of-use assets are charged to the income statement over the period of the lease.

## Notes to the financial statements (continued)

---

### 1. Accounting policies, financing risk management and accounting estimates (continued)

#### Accounting policies for the year ended 31 March 2020 (continued)

##### **Grants and customer contributions**

Grants and customer contributions in respect of expenditure on property, plant and equipment have been offset against these assets. Grants in respect of revenue expenditure are credited to the income statement over the same period as the related expenditure is incurred.

##### **Capital expenditure programme incentive payments**

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

##### **Trade receivables**

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

##### **Cash and cash equivalents**

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

##### **Pension costs**

###### **i) Defined benefit scheme**

The Company operates a defined benefit scheme, the DCWW Pension Scheme, which was closed to future accrual from 1 April 2017 for all members except for 18 ESPS section members. The scheme is funded by employer contributions as well as employee contributions from the remaining active members. Contribution rates are based on the advice of a professionally qualified actuary and actuarial valuations of the scheme are carried out at least every three years.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. 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. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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.

## Notes to the financial statements (continued)

---

### 1. Accounting policies, financing risk management and accounting estimates (continued)

#### Accounting policies for the year ended 31 March 2020 (continued)

##### Pension costs (continued)

##### ii) Defined contribution scheme

The Company operates a defined contribution scheme, the DCWW Company Personal Pension Plan, which all employees are eligible to join. Obligations for contributions to the scheme are recognised as an expense in the income statement in the period in which they arise.

##### Other financial liabilities

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

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

Derivative instruments utilised by the Company are interest rate swaps, inflation swaps and power hedges. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the Company. Derivatives are recognised initially and subsequently re-measured at fair value. During the year to 31 March 2020, none of the Company's derivatives qualified for hedge accounting (2019: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

##### Taxation

The Company continues to invest heavily in capital expenditure for the benefit of our customers. The tax relief for this capital expenditure and the interest we pay to fund it have the effect of delaying corporation tax payments to future periods. 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 equity, respectively. 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.

Amounts receivable from tax authorities in relation to research and development tax relief under the RDEC scheme are recognised within operating profit in the period in which the research and development costs are treated as an expense. Where amounts are outstanding at the year end and have not been formally agreed, an appropriate estimate of the amount is included within other receivables.

##### Deferred taxation

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

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

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

## Notes to the financial statements (continued)

---

### 1. Accounting policies, financing risk management and accounting estimates (continued)

#### Provisions

Provisions for restructuring costs, dilapidations, uninsured losses and losses on swap closure are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been estimated reliably. Restructuring provisions comprise employee severance and pension fund top-up costs. Where the Company receives claims that are either not covered by insurance or where there is an element of the claim for which insurance cover is not available, a provision is made for the expected future liabilities. Provisions are not recognised for future operating losses.

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

#### Financing risk management objectives and policies

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

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

#### Credit risk

The Group has a prudent policy for investing cash and short-term bank deposits set by the bond documentation within the Common Terms Agreement. Deposits can be placed with our Account Bank for overnight risk only or for up to one year with counterparties that have a minimum short-term rating of A1/P1/F1 from Standard & Poor's, Moody's and Fitch Ratings respectively. Deposits of over one year are placed with counterparties having a minimum long-term rating of AA-/Aa3/AA-.

In practice, the Group has adopted a more prudent approach to cash management and timed deposits are placed for a maximum of 35 days with banks subject to minimum long-term rating criteria of A-/A3/A-. Bonds can be purchased from certain AA-rated counterparties with maturities of up to one year and commercial paper purchases of up to one year can be placed with certain AAA-rated supranationals only. The maximum cash investment with a single counterparty was £100m (2019: £75m).

#### Interest rate risk

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

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total Group borrowings of £4,055m as at 31 March 2020 (2019: £3,715m), none related to floating rate debt (2019: none). The Company therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2020, 100% (2019: 100%) of the Group's gross debt was at fixed or index-linked (RPI) rates of interest after taking into account interest rate and RPI swaps. The hedges established to manage interest rate risks are economic in nature, but do not satisfy the specific requirements in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £302m in the Company's balance sheet at 31 March 2020 (2019: £284m) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil.



## Notes to the financial statements (continued)

---

### 1. Accounting policies, financing risk management and accounting estimates (continued)

#### Financing risk management objectives and policies (continued)

##### **Power price hedges**

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

##### **Refinancing risk**

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, type and maturities. Our policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £4,055m (2019: £3,715m) can fall due in any 24 month period.

##### **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 2020, the Group had committed undrawn borrowing facilities of £170m (2019: £170m) and cash and cash equivalents (excluding debt service payments account) of £657m (2019: £348m).

The undrawn facilities of £170m of revolving credit facilities are available until November 2020. There is also a £10m overdraft facility renewable on an annual basis.

As at 31 March 2020, a fellow subsidiary, Dwr Cymru (Financing) UK PLC, also has a special liquidity facility of £135 million, which it is required to maintain in order to meet certain Group interest and other obligations that cannot be funded through the operating cashflow of the Group, in the event of a standstill being declared by the security trustee. A standstill would arise in the event that Dwr Cymru Cyfyngedig defaults on its debt financing covenants. The facility has been provided by an insurance provider and is renewable on a rolling five-year evergreen basis.

##### **Capital risk**

The Company's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the Company operates, capital is monitored on the basis of the gearing ratio. This is calculated as net debt (as defined in borrowing covenants) as a proportion of the Company's Regulatory Capital Value and linked to the movements in the Retail Prices Index and determined by Ofwat. As at 31 March 2020 gearing was 60% (2019: 58%).

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

## Notes to the financial statements (continued)

---

### 1. Accounting policies, financing risk management and accounting estimates (continued)

#### Critical accounting estimates and judgements

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

#### **Provision for impairment of trade receivables**

Individual impairment losses on customer debts are calculated based on an individual assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The probability of failing to recover a debt is based on expected credit loss, determined by past experience and expected future movements in collection rates, adjusted for changes in external factors (including the estimated impact of the COVID-19 pandemic). The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. To the extent that the failure to recover debts in arrears alters by 5%, the provision for impairment would increase or decrease by £3.6m (2019: £3.5m).

#### **Pension benefits**

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, price inflation and mortality rates, which are used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high-quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2020 would increase or reduce by £8.7m (2019: £9.0m).

If the scheme's assets underperform relative to the discount rate used to calculate the liabilities, this will increase the value of the projected deficit. With the exception of cash, assets consist of pooled investment funds, alternative strategy funds and property funds which are not quoted on an active market. Of total assets amounting to £388m (2019: £397m), assets with a fair value of £147m (2019: £149m) are Level 3 financial assets; these are considered to be the least liquid and hardest to value and are therefore subject to a higher degree of estimation. A 5% movement in the fair value of these Level 3 financial assets would increase or decrease the overall carrying value of the pension liability by £7.4m (2019: £7.5m). (See also note 21.)

#### **Fair Value Estimation**

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

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- **Level 3:** inputs for the asset or liability not based on observable market data.

All of the Company's treasury derivatives are categorised as Level 2. In accordance with IFRS 13 an adjustment factor has been applied to the swaps based on industry standard practice to take into account credit risk.

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 2020 the fair values of derivatives were as follows:

**Level 2: Assets:** trading derivatives £0.1m, Treasury derivatives £nil. (March 2019: Trading derivatives £2.5m, Treasury derivatives £nil).

**Liabilities:** trading derivatives £1.2m, Treasury derivatives £300.0m (March 2019: Trading derivatives 0.2m, Treasury derivatives £287.9m).

**Level 3: Assets:** trading derivatives £0.2m, Treasury derivatives £nil. (March 2019: Trading derivatives £2.4m, Treasury derivatives £nil).

**Liabilities:** trading derivatives £0.9m, Treasury derivatives £nil (March 2019: Trading derivatives £0.6m, Treasury derivatives £nil).

## Notes to the financial statements (continued)

---

Accounting policies, financing risk management and accounting estimates continued

### Critical accounting estimates and judgements (continued)

#### **Fair Value Estimation (continued)**

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

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

Level 3 debt instruments 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. Level 3 debt instruments are valued by comparing valuations from Level 2 trades for the same periods, with the valuations from observable trades being inflated or deflated to allow for any fixed price variations.

#### **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. 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.

## Notes to the financial statements (continued)

---

### 2. Segmental information

The Directors consider that there is only one operating segment, being the operation of water and sewerage business (and peripheral commercial activities) in the UK. As the Company has only domestic activity there is also only one geographical segment; therefore, the disclosures for this segment have also already been given in these financial statements.

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

|                                | <b>2020</b>  | 2019  |
|--------------------------------|--------------|-------|
|                                | <b>£m</b>    | £m    |
| <b>Regulated revenue</b>       |              |       |
| Water                          | <b>322.8</b> | 320.9 |
| Sewerage                       | <b>394.0</b> | 399.9 |
| Retail                         | <b>55.3</b>  | 52.7  |
| <b>Total regulated revenue</b> | <b>772.1</b> | 773.5 |
| Other (non-regulated)          | <b>5.2</b>   | 6.3   |
| <b>Total revenue</b>           | <b>777.3</b> | 779.8 |

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

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

## Notes to the financial statements (continued)

### 3. Operating profit

The following items have been included in arriving at the operating profit:

|  | 2020<br>£m   | 2019<br>£m   |
|--|--------------|--------------|
| <b>Operating expenditure</b>                       |              |              |
| Power  | 46.9         | 46.3         |
| Chemicals  | 11.3         | 11.2         |
| Materials and equipment                            | 5.6          | 6.0          |
| Vehicles and plant                                 | 8.2          | 8.2          |
| Office expenses                                    | 6.7          | 10.0         |
| Property costs                                     | 4.2          | 3.9          |
| Insurance  | 4.9          | 4.1          |
| Sewerage contractors                               | 19.8         | 23.8         |
| Laboratories and analytical services               | 0.8          | 0.9          |
| Collection commissions                             | 2.7          | 3.4          |
| IT contracts                                       | 14.0         | 10.0         |
| Bought-in services and other costs                 | 38.6         | 46.3         |
|  | <u>163.7</u> | <u>174.1</u> |
| Employee costs (note 20)                           | 165.8        | 159.4        |
| Staff costs capitalised                            | (69.6)       | (60.3)       |
|  | <u>96.2</u>  | <u>99.1</u>  |
| Research and development credit                    | (1.3)        | (0.5)        |
| Trade receivables impairment                       | 25.2         | 21.0         |
| Rates  | 24.2         | 24.0         |
| Natural Resources Wales/Environment Agency charges | 15.6         | 15.4         |
| Fees payable to auditors                           | 0.4          | 0.4          |
| <b>Total operational expenditure</b>               | <u>324.0</u> | <u>333.5</u> |
| <b>Exceptional item</b>                            | 10.5         | -            |
| <b>Infrastructure renewals expenditure</b>         | 96.5         | 83.9         |
| <b>Depreciation and amortisation</b>               |              |              |
| - Depreciation of property, plant and equipment    | 293.2        | 277.9        |
| - Release of deferred income                       | (7.2)        | (5.8)        |
| - Amortisation of intangible assets                | 29.1         | 19.7         |
| <b>Total depreciation and amortisation</b>         | <u>315.1</u> | <u>291.8</u> |
| <b>Total operating costs</b>                       | <u>746.1</u> | <u>709.2</u> |

## Notes to the financial statements (continued)

### 3. Operating profit (continued)

#### Services provided by the Company's auditors

During the year the Group headed by Glas Cymru Anghyfyngedig obtained the following services from its auditors, all of which were paid by the Company:

|  | <b>2020</b> | 2019 |
|--|-------------|------|
|  | <b>£000</b> | £000 |
| <b>Audit fees</b>  |             |      |
| Audit of parent company and consolidated financial statements    | <b>20</b>   | 20   |
| Audit of subsidiary companies                                    | <b>159</b>  | 105  |
| Total audit fees   | <b>179</b>  | 125  |
| <b>Audit-related assurance services</b>                          |             |      |
| Review of interim financial statements                           | <b>21</b>   | 25   |
| Regulatory audit services pursuant to legislation                | <b>53</b>   | 51   |
| Regulatory price review assurance work                           | -           | 41   |
| Investor report reviews  | <b>8</b>    | 8    |
| Environment Agency levy assurance work                           | <b>6</b>    | 3    |
| Bond issuance assurance work                                     | <b>38</b>   | -    |
| <b>Total audit and audit-related assurance services</b>          | <b>305</b>  | 253  |
| <b>Other services</b>  |             |      |
| Tax iXBRL document tagging                                       | <b>5</b>    | 7    |
| Pensions advice  | <b>62</b>   | 71   |
| Direct Procurement for Customers project assessment              | <b>37</b>   | 72   |
| <b>Total other services</b>                                      | <b>104</b>  | 150  |
| <b>Total cost of services provided by the Company's auditors</b> | <b>409</b>  | 403  |

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

The Board has adopted a formal policy with respect to services received from external auditors. The external auditors will not be used for internal audit services and all non-audit work will be subject to prior competitive tendering or approval by the Audit Committee.

#### Exceptional costs

Glas Cymru's final business plan for the regulatory period 2020 to 2025 included restructuring plans to meet a challenging cost efficiency target, reflected in Ofwat's PR19 Final Determination published on 10 December 2019. As a consequence, £10.5m of restructuring costs, associated with a headcount reduction of around 200 during AMP7 but recognised in the year to 31 March 2020, are considered exceptional by nature and have been disclosed separately in the financial statements.

## Notes to the financial statements (continued)

### 4. Net financial expenses

#### a) Financial expenses before fair value losses on derivative financial instruments

|  | 2020<br>£m     | 2019<br>£m |
|--|----------------|------------|
| <b>Financial income</b>  | <b>6.1</b>     | 4.9        |
| Interest payable on loans  | (153.1)        | (153.8)    |
| Interest payable on leases (including swaps to RPI)                    | (17.4)         | (17.6)     |
| Other interest payable and financial costs                             | (13.0)         | (15.9)     |
| Net interest charge on pension scheme liabilities                      | (2.2)          | (2.0)      |
| Capitalisation of borrowing costs under IAS 23 (2020 4.7%; 2019: 5.1%) | 14.4           | 15.9       |
| <b>Financial expenses</b>  | <b>(171.3)</b> | (173.4)    |
| <b>Net financial expenses before fair value adjustments</b>            | <b>(165.2)</b> | (168.5)    |

Included within financial expenses are amounts payable to group undertakings of £141.9m (2019: £144.8m).

#### b) Fair value losses on derivative financial instruments

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges. Consequently, the Company's interest rate and currency swaps are fair valued at each balance sheet date with the movement (net loss or gain) disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 14 in respect of derivative financial instruments recognised on the balance sheet.)

|  | 2020<br>£m    | 2019<br>£m |
|--|---------------|------------|
| Fair value losses on interest rate swaps                     | (21.6)        | (1.3)      |
| Fair value losses on index-linked swaps                      | 9.3           | (15.6)     |
| Fair value losses on trading derivatives                     | (5.8)         | (0.5)      |
| <b>Fair value losses on derivative financial instruments</b> | <b>(18.1)</b> | (17.4)     |

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

### 5. Taxation

Analysis of credit in the year:

|  | 2020<br>£m | 2019<br>£m |
|--|------------|------------|
| <b>Current tax</b>                               |            |            |
| - Current tax on loss for the year               | 0.8        | 0.5        |
| - Current tax on research and development credit | (0.2)      | (0.1)      |
| - Adjustment in respect of prior years           | 1.3        | (0.5)      |
| <b>Total current tax</b>                         | <b>1.9</b> | (0.1)      |
| <b>Deferred tax</b>                              |            |            |
| - Origination and reversal of timing differences | 24.2       | 17.3       |
| - Adjustment in respect of prior years           | (1.5)      | 0.6        |
| - Effect of rate change                          | (22.6)     | -          |
| <b>Total deferred tax (note 6)</b>               | <b>0.1</b> | 17.9       |
| <b>Taxation</b>                                  | <b>2.0</b> | 17.8       |

The current tax credit of £0.8m (2019: £0.5m) has arisen from the surrender of tax losses relating to energy efficient capital expenditure. Operating expenditure includes a tax credit of £1.3m (2019: £0.5m) relating to R&D expenditure. The tax credit is taxable and the corresponding charge of £0.2m (2019: £0.1m) is shown above. Tax trading losses carried forward as at 31 March 2020 are £nil (2019: nil) as a result of disclaiming capital allowances.

## Notes to the financial statements (continued)

### 5. Taxation (continued)

Current taxes in respect of prior years relate to tax credits for energy efficient capital expenditure and the remediation of contaminated land. A deferred tax charge in respect of prior years has arisen from claiming these tax credits and also from adjustments to deferred tax balances in respect of capital expenditure.

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the Company's future current tax charge accordingly. Deferred tax at 31 March 2020 has been calculated at 19% (2019: 17%).

The effective rate of tax for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

|   | 2020<br>£m     | 2019<br>£m     |
|---|----------------|----------------|
| <b>Loss before tax</b>  | <b>(151.7)</b> | <b>(115.1)</b> |
| Loss before tax multiplied by the corporation tax rate in the UK of 19% (2019: 19%)       | <b>28.8</b>    | 21.9           |
| Effect of:  |                |                |
| Adjustments in respect of prior years   | <b>(0.1)</b>   | 0.1            |
| Other permanent differences   | <b>(2.6)</b>   | (2.9)          |
| Effect of pension payments in excess of service charge                                    | <b>1.6</b>     | 0.8            |
| Difference in standard rate of corporation tax (19%) and rate used for deferred tax (17%) | <b>(3.1)</b>   | (2.1)          |
| Effect of tax rate change on closing deferred tax (from 17% - 19%)                        | <b>(22.6)</b>  | -              |
| <b>Total taxation</b>   | <b>2.0</b>     | <b>17.8</b>    |

### 6. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2019: 17%).

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

|   | 2020<br>£m   | 2019<br>£m |
|---|--------------|------------|
| At 1 April                                  | <b>429.6</b> | 427.6      |
| Credit to Income statement                  | <b>(0.1)</b> | (17.9)     |
| Credit to Statement of comprehensive income | <b>(0.2)</b> | (2.6)      |
| Charge to revaluation reserve               | <b>52.1</b>  | 22.5       |
| At 31 March                                 | <b>481.4</b> | 429.6      |

Analysis of amounts of deferred tax charged to the Statement of comprehensive income and revaluation reserve:

|   | 2020<br>£m   | 2019<br>£m   |
|---|--------------|--------------|
| Defined benefit pension scheme  | <b>(0.1)</b> | (3.4)        |
| Reallocation of tax from income statement – pension payment in excess of service charge | <b>1.6</b>   | 0.8          |
| Increase in corporation tax rate – pension scheme                                       | <b>(1.7)</b> | -            |
| <b>Credited to the Statement of comprehensive income</b>                                | <b>(0.2)</b> | <b>(2.6)</b> |
| Revaluation of fixed assets using a tax rate of 19% (2019: 17%)                         | <b>22.4</b>  | 22.5         |
| Increase in corporation tax – revaluation of fixed assets                               | <b>29.7</b>  | -            |
| <b>Charged to the Revaluation Reserve</b>   | <b>52.1</b>  | <b>22.5</b>  |



## Notes to the financial statements (continued)

### 6. Deferred tax (continued)

|  | 2020         | 2019   |
|--|--------------|--------|
|  | £m           | £m     |
| Effect of:   |              |        |
| Tax allowances in excess of depreciation                   | 272.5        | 248.6  |
| Deferred tax on revaluation of fixed assets                | 282.0        | 243.7  |
| Capital gains rolled over                                  | 3.0          | 2.7    |
| <b>Deferred tax liability</b>                              | <b>557.5</b> | 495.0  |
| Deferred tax on losses on derivative financial instruments | (57.3)       | (48.3) |
| Pensions   | (15.7)       | (15.5) |
| Other tax differences                                      | (3.1)        | (1.6)  |
| <b>Net deferred tax</b>                                    | <b>481.4</b> | 429.6  |

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. Under the current tax regime, trading tax losses carried forward will be available to offset trading profits in future years.

### 7. Revaluation reserve

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

As at 31 March 2020 the total value of tangible and intangible fixed assets has been revalued to the company's 'shadow RCV', being the 31 March 2020 RCV published by Ofwat in its PR14 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.

|  | 2020          | 2019   |
|--|---------------|--------|
|  | £m            | £m     |
| <b>Revaluation reserve at 1 April</b>  | <b>764.5</b>  | 717.8  |
| Revaluation of assets to RCV           | 132.0         | 132.2  |
| Depreciation charge on revalued assets | (81.1)        | (75.9) |
|  | <b>50.9</b>   | 56.3   |
| Deferred tax on revaluation            | (52.1)        | (22.5) |
| Deferred tax on depreciation charge    | 15.4          | 12.9   |
|  | <b>(36.7)</b> | (9.6)  |
| <b>Revaluation reserve at 31 March</b> | <b>778.7</b>  | 764.5  |

## Notes to the financial statements (continued)

### 8. Property, plant and equipment

| Current year                              | Freehold<br>land and<br>buildings<br>£m | Infrastructure<br>assets<br>£m | Operational<br>structures<br>£m | Plant,<br>equipment,<br>computer<br>hardware<br>£m | Total<br>£m    |
|---|---|--------------------------------|---------------------------------|--|----------------|
| <b>Cost or valuation</b>                  |   |                                |                                 |  |                |
| At 1 April 2019                           | 41.7                                    | 2,491.1                        | 4,324.0                         | 272.2  | 7,129.0        |
| Additions net of grants and contributions | 1.4                                     | 141.4                          | 238.0                           | 7.2  | 388.0          |
| Disposal                                  | -                                       | -                              | -                               | (2.6)  | (2.6)          |
| <b>At 31 March 2020</b>                   | <b>43.1</b>                             | <b>2,632.5</b>                 | <b>4,562.0</b>                  | <b>276.8</b>                                       | <b>7,514.4</b> |
| <b>Accumulated depreciation</b>           |   |                                |                                 |  |                |
| At 1 April 2019                           | 22.1                                    | -                              | 1,315.8                         | 269.1  | 1,607.0        |
| Revaluation                               | -                                       | (59.0)                         | (73.0)                          | -  | (132.0)        |
| Charge for the year                       | 0.9                                     | 60.9                           | 226.9                           | 4.5  | 293.2          |
| Released on disposal                      | -                                       | -                              | -                               | (2.4)  | (2.4)          |
| <b>At 31 March 2020</b>                   | <b>23.0</b>                             | <b>1.9</b>                     | <b>1,469.7</b>                  | <b>271.2</b>                                       | <b>1,765.8</b> |
| Net book value                            |   |                                |                                 |  |                |
| <b>At 31 March 2020</b> (see note 7)      | <b>20.1</b>                             | <b>2,630.6</b>                 | <b>3,092.3</b>                  | <b>5.6</b>   | <b>5,748.6</b> |
| <b>At 31 March 2020</b> (historic cost)   | 20.1                                    | 1,910.7                        | 2,328.0                         | 5.6  | 4,264.4        |

The net book value of property, plant and equipment includes £263.6m in respect of assets in the course of construction (2019: £285.8m) and £77.9m of borrowing costs capitalised in accordance with IAS 23 (2019: £67.4m), of which £12.6m were additions in the year (2019: £13.9m).

#### Right-of-use assets

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

|                          | Infrastructure<br>assets<br>£m | Operational<br>structures<br>£m | Total<br>£m  |
|--------------------------|--------------------------------|---------------------------------|--------------|
| <b>At 31 March 2020</b>  |                                |                                 |              |
| Valuation                | 654.4                          | 117.7                           | 772.1        |
| Accumulated depreciation | -                              | (84.1)                          | (84.1)       |
| <b>Net book value</b>    | <b>654.4</b>                   | <b>33.6</b>                     | <b>688.0</b> |

## Notes to the financial statements (continued)

### 8. Property, plant and equipment (continued)

| Prior Year                                | Freehold<br>land and<br>buildings<br>£m | Infrastructure<br>assets<br>£m | Operational<br>structures<br>£m | Plant,<br>equipment,<br>computer<br>hardware<br>£m | Total<br>£m |
|---|---|--------------------------------|---------------------------------|--|-------------|
| <b>Cost or valuation</b>                  |   |                                |                                 |  |             |
| At 1 April 2018                           | 41.7                                    | 2,362.3                        | 4,089.0                         | 263.2  | 6,756.2     |
| Revaluation                               | -                                       | 4.1                            | -                               | -  | 4.1         |
| Additions net of grants and contributions | -                                       | 124.7                          | 238.6                           | 9.0  | 372.3       |
| Disposal                                  | -                                       | -                              | (3.6)                           | -  | (3.6)       |
| At 31 March 2019                          | 41.7                                    | 2,491.1                        | 4,324.0                         | 272.2  | 7,129.0     |
| <b>Accumulated depreciation</b>           |   |                                |                                 |  |             |
| At 1 April 2018                           | 21.3                                    | -                              | 1,177.0                         | 261.8  | 1,460.1     |
| Revaluation                               | -                                       | (54.0)                         | (74.1)                          | -  | (128.1)     |
| Charge for the year                       | 0.8                                     | 54.0                           | 215.8                           | 7.3  | 277.9       |
| Released on disposal                      | -                                       | -                              | (2.9)                           | -  | (2.9)       |
| At 31 March 2019                          | 22.1                                    | -                              | 1,315.8                         | 269.1  | 1,607.0     |
| <b>Net book value</b>                     |   |                                |                                 |  |             |
| At 31 March 2019 (see note 7)             | 19.6                                    | 2,491.1                        | 3,008.2                         | 3.1  | 5,522.0     |
| At 31 March 2019 (historic cost)          | 19.6                                    | 1,815.3                        | 2,250.5                         | 3.4  | 4,088.8     |

#### Assets held under finance leases (under IAS 17)

Included within the above are assets held under finance leases, as analysed below:

|                          | Infrastructure<br>assets<br>£m | Operational<br>structures<br>£m | Total<br>£m |
|--------------------------|--------------------------------|---------------------------------|-------------|
| At 31 March 2019         |                                |                                 |             |
| Valuation                | 662.9                          | 117.7                           | 780.6       |
| Accumulated depreciation | -                              | (81.7)                          | (81.7)      |
| Net book value           | 662.9                          | 36.0                            | 698.9       |

### 9. Intangible assets

| Current year                    | Cost<br>£m   | Amortisation<br>£m | Net book<br>value<br>£m |
|---------------------------------|--------------|--------------------|-------------------------|
| At 1 April 2019                 | 371.5        | (196.7)            | 174.8                   |
| Additions/(charge for the year) | 46.1         | (29.1)             | 17.0                    |
| <b>At 31 March 2020</b>         | <b>417.6</b> | <b>(225.8)</b>     | <b>191.8</b>            |

| Prior year                      | Cost<br>£m | Amortisation<br>£m | Net book<br>value<br>£m |
|---------------------------------|------------|--------------------|-------------------------|
| At 1 April 2018                 | 323.0      | (177.0)            | 146.0                   |
| Additions/(charge for the year) | 48.5       | (19.7)             | 28.8                    |
| At 31 March 2019                | 371.5      | (196.7)            | 174.8                   |

## Notes to the financial statements (continued)

### 9. Intangible assets (continued)

Intangible fixed assets comprise computer software and related system developments.

The net book value of intangible assets includes £34.7m in respect of assets in the course of construction (2019: £24.3m). The net book value of intangible assets includes £8.2m of borrowing costs capitalised in accordance with IAS 23 (2019: 7.1m) of which £1.8m were additions in the year (2019: £2.0m).

### 10. Trade and other receivables

|  | 2020<br>£m    | 2019<br>£m    |
|--|---------------|---------------|
| <b>Current</b>                               |               |               |
| Trade receivables                            | 558.0         | 560.0         |
| Less provision for impairment of receivables | <u>(81.8)</u> | <u>(78.7)</u> |
| Trade receivables - net                      | 476.2         | 481.3         |
| Prepayments and accrued income               | 85.6          | 80.0          |
| Other receivables                            | <u>12.8</u>   | <u>11.1</u>   |
| <b>Total trade and other receivables</b>     | <u>574.6</u>  | <u>572.4</u>  |

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

As at 31 March 2020, based on a review of historical collection rates it was considered that £81.8m (2019: £78.7m) of trade receivables were impaired and these have therefore been provided for. The impaired receivables relate mainly to the measured and unmeasured supply of water and sewerage services. Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired.

The ageing of these receivables was as follows:

| Current year                    | Total        | Provided      | Net          |
|---------------------------------|--------------|---------------|--------------|
| Trade receivables               | £m           | for           | £m           |
|                                 |              | £m            |              |
| Billings in advance             | 364.6        | -             | 364.6        |
| Under one month                 | 29.0         | (2.9)         | 26.1         |
| Between one and six months      | 38.5         | (3.7)         | 34.8         |
| Between six months and one year | 31.0         | (3.4)         | 27.6         |
| Between one and two years       | 41.4         | (28.9)        | 12.5         |
| Between two and three years     | 27.0         | (21.3)        | 5.7          |
| Over three years                | 26.5         | (21.6)        | 4.9          |
|                                 | <u>558.0</u> | <u>(81.8)</u> | <u>476.2</u> |
| <b>Prior year</b>               |              |               |              |
| <b>Trade receivables</b>        | £m           | £m            | £m           |
| Billings in advance             | 367.7        | -             | 367.7        |
| Under one month                 | 27.2         | (2.3)         | 24.9         |
| Between one and six months      | 36.8         | (2.7)         | 34.1         |
| Between six months and one year | 28.5         | (2.6)         | 25.9         |
| Between one and two years       | 44.0         | (30.5)        | 13.5         |
| Between two and three years     | 32.5         | (23.3)        | 9.2          |
| Over three years                | 23.3         | (17.3)        | 6.0          |
|                                 | <u>560.0</u> | <u>(78.7)</u> | <u>481.3</u> |

## Notes to the financial statements (continued)

### 10. Trade and other receivables (continued)

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

|  | 2020<br>£m         | 2019<br>£m         |
|--|--------------------|--------------------|
| At 1 April   | 78.7               | 83.8               |
| Charge to income statement                               | 24.4               | 19.9               |
| Receivables written off during the year as uncollectable | <u>(21.3)</u>      | <u>(25.0)</u>      |
| <b>At 31 March</b>                                       | <b><u>81.8</u></b> | <b><u>78.7</u></b> |

During the year the Company has written off £21.3m of debt which had been provided for in full (2019: £25.0m).

The total charge to the income statement of £25.2m (2019: £21.0m) includes the bad debt element of collection charges under arrangements with third parties who collect debt on the Company's behalf (2020: £0.8m, 2019: £1.1m).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

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

The other classes of trade and other receivables do not contain impaired assets. 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, including the impact of charging orders which improve the underlying collectability of debt. The Company holds around 7,000 charging orders as collateral against £12m of debt (2019: 6,000 orders against £11m of debt).

| Current year      | Historical<br>default rates<br>% | Forward-<br>looking<br>adjustment<br>% | Adjustment<br>total<br>% | Historical<br>impairment<br>£m | Forward-<br>looking<br>adjustment<br>£m | Total<br>impairment<br>£m |
|-------------------|----------------------------------|--|--------------------------|--------------------------------|---|---------------------------|
| Billed in advance | -                                | -                                      | -                        | -                              | -                                       | -                         |
| < 1 month         | 9.2%                             | 0.8%                                   | 10.0%                    | 2.6                            | 0.2                                     | 2.8                       |
| 1 > 6 months      | 8.6%                             | 0.9%                                   | 9.5%                     | 3.3                            | 0.4                                     | 3.7                       |
| 6 months > 1 year | 10.1%                            | 0.7%                                   | 10.8%                    | 3.2                            | 0.2                                     | 3.4                       |
| 1 > 2 years       | 76.4%                            | (6.6%)                                 | 69.8%                    | 31.6                           | (2.7)                                   | 28.9                      |
| 2 > 3 years       | 86.9%                            | (7.9%)                                 | 79.0%                    | 23.5                           | (2.1)                                   | 21.4                      |
| > 3 years         | 77.7%                            | 3.9%                                   | 81.6%                    | 20.6                           | 1.0                                     | 21.6                      |
|                   |                                  |  |                          | <b><u>84.8</u></b>             | <b><u>(3.0)</u></b>                     | <b><u>81.8</u></b>        |

| Prior year        | Historical<br>default rates<br>% | Forward-<br>looking<br>adjustment<br>% | Adjustment<br>total<br>% | Historical<br>impairment<br>£m | Forward-<br>looking<br>adjustment<br>£m | Total<br>impairment<br>£m |
|-------------------|----------------------------------|--|--------------------------|--------------------------------|---|---------------------------|
| Billed in advance | -                                | -                                      | -                        | -                              | -                                       | -                         |
| < 1 month         | 9.9%                             | (1.5%)                                 | 8.4%                     | 2.7                            | (0.4)                                   | 2.3                       |
| 1 > 6 months      | 8.8%                             | (1.5%)                                 | 7.3%                     | 3.2                            | (0.5)                                   | 2.7                       |
| 6 months > 1 year | 10.9%                            | (1.9%)                                 | 9.0%                     | 3.1                            | (0.5)                                   | 2.6                       |
| 1 > 2 years       | 77.2%                            | (8.2%)                                 | 69.0%                    | 34.0                           | (3.5)                                   | 30.5                      |
| 2 > 3 years       | 77.8%                            | (6.1%)                                 | 71.7%                    | 25.3                           | (2.0)                                   | 23.3                      |
| > 3 years         | 80.9%                            | (6.6%)                                 | 74.3%                    | 18.8                           | (1.5)                                   | 17.3                      |
|                   |                                  |  |                          | <b><u>87.1</u></b>             | <b><u>(8.4)</u></b>                     | <b><u>78.7</u></b>        |

The Company's trade receivables provisioning methodology incorporates an "expected loss" model which also determines an appropriate level of losses against which to provide in the measured income accrual. The impact on the accrual as at 31 March 2020 is £5.4m, being a revenue provision of 7% against a gross balance of £76.9m (2019: £3.8m and 5%). The level of provision has risen since the prior year owing to the estimated impact on collections of the COVID-19 pandemic.

## Notes to the financial statements (continued)

### 11. Cash and cash equivalents

|                                  | 2020<br>£m   | 2019<br>£m   |
|----------------------------------|--------------|--------------|
| Cash at bank and in hand         | 0.1          | 142.0        |
| Short-term deposits              | 658.6        | 348.3        |
| <b>Cash and cash equivalents</b> | <b>658.7</b> | <b>490.3</b> |

The effective interest rate on short-term deposits as at 31 March 2020 was 0.7% (2019: 0.8%) and these deposits had an average maturity of 23 days (2019: 22 days). All cash and cash equivalents were held in sterling .

### 12. Trade and other payables

|                                   | 2020<br>£m   | 2019<br>£m   |
|-----------------------------------|--------------|--------------|
| <b>Current</b>                    |              |              |
| Trade payables                    | 52.0         | 56.8         |
| Capital payables                  | 46.3         | 44.6         |
| Amounts due to group undertakings | 2.1          | 2.3          |
| Social security and other taxes   | 5.7          | 5.2          |
| Accruals and deferred income      | 458.0        | 450.8        |
|                                   | <b>564.1</b> | <b>559.7</b> |
|                                   |              |              |
|                                   | 2020<br>£m   | 2019<br>£m   |
| <b>Non-current</b>                |              |              |
| Deferred income                   | 314.4        | 264.7        |

### 13. Other financial liabilities – borrowings

|   | 2020<br>£m     | 2019<br>£m     |
|---|----------------|----------------|
| <b>Current</b>                                      |                |                |
| Overdrawn funds                                     | 2.5            | 142.4          |
| Interest accruals                                   | 11.4           | 8.9            |
| Loans due to group undertakings                     | 354.2          | 29.3           |
| Term loans  | 19.5           | -              |
| Other unsecured loans                               | 0.1            | 0.1            |
| Lease liabilities (2019: finance lease liabilities) | 27.6           | 24.5           |
|   | <b>415.3</b>   | <b>205.2</b>   |
|   |                |                |
|   | 2020<br>£m     | 2019<br>£m     |
| <b>Non-current</b>                                  |                |                |
| Interest accruals                                   | 37.3           | 42.1           |
| Loans due to group undertakings                     | 2,776.4        | 2,592.0        |
| Term loan   | 549.7          | 563.1          |
| Other unsecured loans                               | 0.2            | 0.4            |
| Lease liabilities (2019: finance lease liabilities) | 396.5          | 410.5          |
|   | <b>3,760.1</b> | <b>3,608.1</b> |

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

i) a first fixed and floating security over all of DCC's assets and undertaking, to the extent permitted by the Water Industry Act, other applicable law and its licence; and

ii) a fixed and floating security given by the guarantors referred to above which are accrued on each of these companies' assets including, in the case of Dŵr Cymru (Holdings) Limited, a first fixed charge over its shares in DCC.

## Notes to the financial statements (continued)

### 13. Other financial liabilities – borrowings (continued)

The Group's Class A Bonds of £1,042m (2019: £1,026m) benefit from a guarantee from Assured Guaranty (Europe) Plc. Assured Guaranty's credit rating is graded as A2/AA by Moody's, Standard and Poor's and is not rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher underlying rating of these bonds of A3/A-/A from Moody's, Standard and Poor's and Fitch respectively. The underlying rating reflects the standalone credit quality of these bonds without the benefit of the guarantee from Assured Guaranty, and is the same as the credit ratings of the Group's Class B bonds of £1,691m (2019: £1,371m).

### 14. 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 4b).

| 2020                               | Fair values  |                   |
|------------------------------------|--------------|-------------------|
|                                    | Assets<br>£m | Liabilities<br>£m |
| <b>Current</b>                     |              |                   |
| Index-linked swaps                 | -            | (12.0)            |
| Interest rate swaps (intercompany) | -            | (10.0)            |
| Power hedging swaps                | 0.1          | (1.4)             |
|                                    | <u>0.1</u>   | <u>(23.4)</u>     |
| <b>Non-current</b>                 |              |                   |
| Index-linked swaps                 | -            | (188.3)           |
| Interest rate swaps (intercompany) | -            | (89.7)            |
| Power hedging swaps                | 0.2          | (0.7)             |
|                                    | <u>0.2</u>   | <u>(278.7)</u>    |
| <b>Total</b>                       | <u>0.3</u>   | <u>(302.1)</u>    |
| <b>2019</b>                        |              |                   |
|                                    |              |                   |
| <b>Current</b>                     |              |                   |
| Index-linked swaps                 | -            | (16.8)            |
| Interest rate swaps (intercompany) | -            | (9.3)             |
| Power hedging swaps                | 1.1          | (0.8)             |
|                                    | <u>1.1</u>   | <u>(26.9)</u>     |
| <b>Non-current</b>                 |              |                   |
| Index-linked swaps                 | -            | (179.8)           |
| Interest rate swaps (intercompany) | -            | (82.0)            |
| Power hedging swaps                | 3.8          | -                 |
|                                    | <u>3.8</u>   | <u>(261.8)</u>    |
| <b>Total</b>                       | <u>4.9</u>   | <u>(288.7)</u>    |

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

#### Interest Rate Swaps

At 31 March 2020 an interest rate swap fixes the interest rate on £192 million (2019: £192 million) of floating liabilities held by Dŵr Cymru (Financing) Limited and on-lent to the company. The maturity date of the swap is 31 March 2031 and the quarterly fixed interest rate is 5.67%.

## Notes to the financial statements (continued)

### 14. Other financial assets and liabilities - derivative financial instruments (continued)

#### Index-Linked Swaps

##### Lease Swaps

The index-linked swaps have the effect of index-linking the interest rate on £380m (2019: £380m) of finance lease liabilities by reference to the Retail Prices Index (RPI).

The notional amount of index-linked swaps allocated to leases as at 31 March 2020 was £394m (2019: £397m), representing the average balance on the leases subject to floating interest rates for the year to 31 March 2020. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

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

- Notional amount: £394m amortising (2019: £397m amortising)
- Average swap maturity: 16 years (2019: 17 years)
- Average interest rate: 1.43% fixed plus RPI (2019: 1.43% fixed plus RPI)

### 15. Financing risk management

The policies of the Company in respect of financing risk management are included in the accounting policies note on page 30. 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:

|   | 2020 | 2019 |
|---|------|------|
| <b>Assets:</b>                                      |      |      |
| Cash and cash equivalents                           | 0.7% | 0.8% |
| <b>Liabilities:</b>                                 |      |      |
| Intercompany loans                                  | 3.5% | 3.9% |
| Term loans  | 0.9% | 1.0% |
| Other unsecured loans                               | 3.2% | 4.3% |
| Lease obligations (2019: finance lease obligations) | 0.7% | 0.7% |

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 14. They also exclude the indexation charge applicable to certain portions of the intercompany loan.

#### b) Liquidity risk

| 2020                        | Within 1 year<br>£m | 1 - 2 years<br>£m | 2 - 5 years<br>£m | > 5 years<br>£m | Total<br>£m    |
|-----------------------------|---------------------|-------------------|-------------------|-----------------|----------------|
| <b>Assets:</b>              |                     |                   |                   |                 |                |
| Cash and cash equivalents   | 658.7               | -                 | -                 | -               | 658.7          |
| Trade and other receivables | 574.6               | -                 | -                 | -               | 574.6          |
|                             | <u>1,233.3</u>      | <u>-</u>          | <u>-</u>          | <u>-</u>        | <u>1,233.3</u> |
| <b>Liabilities:</b>         |                     |                   |                   |                 |                |
| Cash and cash equivalents   | 2.5                 |                   |                   |                 | 2.5            |
| Intercompany loan           | 354.2               | 26.7              | 56.1              | 2,693.6         | 3,130.6        |
| Term loans                  | 19.5                | 28.8              | 134.0             | 386.9           | 569.2          |
| Other unsecured loans       | 0.1                 | -                 | -                 | 0.2             | 0.3            |
| Lease liabilities           | 27.6                | 16.9              | 203.6             | 176.0           | 424.1          |
| Trade and other payables    | 564.1               | 5.9               | 17.7              | 290.8           | 878.5          |
| Future interest payable     | 125.0               | 103.5             | 311.6             | 724.2           | 1,264.3        |
|                             | <u>1,093.0</u>      | <u>181.8</u>      | <u>723.0</u>      | <u>4,271.7</u>  | <u>6,269.5</u> |



## Notes to the financial statements (continued)

### 15. Financing risk management (continued)

| 2019                        | Within 1 year<br>£m | 1 - 2 years<br>£m | 2 - 5 years<br>£m | > 5 years<br>£m | Total<br>£m    |
|-----------------------------|---------------------|-------------------|-------------------|-----------------|----------------|
| <b>Assets:</b>              |                     |                   |                   |                 |                |
| Cash and cash equivalents   | 490.3               | -                 | -                 | -               | 490.3          |
| Trade and other receivables | 572.4               | -                 | -                 | -               | 572.4          |
|                             | <u>1,062.7</u>      | <u>-</u>          | <u>-</u>          | <u>-</u>        | <u>1,062.7</u> |
| <b>Liabilities:</b>         |                     |                   |                   |                 |                |
| Cash and cash equivalents   | 142.4               | -                 | -                 | -               | 142.4          |
| Intercompany loan           | 29.3                | 354.3             | 65.2              | 2,172.5         | 2,621.3        |
| Term loans                  | -                   | 19.3              | 96.9              | 446.9           | 563.1          |
| Other unsecured loans       | 0.1                 | 0.1               | 0.1               | 0.2             | 0.5            |
| Finance lease liabilities   | 24.5                | 15.1              | 18.6              | 376.8           | 435.0          |
| Trade and other payables    | 559.7               | 5.9               | 17.7              | 241.1           | 824.4          |
| Future interest payable     | 102.7               | 102.4             | 239.0             | 670.1           | 1,114.2        |
|                             | <u>858.7</u>        | <u>497.1</u>      | <u>437.5</u>      | <u>3,907.6</u>  | <u>5,700.9</u> |

The minimum lease payments fall due as follows:

|  | 2020<br>£m          | 2019<br>£m   |
|--|---------------------|--------------|
| <b>Gross lease liabilities</b> (2019: gross finance lease liabilities) |                     |              |
| Within one year  | <b>37.0</b>         | 32.8         |
| Between two and five years   | <b>54.0</b>         | 69.3         |
| After five years   | <b>421.6</b>        | 429.3        |
|  | <u><b>512.6</b></u> | <u>531.4</u> |
| Future interest  | <b>(88.5)</b>       | (96.4)       |
| <b>Net lease liabilities</b> (2019: net finance lease liabilities)     | <u><b>424.1</b></u> | <u>435.0</u> |
| Net lease liabilities are repayable as follows:                        |                     |              |
| <b>Within one year (note 13)</b>                                       | <u><b>27.6</b></u>  | <u>24.5</u>  |
| Between two and five years   | <b>220.5</b>        | 33.7         |
| After five years   | <b>176.0</b>        | 376.8        |
| <b>Total over one year (note 13)</b>                                   | <u><b>396.5</b></u> | <u>410.5</u> |

#### c) Fair values

The fair values of the Company's derivative financial instruments are set out in note 14. The fair value of the intercompany loan is £3,894.4m (2019: £3,423.7m). The fair values of the Company's other non-derivative financial instruments are equal to the book values.

#### d) Borrowing facilities

As at 31 March 2020, there were committed undrawn facilities for operating cash within the Group of £170m (2019: £170m) in respect of which, all conditions precedents have been met at that date. The undrawn facilities of £170m of revolving credit facilities are available until November 2020.

Dŵr Cymru Cyfyngedig also has a £10m overdraft facility renewable on an annual basis

As at 31 March 2020, a fellow subsidiary, Dŵr Cymru (Financing) UK plc, also has a special liquidity facility of £135m (2019: £135m), which it is required to maintain in order to meet certain Group interest and other obligations that cannot be funded through the 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 an insurance product and is renewable on a 5 year rolling, evergreen basis.

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

## Notes to the financial statements (continued)

### 15. Financing risk management (continued)

#### e) Capital risk management

##### Gearing ratios (Glas Cymru Holdings Cyfyngedig group)

|  | 2020<br>£m | 2019<br>£m |
|--|------------|------------|
| Total borrowings                                 | (4,119)    | (3,766)    |
| Less: cash and cash equivalents                  | 667        | 501        |
| Net debt   | (3,452)    | (3,265)    |
| Regulatory capital value (RCV)                   | 5,906      | 5,671      |
| Total capital                                    | 2,454      | 2,406      |
| Less: unamortised bond costs and swap indexation | (64)       | (52)       |
| Total capital per bond covenants                 | 2,390      | 2,354      |
| <b>Gearing ratio</b>                             | <b>60%</b> | <b>58%</b> |

As set out on page 31, the Company monitors its capital structure based on a regulatory gearing ratio which compares its net debt with the Ofwat-determined RCV.

Under the Common Terms Agreement regulatory gearing is calculated as the level of net debt in the whole business securitisation relative to the regulatory capital value.

### 16. Provisions

|                             | Restructuring<br>provision<br>£m | Uninsured<br>loss<br>provision<br>£m | Other<br>provision<br>£m | Provision for<br>loss on swap<br>closure<br>£m | Total<br>£m |
|-----------------------------|----------------------------------|--------------------------------------|--------------------------|--|-------------|
| At 1 April 2019             | 1.6                              | 3.5                                  | 1.5                      | 0.9  | 7.5         |
| Charged to income statement | 10.0                             | 1.8                                  | -                        | (0.1)  | 11.7        |
| Unused amounts reversed     | -                                | -                                    | -                        | -  | -           |
| Utilised in year            | (1.6)                            | (1.5)                                | (1.0)                    | -  | (4.1)       |
| <b>At 31 March 2020</b>     | <b>10.0</b>                      | <b>3.8</b>                           | <b>0.5</b>               | <b>0.8</b>                                     | <b>15.1</b> |

#### Split as:

|   |             |            |            |            |             |
|---|-------------|------------|------------|------------|-------------|
| Amounts to be utilised within one year          | 5.0         | 1.3        | 0.1        | -          | 6.4         |
| Amounts to be utilised after more than one year | 5.0         | 2.5        | 0.4        | 0.8        | 8.7         |
| <b>At 31 March 2020</b>                         | <b>10.0</b> | <b>3.8</b> | <b>0.5</b> | <b>0.8</b> | <b>15.1</b> |

|                             | Restructuring<br>provision<br>£m | Uninsured<br>loss<br>provision<br>£m | Other<br>provision<br>£m | Provision for<br>loss on swap<br>closure<br>£m | Total<br>£m |
|-----------------------------|----------------------------------|--------------------------------------|--------------------------|--|-------------|
| At 1 April 2018             | 2.4                              | 4.2                                  | 2.4                      | 0.9  | 9.9         |
| Charged to income statement | -                                | 1.4                                  | -                        | -  | 1.4         |
| Unused amounts reversed     | -                                | -                                    | (0.9)                    | -  | (0.9)       |
| Utilised in year            | (0.8)                            | (2.1)                                | -                        | -  | (2.9)       |
| <b>At 31 March 2019</b>     | <b>1.6</b>                       | <b>3.5</b>                           | <b>1.5</b>               | <b>0.9</b>                                     | <b>7.5</b>  |

#### Split as:

|   |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|
| Amounts to be utilised within one year          | 1.6        | 1.3        | 1.1        | 0.1        | 4.1        |
| Amounts to be utilised after more than one year | -          | 2.2        | 0.4        | 0.8        | 3.4        |
| <b>At 31 March 2019</b>                         | <b>1.6</b> | <b>3.5</b> | <b>1.5</b> | <b>0.9</b> | <b>7.5</b> |

## Notes to the financial statements (continued)

### 16. Provisions (continued)

#### Restructuring provision

This provides for the cost of a reduction in the headcount by some 200 over the period 2020 to 2025 (see details of exceptional item in note 3).

#### Uninsured loss provision

This provision is in respect of uninsured losses and instances where insurance does not cover a deductible amount. The utilisation period of these liabilities is uncertain due to the nature of claims, but is estimated to be within five years.

#### Other provisions

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

#### Provision for loss on swap closure

This provision is in respect of a liability that arose on the cancellation of certain interest rate swap contracts. These contracts were redeemed early and a loss arising on redemption was settled by setting a higher rate on another swap contract. This provision is being released to the income statement over the life of the revised swap, which will expire on 31 March 2031.

### 17. Share capital

|  | 2020<br>£m   | 2019<br>£m   |
|--|--------------|--------------|
| <b>Authorised</b>  |              |              |
| 501,050,000 (2019: 501,050,000) ordinary shares of £1 each | <u>501.1</u> | <u>501.1</u> |
| <b>Allotted and fully paid</b>                             |              |              |
| 309,876,374 (2019: 309,876,374) ordinary shares of £1 each | <u>309.9</u> | <u>309.9</u> |

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

### 18. Cash generated from operations

|   |                     |              |
|---|---------------------|--------------|
| Reconciliation of operating profit to cash generated from operations: | <b>2020</b>         | 2019         |
|   | <b>£m</b>           | £m           |
| Operating profit  | <b>31.2</b>         | 70.6         |
| Adjustments for:  |                     |              |
| - Depreciation and amortisation                                       | <b>315.1</b>        | 291.8        |
| - Changes in working capital:   |                     |              |
| Increase in trade and other receivables                               | <b>(1.5)</b>        | (4.0)        |
| Increase in trade and other payables                                  | <b>0.3</b>          | 12.8         |
| Decrease/(increase) in Inventories                                    | <b>0.1</b>          | (0.7)        |
| Pension contributions above service cost                              | <b>(11.9)</b>       | (6.7)        |
| Increase/(decrease) in provisions                                     | <b>7.6</b>          | (2.4)        |
|   | <u><b>(5.4)</b></u> | <u>(1.0)</u> |
| <b>Cash generated from operations</b>                                 | <u><b>340.9</b></u> | <u>361.4</u> |

Pension contributions above service cost represent DCWW Pension Scheme deficit recovery costs paid as agreed between the Company and the scheme's trustees.

## Notes to the financial statements (continued)

### 19. Analysis and reconciliation of net debt

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

| a ) Net debt at the balance sheet date may be analysed as:        | 2020<br>£m              | 2019<br>£m              |
|---|-------------------------|-------------------------|
| Cash and cash equivalents   | <u>658.7</u>            | <u>490.3</u>            |
|   | <b>658.7</b>            | <b>490.3</b>            |
| Debt due after one year   | <b>(3,326.3)</b>        | (3,155.5)               |
| Debt due within one year  | <b>(376.3)</b>          | (171.8)                 |
| Lease liabilities (2019: finance lease liabilities)               | <b>(424.1)</b>          | (435.0)                 |
| Accrued interest  | <u><b>(48.7)</b></u>    | <u>(51.0)</u>           |
|   | <b>(4,175.4)</b>        | <b>(3,813.3)</b>        |
| <b>Net debt</b>   | <u><b>(3,516.7)</b></u> | <u><b>(3,323.0)</b></u> |
|   |                         |                         |
| b) The movement in net debt during the year may be summarised as: | 2020<br>£m              | 2019<br>£m              |
| Net debt at start of year   | <b>(3,323.0)</b>        | (3,122.3)               |
| Movement in net cash  | <b>168.4</b>            | 215.5                   |
| Movement in debt  | <u><b>(314.2)</b></u>   | <u>(364.6)</u>          |
| <b>Movement in net debt arising from cash flow</b>                | <b>(145.8)</b>          | <b>(149.1)</b>          |
| Movement in accrued interest                                      | <b>2.3</b>              | (2.0)                   |
| Indexation of index-linked debt                                   | <b>(49.0)</b>           | (50.1)                  |
| Other non-cash movements  | <u><b>(1.2)</b></u>     | <u>0.5</u>              |
| <b>Movement in net debt during the year</b>                       | <b>(193.7)</b>          | <b>(200.7)</b>          |
|   |                         |                         |
| <b>Net debt at end of year</b>                                    | <u><b>(3,516.7)</b></u> | <u><b>(3,323.0)</b></u> |

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

### 20. Employees and Directors

#### a) Directors' emoluments

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

|   | 2020<br>£000      | 2019<br>£000 |
|---|-------------------|--------------|
| Salary (including benefits in kind)                   | <b>1,587</b>      | 1,782        |
| Fees  | <u><b>619</b></u> | <u>603</u>   |
|   | <b>2,206</b>      | <b>2,385</b> |
| Long-term incentive plan                              | <u><b>114</b></u> | <u>126</u>   |
|   |                   |              |
| <b>Highest paid Director: C Jones (2019: C Jones)</b> |                   |              |
| Aggregate emoluments <sup>1</sup>                     | <u><b>619</b></u> | <u>562</u>   |
| Accrued pension under defined benefit scheme          | <b>7</b>          | (17)         |
| Long-term incentive plan                              | <b>60</b>         | 46           |

<sup>1</sup> excluding pension accrual and long-term incentive plan

## Notes to the financial statements (continued)

### 20. Employees and Directors (continued)

Retirement benefits are accruing to two Directors (2019: two) under defined benefit schemes. None of the Directors is a member of the defined contribution scheme (2019: none).

Remuneration payable to the Executive Directors in respect of the financial year ended 31 March 2020 was as follows:

- Base salaries were increased by 2.1% for the Executive Directors in April 2019. This was the same as the pay award for the rest of the workforce, which had been agreed with our recognised Trade Unions .
- Under the AVPS, up to 100% of salary can be earned in any year (maximum 20% of salary for each element). For 2019-20, awards have been made equivalent to: 14.9% of base salary for performance against the Customer element, 11% for performance against the Compliance element, 2.6% for the Costs element, 11.3% against the Strategic Annual Focus element, between 15% and 20% against Personal Objectives. This gives a total award for AVPS of between 54.9% and 59.9% of base salary. This compares with total awards of 62.3% and 67.3% in 2018-19, and includes pro-rata awards for Peter Bridgewater, who left the business at the end of December 2019, and Mike Davis, who became an Executive Director from 1 January 2020.
- Under the LTVPS, the overall maximum that can be awarded in the AMP6 five year regulatory period is 300% of salary (i.e. 60% per annum). From 2019-20, in the case of the Chief Executive Officer, the maximum award is 100% per annum. LTVPS awards for AMP6 were based on Customer Value (increases in reserves and transfers to Customer Reserves) and Customer Service (calculated on a three-year rolling average of performance).
- For the Customer Service element of LTVPS targets, measured on a rolling three-year basis Ofwat no longer uses the SIM measurement and has moved to a new C-MeX measure which is a more wide-ranging measure of customer views. A provisional award for the Customer Service element for 2019-20 has been based on the new C-MeX measure, to be confirmed when the Ofwat C-MeX league table for 2019-20 is published later in the summer. As Welsh Water has been rated 1st in the sector under the new C-MeX measure, a provisional award of 18.8%/11.3% of salary has been awarded for this objective, calculated on the rolling three-year basis.
- For the Customer Value element of the scheme measured for the year to 31 March 2020, a payment of 0% of salary has been awarded.
- The Committee also concluded that the Chair of the Board's fee should also be subject to the 15% discount against the benchmark, and this was implemented in 2019-20, so that the Chair's fee was frozen at the previous year's amount. The Chair of the Board and the Executive Directors reviewed the fees paid to Non-Executive Directors and concluded it was appropriate to freeze the Non-Executive Director fee.

(Further details are provided in the 2020 Remuneration Report which forms part of Glas Cymru's 2020 annual report and consolidated financial statements.)

#### b) Staff costs during the year

|                       | 2020<br>£m   | 2019<br>£m   |
|-----------------------|--------------|--------------|
| Wages and salaries    | 138.5        | 133.2        |
| Social security costs | 14.1         | 13.5         |
| Other pension costs   | 13.2         | 12.7         |
|                       | <u>165.8</u> | <u>159.4</u> |

Of the above, £69.6m (2019: £60.3m) has been capitalised, being the investment cost of employees' work on the capital programme.

#### Average monthly number of people (including executive Directors) employed by the Company

|   | 2020<br>Number | 2019<br>Number |
|---|----------------|----------------|
| Regulated water and sewerage activities | <u>3,525</u>   | <u>3,444</u>   |

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:

|                     | 2020<br>£m | 2019<br>£m |
|---------------------|------------|------------|
| Executive Directors | 1.7        | 1.7        |
| Other key personnel | 2.1        | 1.8        |
|                     | <u>3.8</u> | <u>3.5</u> |

## Notes to the financial statements (continued)

### 21. Pension commitments

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

The DCWW Pension Scheme was closed to new members from 31 December 2005 and closed for future accruals from 1 April 2017. A new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from 1 January 2006.

#### EFRBS

During 2011, the Company put arrangements in place via an Employer-Financed Retirement Benefit Scheme (EFRBS) for four 'capped' Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the DCWW Pension Scheme. At 31 March 2020, there were three Executive Members with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

#### Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2019 by Joanne Eynon of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated at 31 March 2020 and the principal assumptions made by the actuaries were:

|   | 2020       | 2019       |
|---|------------|------------|
| Discount rate   | 2.4%       | 2.6%       |
| Inflation assumption                                      | 2.6%       | 3.2%       |
| Rate of increase in pensionable salaries                  | 2.6%       | 3.2%       |
| Rate of increase in pensions in payment                   | 2.6%       | 3.1%       |
| Post retirement mortality (life expectancy):              |            |            |
| - Current pensioners aged 65 - males                      | 86.7 years | 87.1 years |
| - Current pensioners aged 65 - females                    | 88.9 years | 89.2 years |
| - Future pensioners aged 65 (currently aged 45) - males   | 87.7 years | 88.5 years |
| - Future pensioners aged 65 (currently aged 45) - females | 90.1 years | 90.7 years |

The mortality assumptions are the S2PxA base tables with future improvements in line with the CMI 2015 projection model with a long-term trend rate of 1% per annum.

Changes in the defined benefit obligation are as follows:

|   | 2020<br>£m   | 2019<br>£m   |
|---|--------------|--------------|
| At 1 April  | 488.4        | 474.1        |
| Current service cost  | 0.3          | 0.4          |
| Interest expense  | 12.4         | 13.0         |
| Remeasurement: (gain)/loss from change in financial assumptions | (12.6)       | 24.9         |
| Benefits paid   | (18.2)       | (24.0)       |
| At 31 March   | <u>470.3</u> | <u>488.4</u> |

Changes in the fair value plan assets are as follows:

|                           | 2020<br>£m   | 2019<br>£m   |
|---------------------------|--------------|--------------|
| At 1 April                | 396.9        | 398.0        |
| Interest income           | 10.2         | 10.9         |
| Experience (losses)/gains | (13.5)       | 5.0          |
| Contributions             | 12.2         | 7.0          |
| Benefits paid             | (18.2)       | (24.0)       |
| At 31 March               | <u>387.6</u> | <u>396.9</u> |

## Notes to the financial statements (continued)

### 21. Pension commitments (continued)

|                      | 2020         | 2019         |
|----------------------|--------------|--------------|
|                      | £m           | £m           |
| <b>Scheme assets</b> |              |              |
| Cash                 | 24.6         | 2.6          |
| Equity               | 201.5        | 303.1        |
| Absolute return      | 80.3         | 20.2         |
| Property             | 14.5         | 29.1         |
| Other                | 66.4         | 41.9         |
| <b>Total assets</b>  | <b>387.6</b> | <b>396.9</b> |

With the exception of cash, assets consist of pooled investment funds which are not quoted on an active market, shown by category in the table above. Of the total, assets with a fair value of £147m (2019: £149m) are Level 3 financial assets; these are considered to be the least liquid and hardest to value, and are therefore subject to a higher degree of estimation. See also the critical accounting estimates in note 1. Experience gains and losses are differences between the actual events as they have turned out and the assumptions that they were made as at the date of the earlier actuarial valuation and changes in the actuarial assumption during the year.

|   | 2020    | 2019    |
|---|---------|---------|
|   | £m      | £m      |
| Present value of funded obligations                           | (470.3) | (488.4) |
| Fair value of plan assets                                     | 387.6   | 396.9   |
|   | (82.7)  | (91.5)  |
| EFRBS unfunded liability                                      | (4.7)   | (4.7)   |
| Net defined benefit liability recognised in the balance sheet | (87.4)  | (96.2)  |

The contributions paid in the year to 31 March 2020 include special contributions of £11.9m (2019: £6.7m).

|                 | Change<br>in assumption | Increase in<br>liabilities<br>£m |
|-----------------|-------------------------|----------------------------------|
| Discount rate   | 0.10%                   | £8.7                             |
| Price inflation | 0.10%                   | £8.1                             |
| Life expectancy | 1 year                  | £13.3                            |

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

### 22. Capital and other financial commitments

The Company's business plan at 31 March 2020 shows net capital expenditure and infrastructure renewals expenditure of £366m (2019: £466m) during the next financial year. While only a portion of this amount has been formally contracted for, the Company is effectively committed to a majority of the total as part of the capital investment programme approved by its regulator, Ofwat.

## Notes to the financial statements (continued)

---

### 23. Related party transactions

Intercompany interest payable to Dŵr Cymru (Financing) UK plc (DCF), another member of the Glas Cymru Holdings Cyfyngedig group, was £141,867,000 during the year (2019: £144,820,000). As at 31 March 2020 the balance outstanding on the intercompany loan and accrued interest from DCF stood at £3,075,771,000 (2019: £2,577,311,000). All borrowings raised by DCF are immediately on-lent to the company on an arms-length basis. The intercompany loan is subject to the terms and conditions of the whole business securitisation structure of Glas Cymru Anghyfyngedig and its subsidiaries. DCC, in its capacity as debtor, repays such principal and interest as is due on each borrowing on the due date plus 0.01%. An intercompany loan to Glas Cymru Anghyfyngedig of £1,971,000 (2019: £1,971,000) remains outstanding as at 31 March 2020. During the year an intercompany loan was received from Dŵr Cymru Holdings Limited totalling £2,812,458. Interest payable on this loan has been waived.

As at 31 March 2020 intercompany trading balances owing to the Company were: Welsh Water Infrastructure Limited £2,400 (2019: £312,542), Welsh Water Organic Energy (Cardiff) Limited £149,259 (2019: £4,874), Cambrian Limited £4,265, Glas Cymru Anghyfyngedig £8,481 (2019: £8,481), Glas Cymru Holdings Limited £18,901 (2019: 3,759), Welsh Water Organic Waste £277,127 and Welsh Water Organic Energy Limited £9,675 (2019: £7,509).

During the year no dividends were paid or received (2019: £nil).

There were no other transactions with companies that are part of the Glas Cymru Holdings Cyfyngedig Group.

### 24. Elan Valley Trust Fund

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

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

The assets of the fund are not included in these financial statements. As at 31 March 2020 the market value of the trust fund was £119m (2019: £117m).

Interest receivable includes £3.1m (2019: £2.6m) in respect of distributions from the Elan Valley Trust Fund.

### 25. Contingent liabilities

Claims under the Environmental Information Regulations 2001 (EIR): since 2016, the Company has received notice of intended claims from three groups comprising individuals and entities operating personal search businesses. The claims are for the repayment of charges received for drainage and water searches carried out since 2004, on the basis that they were levied contrary to the EIR. In April 2020, one of the groups served court claims on the Company, seeking the repayment of charges and injunctive relief. The Company is defending those claims and has not heard from the other two groups of potential claimants since 2016 and 2018 respectively. Collective indicative quantum notified to date is £5.4m with £2.8m of that being the subject of live court proceedings.

There were no other contingent liabilities aside from those arising in ordinary course of the Group's business and in respect of these no material losses are anticipated.

### 26. Immediate and ultimate holding company

The immediate parent Company is Dŵr Cymru (Holdings) Limited and the ultimate holding Company and controlling party is Glas Cymru Holdings Cyfyngedig, both of which are registered in England and Wales. The largest and smallest group within which the results of the Company are consolidated is that headed by Glas Cymru Holdings Cyfyngedig and Glas Cymru Anghyfyngedig consecutively. Both consolidated financial statements can be obtained from the Company Secretary at Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY.