Registered №: 3975719

Glas Cymru Anghyfyngedig

Annual report and financial statements for the year ended 31 March 2022

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Foreword

These financial statements for Glas Cymru Anghyfyngedig (the Company) cover the year to 31 March 2022.

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

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

The Company's group structure consists of:

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

Directors and advisers

Directors

Peter Perry
Peter Mike Davis
Roger Morgan (alternative to P M Davis)

Company Secretary

Nicola Williams

Independent auditor

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Strategic report

The Directors present the Strategic report of Glas Cymru Anghyfyngedig for the year ended 31 March 2022.

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

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

Business review
The Group is in a strong financial position as at 31 March 2022; gearing has reduced to 58% (2021: 60%) and we have retained our sector-leading credit ratings.

Revenue:
Glas Cymru's turnover in the year to 31 March 2022 was £31 million (4%) higher than last year at £807 million (2021: £776 million): Revenue has risen as a result of price adjustments (£16 million), including a 2.0% increase in the average household customer bill, increased non-household customer consumption, and an increased number of customers. Whilst household consumption has remained fairly steady, billed consumption for non-household customers has increased – this is due to more businesses reopening during the year. We have also seen increased income from fixed charges, given last year's suspension of fixed charges for businesses forced to close during the pandemic. We were pleased to be able to reopen our visitor attractions part-way through the year, once again giving access to water sports, fishing and other recreational activities and generating £2 million of additional income.

These increases have been partially offset by the impact of tariff changes, customers who have opted to move to a metered supply and void customers' properties.

Operational items:
Glas Cymru incurred total operational costs (excluding exceptional items, infrastructure renewals expenditure on maintaining our underground pipe network and depreciation) of £347 million (2021 £328 million), representing material energy price rises and the impact of hot weather related tankering and maintenance costs. Some £16 million of inflationary cost pressures have been partially offset by £5 million of savings from ongoing efficiency initiatives, including many of the new ways of working introduced in response to the Covid-19 pandemic.

Staff costs are our biggest category of operating expenditure, totalling £165 million this year, and we have successfully kept this broadly stable (2021: £168 million). Pay increases to keep up with the cost of living and progression increases as colleagues develop in their roles have been offset by our ongoing programme of cost efficiencies. We continue to introduce enhanced process automation as well as rolling out our carefully planned apprentice scheme to shadow colleagues who are approaching retirement.

We have experienced a number of cost pressures during the year, principally relating to rising energy prices driven by the pandemic and the crisis in Ukraine increasing net energy costs by some £17 million. A period of warm, dry weather in the summer saw increased demand for water leading to additional costs of some £3 million due to pumping and treatment of the higher volumes, while Storms Eunice and Franklin caused temporary operational challenges during the winter period. We also felt the impact of additional customer demand during the 'staycation' summer holiday period, with higher tankering, pumping and treatment costs. We spent a further £3 million on leakage-related activity to ensure that we were able to meet our performance targets.

Energy costs:

Energy costs are one of our biggest expenses, second only to staff costs, and totalled £77 million during the year, before £14 million of export income (2021: £49 million and £3 million respectively). We rely on power to run many of our water and sewerage processes across a geographically diverse region where pumping is frequently essential to enable content to be transported, and minimising costs can be very challenging. In recent years we have increased our own power generation capacity and this year we delivered 24% of our total power requirement through a combination of self-generated electricity and private wire agreements (2021: 23%). We exported £20m of energy (2021: £8 million), including £2 million from our gas-to-grid facility at Five Fords treatment works (2021: £1 million) which incorporates a fully operational advanced anaerobic digestion (AAD) facility. Nevertheless, during the current year our net energy costs were £17 million higher than the prior year across our operations as a result of price increases: average cost of £151/MwH this year is significantly higher than prior year of between £55-£60/MWh and our daily water distribution input rose by 3%, from an average amount of 864 megalitres per day in 2021 to 885 in 2022.

Energy costs (continued):

Energy markets are currently experiencing significant volatility and we are monitoring emerging price pressures closely. In order to help ensure that our operations remain financeable, we have already forward purchased 85% of the estimated power requirements of the business for the current regulatory period through to 2025.

Bad debt charges:

The largest cost in our retail service is our bad debt charge of £24 million (2021: £21 million) excluding the impact of Covid-19 which has been displayed as exceptional, being the total annual value of customer debts that we prudently estimate we will not collect. No water company in Wales or England has the legal right to disconnect a supply from a domestic customer for non-payment of bills. Furthermore, Wales' relatively high levels of socio-economic deprivation have meant that cash collection has historically been a particular challenge.

We continue to prioritise debt recovery in the retail service. Our specific approach depends on customers' circumstances. For those who struggle to pay their bills, we provide an extensive range of support options, including deeply discounted social tariffs for the financially vulnerable. For those customers who choose not to pay their bills our options include taking out charging orders in respect of indebted customers who are homeowners. At the end of the year, some £12 million of debts were secured via charging orders. Our efforts are paying off. Over the past two years cash collection rates are stable, despite the challenges of the Covid-19 pandemic and more recently the cost-of-living crisis. The rise in our bad debt charge is attributable to the 2% rise in average customer bills this year.

It is hard to predict the future direction of consumer behaviour. However, we note as a positive that unemployment levels have fallen in Wales consistently over the past year (from 4.2% in Q1 2021 to 3.0% in Q1 2022), yet RPI inflation hit its highest level in 30 years in March 2022 (9.0%). This will inevitably present a challenge to the recoverability of debt, but, as yet, we have not seen deterioration in our key metrics in cash collection rates. We believe our strong focus on collections and the availability of our social tariff customer support will help to keep our bad debt charge stable. Nevertheless, we have retained a £2 million contingency for bad debts to reflect a risk of a deterioration in our collection rates next year.

<u>Exceptional items:</u>

In the year to 31 March 2022 we have recognised an exceptional credit totalling £4 million. This item represents a release of the bad debt provision because of anticipated bad debt charges associated with the Covid-19 pandemic did not materialise during the year to the extent previously expected. We have disclosed this as exceptional due to the corresponding Covid-19 charge having, in the previous year, been shown as exceptional.

In the year to 31 March 2021 we recognised exceptional items totalling £34 million. These represented additional costs incurred as a result of the pandemic and due to both their size and nature they were disclosed separately on the face of the income statement.

<u>Operating profit:</u>

Operating profit is higher than the prior year at £81 million (2021: £8 million), reflecting the movements in revenue, operational expenditure and exceptional items noted above as well as movements in depreciation and infrastructure renewals expenditure (IRE).

IRE, the ongoing cost of maintaining the serviceability of our underground assets, is lower than last year. 30% of total IRE of £88 million has been included as fixed asset additions, as it demonstrably enhances the value of the network (March 2021: 21%). The proportion of IRE capitalised has increased due to the mix of expenditure programmes, such as reservoir dam safety and Combined Storm Overflows-related capital improvements.

<u>Financial expenses:</u>

The amount we paid to service our debt, also referred to as net interest payable, totalled £183 million for the year (excluding accounting losses on derivative values). This is 51% higher than the previous year (£121 million), primarily as a result of the impact of higher Retail Prices Index (RPI) inflation on our index linked debt. Around 82% of our £3.3 billion of debt is indexed-linked to RPI (2021: 80% of £3.0 billion), and therefore driven by year-on-year RPI inflation. Our debt is linked primarily to July and December RPI which were 3.8% and 7.5% in the year to 31 March 2022 (2021: 1.6% and 1.2%). This gave rise to a total indexation charge, including swaps, for the year of £83 million (2021: £1 million).

In April 2021 we issued £300 million of subordinated (junior) bonds at a fixed rate of 2.375%. In line with the Group's AMP7 financing plans, we also entered into contracts to swap the fixed interest rate on the new bond to RPI -0.1493%. This new issue ensures that the Group is funded to the end of the current regulatory period in 2025 and strengthens an already robust liquidity position, giving us security during economic uncertainty and volatility.

Accounting losses on derivative financial instruments:
The Group has a number of derivative swap contracts which fix or inflation-link the cost of debt. While all are effective commercial hedges, most do not qualify for hedge accounting under IFRS 9 and therefore changes in fair values create volatility in the income statement. Net fair value losses in the year amounted to £114 million (2021: net losses of £7 million). There is, however, no impact on cash flows: we intend to hold all remaining swaps to the maturity of the underlying debt and, over the life of those swaps, such gains and losses will revert to zero.

As part of our power cost management strategy, we have also fixed 89% of our estimated wholesale energy usage for the current AMP through to 2025. This is to help ensure that our operations remain financeable, and we have achieved this through the use of power swaps and forward power purchases. Our power swaps are currently in the money, valued at £39 million, a £31 million gain on 2021 (£8 million).

Loss before tax:
The income statement shows a loss before taxation of £215 million (2021: loss of £120m) which takes into account the variances discussed above, including inflation and fair value movements.

Taxation:
Glas Cymru invests to improve the quality of services for customers, in no small part through a large capital investment programme which aims to improve the quality and resilience of our network infrastructure. Capital expenditure of £334 million in 2021-22 (2020-21: £353 million) allows us to benefit from capital allowances, a government tax relief designed to stimulate this type of investment. Capital allowances take the place of the accounting depreciation charge when we calculate our taxable profits. In the years immediately following investment, capital allowances are typically higher than accounting depreciation, reducing our taxable profits and deferring any corporation tax liabilities to future periods. The high level of capital investment we have planned during AMP7 (£2.0 billion over the period 2020–2025) means that we do not expect to pay corporation tax until AMP8 at the earliest (2025–2030).

We try to utilise available tax reliefs and incentives put in place by the government to maximise funds available to benefit our customers, and during the year we claimed a tax credit of £0.6 million (2021: £0.9 million) under the Research and Development Expenditure Credit initiative (included within operating expenditure, see Note 3 to the financial statements).

The total tax charge in the income statement is £9 million, compared to last year's tax credit (2021: £22 million credit). The tax charge of £9 million includes £48 million from calculating deferred taxes using a rate of 25% which will apply in the future, instead of 19%. If the effect of the rate change is removed, the underlying tax credit is £39 million, resulting in an effective tax rate of 18.4%. A reconciliation is provided in Note 5 to the financial statements.

Group tax strategy:
The tax strategy is managed at a group level by the GCHC Group. The Group is committed to acting in an open and transparent way in respect of its tax affairs. We pay a range of taxes, including business rates, employer's National Insurance and environmental taxes. We do not enter into artificial tax arrangements, use tax havens or take an aggressive stance in the interpretation of tax legislation. Full details of our tax strategy are published annually on our website at dwrcymru.com/tax strategy. The Group has complied with the Tax Strategy for the year ended 31 March 2022.

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

Pension funding:
Glas Cymru's defined benefit pension liability at 31 March 2022 as reported on the balance sheet was £81 million, a decrease of 10% on last year (2021: £90 million). This valuation has been prepared in accordance with the IAS 19 basis for accounting purposes which is not the same as the actuarial valuation of the scheme used for funding purposes. The latest funding valuation was completed as at 31 March 2019 and projected a deficit of £12 million which was subsequently mitigated by recovery payments totalling £12 million made during 2019-20. Exposure to any significant additional future liabilities is limited following the 2017 closure to new accruals of most sections of the scheme.

For around 400 pensioners, pension increases above 5% and up to the level of December 2021 RPI inflation are payable if the scheme is sufficiently funded. From 1 April, these pensions will therefore be increased by 7.5%, adding around £160,000 a year to the pension payroll. For funding purposes, this will add some £6-8 million to our scheme liabilities. As at 31 December 2021, the scheme had an indicative surplus of £14 million, although investment valuations have since fallen. The next triennial valuation, on an actuarial funding basis, will be performed as at 31 March 2022.

Strategic report (continued)

Cash flow:
Net cash generated from operating activities for the year ended 31 March 2022 totalled £314 million, which increased from the £239 million generated in the previous year. The increase is driven by higher revenues and lower operating costs, (including exceptional items but excluding depreciation and amortisation).

The net cash outflow from investing activities for the year ended 31 March 2022 was £247 million, which decreased from £299 million expensed in the previous year. This was principally caused by a lower level of investment in our capital programme due to phasing of our capital spend throughout the AMP period and movements in working capital.

Net cash inflows from financing activities totalled £226 million: the Group drew down a new £300 million bond issue in April 2021 (2021: outflows of £390 million included a repayment of £325 million bonds which matured at the end of the year.

Capital investment:
Glas Cymru's strong financial position has been built up over more than 20 years of Glas Cymru's stewardship of Welsh Water, and it provides a stable base from which we can respond positively to the challenges of continued economic uncertainty and drive forward our large, long-term capital programme. We partner with an alliance of contractors to deliver our capital investment programme at the best value for money for customers. Total net capital expenditure during the year (including infrastructure renewals expenditure) was £334 million (2021: £353 million). We experienced some delivery delays because of some Covid access restrictions early in the year but remain in line with our overall AMP7 delivery programme.

Net asset position:
The consolidated balance sheet shows net assets of £1,086 million at 31 March 2022 (2021: £1,041 million). The net book value of property, plant and equipment has risen by £455 million (8%), a consequence of revaluing the Group's Company's asset base to Glas Cymru's regulatory capital value. Cash balances are £293 million (140%) higher than the prior year, reflecting net operating cash outflows and financing activity (with £325 million of bonds redeemed on 31 March 2021, replaced by £300 million of bonds drawn down on 9 April 2021. The net deferred tax liability has increased by £198 million (42%) principally as a result of the change in tax rate, from 19% to 25%. Non-cash fair values of derivative financial instruments have increased by £114 million (24%) to net liabilities of £595 million, caused by the rise in RPI seen during the year. Excluding the non-cash fair values of derivative financial instruments, the Group held net assets of £1,681 million (2021: assets of £1,522 million).

Liquidity and financial reserves:
Glas Cymru aims to offer a secure, low-risk investment to debt investors. By building and maintaining a strong financial position, we seek to keep our borrowing costs low which enables us to finance future investment efficiently. On Glas Cymru's acquisition of Welsh Water in May 2001, gearing (net debt/RCV) stood at 93%. Since then, our financial position has improved steadily.

Gearing to RCV had fallen to 58% by 31 March 2022 (2021: 60%) and 'customer reserves' (RCV less net debt) were £2.7 billion (2021: £2.4 billion). As at 31 March 2022, we had total available liquidity of £702 million (2021: £409 million), including cash balances of £502 million (2021: £209 million).

Gearing policy:
Glas Cymru's gearing policy is to target a debt to Regulatory Capital Value (RCV) ratio at or around 60% and interest cover ratios commensurate with maintaining our strong 'A' grade credit ratings. This should help us to maintain our low-risk profile, giving the Group access to low-cost financing throughout AMP7 and beyond.

Credit rating and interest rate management:
Glas Cymru credit ratings are among the highest in the UK water sector, reflecting our strong level of creditworthiness. Our rating agencies have issued rating updates, noting that the pandemic does not have a material impact.

On 5 November 2021 Moody's confirmed our A3/BBB ratings (senior/junior bonds), on 11 November 2021 Fitch confirmed our A/BBB+ ratings and the latest S&P report on 17 May 2022 confirmed our A-/BBB ratings. All rating outlooks are stable.
The rating of the class A bonds (which are subject to a financial guarantee from Assured Guaranty UK Ltd) are determined by the credit rating of Assured Guaranty UK Ltd and are unaffected by these rating updates.

As at 31 March 2022, around 82% of gross debt was index-linked via bonds and derivatives (2021: 80%), with the remainder principally at fixed interest rates. The expected maturity of the outstanding fixed-rate and index-linked bonds ranges from 2026 to 2057, with not more than 20% falling due in any two-year period, in accordance with our refinancing policy.

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 2022 have been prepared on the going concern basis. (Full details are provided under "basis of preparation" in note 1 to the financial statements.)

Strategic report (continued)

Financial key performance indicators
The Group is part of a group controlled by Glas Cymru Holdings Cyfyngedig (GCHC, the "group"). The Directors of Glas Cymru Anghyfyngedig use group-wide key performance measures as indicators to the development, performance and position of the Group. These are discussed in the 2021-22 Annual Report and Accounts of GCHC 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).

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 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.

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 AMP7, 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 Group and of customers are aligned, and the strategic direction of the Group 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 Group, the principal risks and uncertainties are integrated with the principal risks of the GCHC group and are not managed separately and are discussed in the 2021-22 Annual Report and Accounts of GCHC. These include:

- public concern about environmental issues;
- business continuity;
- climate change impacts and transition risks;
- risk of health and safety major incident;
- information security, cyber risk, and risk of IT system loss;
- performance and cost-related risks;
- risk of loss of customer trust;
- risk of loss of key talent, capability, and competence;
- macroeconomic risk and access to funding

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:

- public health (micropollutants in drinking water and plastics in wastewater); and
- Post-Covid changes in working practices

The above emerging risks are also discussed in the 2021-22 Annual Report and Accounts of GCHC.

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 3 to 9 and the Directors' Report on pages 10 to 16 of this annual report and financial statements. Reference to the Board means the joint Board of Directors of GCHC 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 Group's employees and other stakeholders, including the impact of its activities on the community, the environment and the Group's reputation, when making decisions.

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

The potential consequences of decisions in the long term is a natural focus for our long-term investment and planning, but as a customer-led business, the impacts on our communities and the environment are absolutely central to our strategy. Delivering that strategy necessarily involves fostering relationships with governments, regulators, suppliers and customers, but it also critically depends on colleagues across the business and in our supply chain.

Engagement with stakeholders

On pages 56 of the Strategic Report in the 2021-22 Annual Report and Accounts of GCHC, a copy of which is available to view on our website at http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx), we set out details of our board decision making in relation to our stakeholders.

The Board regularly hears directly from our principal stakeholders, including our regulators, through attendance at Board meetings. The customer voice is represented through the Customer Challenge Group, whose Chair, Peter Davies, has attended both a Board meeting and a meeting of the Environment, Social and Governance Committee during the year. The views of regulators are gathered both directly through invitations to join our Board and Quality and Environment Committee (QEC) meetings, and indirectly as regulatory correspondence and meeting detail are relayed by members of the Executive team through monthly management reports to the Board. During 2021-22, the QEC heard directly from the Chief Inspector of the Drinking Water Inspectorate (March 2021) and some of the Directors of Natural Resources Wales (June 2021). The incoming Chair and Chief Executive of Ofwat together with the Wales Director and the Senior Director of Strategy and Planning are due to attend the September 2022 Board meeting.

Engagement with suppliers

Supply chain risk is noted as one of the principal strategic risks reviewed at every Board meeting, and the Board receives monthly reports from the Commercial Director, including an update on procurement issues and key supplier issues. Board members also regularly meet with representatives of contractors working on our Capital Projects programme when attending site visits.

Engagement with employees

The Board promotes inclusivity and supports developing each individual to their full potential. Regular updates on turnover, absence and sickness levels are received and key policies such as Equality, Diversity and Inclusivity, and pay are reviewed at the Board or at meetings of relevant Committees and there are also regular updates from the Executive on discussions with the recognised trade unions through the Senior Negotiating team. The Chair and Non-Executive Directors regularly meet with groups of colleagues from all business areas. Since March 2020, these meetings have been held remotely, enabling a wider geographic spread of colleagues. Separate meetings have been arranged with managers across the business, and again these have been held remotely given Covid restrictions, but during 2022 we plan to begin to hold informal managers' lunches with the Board once again.

Engagement with Glas Members.

The role of Glas Members is set out on pages 122 to 125 of our Governance Report in the 2021-22 Annual Report and Accounts of GCHC; our Members are drawn from across the supply area and the independent Member Selection Panel, chaired by Sir Paul Silk, aims to ensure a broad spread of background, skills and experience within the Membership. Debra Bowen Rees, one of our Non-Executive Directors, is a member of the independent Member Selection Panel and, therefore, takes a particular interest in the Glas Membership. The Panel carries out an annual recruitment process to refresh the membership as Members step down (after a maximum nine-year term). The Board meets with Members in July and December each year, and welcomes input from Members on key strategic issues at these meetings, where there is always an opportunity for Member feedback and discussion. The Company Secretariat team ensures that Members are kept up to date on current issues affecting the business on a regular basis, and feeds back Member views in a report to the Board at each Board Meeting.

Engagement with the customer challenge group

This group comprises customer and environment advocates from a broad variety of backgrounds. It meets regularly to review and comment on customer research, strategy, policy and initiatives. It also reviewed our performance at the half year against the Wellbeing Commitments (see page 39 of the Group Annual Report and Accounts). The Chair of the Customer Challenge Group attended a meeting of the Board in July 2021 and the ESG Committee in February 2022, at which the future amalgamation of the Wellbeing Commitments with targets set under the 10 principles of the ESG Strategy was discussed.

Engagement with the independent environmental advisory panel (IEAP)
This group includes representatives from environmental NGOs, academics and third sector organisations. The independent Environmental Adviser to the Board's Quality and Environment Committee attends meetings of the IEAP, and reports back to the Quality and Environment Committee on issues of relevance to the Committee.

Engagement with investors
During 2021-22 we held meetings with bond investors via video conference, but in July 2022 we plan to reconvene our annual Investors Meeting in person. Members of the Board and Executive team attend this meeting and the Treasury team is in regular contact with investors and credit rating agencies throughout the year. All formal communications with investors are approved by the Board, and investors receive a six-monthly Investor Report which they are welcome to follow up with the Treasury team.

The role of the executive team
The Dŵr Cymru Executive team is responsible, with the Chief Executive and Chief Financial Officer, for the operational management of the Group, and is designated as senior management for the purpose of the Code but not for the purposes of section 414C(8) of the Companies Act 2006. The team comprises the senior functional management roles and those with responsibility for interacting with the Group's principal stakeholders. From 1 April 2022 the newly-appointed Chief Risk Officer joined this team.

The role of the Board
The Board oversees measures to ensure that stakeholder interests are always taken into account. Papers prepared by the Dŵr Cymru Executive team for Board approval highlight relevant stakeholder considerations to be discussed as part of the debate when making decisions, in order to ensure that sufficient attention is given to stakeholder concerns, and that the interests of all relevant stakeholders are taken into account in the Board's decision-making.

By order of the Board.

N Williams
Company Secretary
1 June 2022

Directors' report

The Board has prepared a Strategic report (pages 3 to 9) which provides a summary of the development and performance of the Group's business in the year ended 31 March 2022 and comments on likely future developments. Full details and analysis of the operational performance of Glas Cymru Anghyfyngedig during the year to 31 March 2022 are included in the published 2021-22 Annual Report and Accounts of GCHC.

The Directors have pleasure in presenting their annual report, together with the audited financial statements for the year ended 31 March 2022 on pages 22 to 65.

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 2.

At 31 March 2022, the Group had 3,489 employees (2021: 3,602). 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 reflects the extensive efforts throughout the Group to instil a culture of proactive reporting and a safety-first mindset for every role in the Group. 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 9 which is higher than the record low reported last year (2021: 6). 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 Group's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Group during the year ended 31 March 2022 are set out within the Strategic Report on page 8.

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 in pursuit of the Group's Purpose and are based on transparency and fairness, underpinned by the values of the Group.

During the year ended 31 March 2022 we have applied the principles and complied with the provisions of the 2018 UK Corporate Governance Code and Ofwat's Guidance on Board Leadership, Transparency and Governance, as updated in 2019, and as required by our Licence conditions.

For further information on how we have complied with the above, please refer to pages 117 to 118 contained in the Corporate Governance section of the 2021-22 Annual Report and Accounts of GCHC. A copy of the report is available to view at http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx) or by emailing the Company Secretary at company.secretary@dwrcymru.com. Also, within the 2021-22 GCHC 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
With ever tightening service measures and other key drivers such as carbon reduction we continue to look for better ways of working or increased use of advances in technology. Over the past 12 months, we have made good progress delivering the agenda set out in our Innovation Strategy published in April 2019 with links to over 70 academic institutions, technologist specialists, and global consultants. Our strategy confirms two drivers of our approach to innovation. Firstly, to develop and progress new technologies to improve customer service, create efficiencies and reduce resource use, carbon, and costs. Secondly, to use our research and evidence-led work to help shape the views of regulators, and so enable new innovative policies to be developed which facilitate and support the delivery of our 2050 vision, e.g. on catchment solutions and nutrient trading.

In 2021 we have progressed 24 technology-related projects from a total of 166 which have arrived at our Innovation web base portal. So far, we have also won or are part of innovation projects worth £18.9 million, via the Ofwat £200 million innovation fund. Our research programme, which includes our biodiversity projects and others targeted at enabling regulatory change, has so far this AMP committed £3.3 million which is leveraged to £29.6 million by third party investments, mostly from the EU LIFE fund, UKRI, and the Welsh Government. Such projects and initiatives continue to be reviewed through our now well established iLab process and support both our AMP7 KPI targets and Welsh Water 2050 to ensure that our investment remains appropriately targeted.

Innovation (continued)
In terms of innovation in our retail services work for customers, we have continued to grow our digital services in line with our Digital Strategy by 80% compared to 2019. To support the increase in submissions we have automated our main billing forms and out of circa. 250,000 webforms submitted, 56% were automated directly into our back end systems. We have also gone live with our new bilingual My Account solution, giving customers a more personalised and improved service. We currently have 335,000 My Account customers and over 1,500 customers are logging in to their personalised dashboard each day.

Our research work has been used to help support policy change in the EU through Eureau, the European industry trade body. We hope this will mean the new Directives being drafted, including the Urban Waste Water Treatment Directive, will now focus on our needs and support affordable, nature-based sustainable investments, and that these Directives will be incorporated into legislation for our supply area. Our research work has also supported the development and implementation of Covid and SARS2 monitoring at 44 of our wastewater treatment works, helping to inform the Welsh Government weekly of the prevalence of the disease in over 80% of our population.

We will be running our bi-annual virtual Innovation Conference in September 2022, celebrating our innovation successes to date, and looking forward to AMP8 in terms of establishing stronger partnerships (e.g. through the new industry body, Spring) to deliver improvements and efficiencies for our customers.

Greenhouse gas emissions
Due to our commitment to transparent and best practice reporting, we have included our streamlined energy and carbon reporting (SECR) disclosures in the 2021-22 Annual Report and Accounts of GCHC in the Responsibility section of this report alongside our annual GHG (greenhouse gas) emissions footprint and an intensity ratio appropriate for our business, which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013. This report is available on the Group's website at http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx.

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 programme and our visitor attractions
We had an ambitious target to reach 72,000 children and young people through our education programme in 2021-22 – both through our outreach programme and at our education centre in Cilfynydd. However, due to Covid restrictions we were unable to visit schools until late September and even then only able to reach smaller groups due to ongoing restrictions on the mixing of groups and classes within schools. To date, approx. 45,600 children and young people have attended sessions with our education team (2020-21 5,800 - numbers affected by Covid restrictions). We currently operate visitor attractions at Llyn Brenig, Llandegfedd, Elan Valley, and our fourth centre that re-opened in June 2021 at Llys-y- Fran, Pembrokeshire following a £5 million redevelopment. 843,000 people visited the centres in 2021- 22 (2020-21: 295,000) against a target of 675,000 despite Covid restrictions limiting the offering at the sites in April and May 2021. We have also secured planning permission to build a new centre at our reservoirs at Llanishen/Lisvane in Cardiff which is due to open in spring 2023.

Supporting vulnerable customer
In our Strategy for Supporting Customers in Vulnerable Circumstances, we highlighted the need to provide a more holistic service for customers, dealing with financial and non-financial vulnerability at the same time and making it easier for people facing difficult life events to access our services. To achieve this, we established our new Specialist Support Team in April 2020, bringing together our affordability support with Priority Services, which ensures that those customers who are vulnerable receive assistance with all aspects of our service. This team of specialist advisers is trained to deal with the most complex situations facing our customers and ensure that they get all the support we can provide. Each month the team is identifying about 800 additional customers that can benefit from our Priority Services. Through the efforts of this team, and our data-sharing agreements with Western Power Distribution and Wales and West Utilities, we are now supporting over 116,250 customers through our Priority Services Register and this is expected to exceed 90,000 by the end of the year. At the outset of the Covid pandemic we worked with the Welsh Government to understand how details of households with one or more people that had been instructed to shield could be added to our Priority Services Register. In May 2020 we reached agreement with the Welsh Government to receive this information and with information that we already had on our system (identifying elderly customers) our temporary priority services register was set up. This holds details of over 330,000 households which were used to support the emergency responder community during significant weather events such as Storm Bella (December 2020). Since March 2022 we have worked with the Welsh Government to delete this register, post-Covid, as there is no ongoing justification for us to continue to hold this data under data protection rules, but we know that if we need to work with third parties to assimilate large amounts of personal data for customers into our systems, we now have an established way of working to make this possible.

Directors' report (continued)

Social tariffs

During 2021-22 we have continued to maintain availability of our social tariff scheme supporting over 127,000 customers. The company is earmarking over £12 million in 2022-23 to support all its vulnerable customers who are struggling with their water bills and we have confirmed that we want to support an additional 50,000 low-income households to help reduce their water bills. In common with other companies and sectors, we have not yet seen the anticipated increase in applications for support. We estimate that only 2% of applications during 2020-21 related to customers whose circumstances had been affected by the pandemic. At the end of March 2022, over 95,000 households were being supported by HelpU and a further 32,000 were supported by our WaterSure Wales tariff (with over 144,000 in total receiving some form of financial assistance to pay their bills). However, the sharp rise in the cost of living, particularly with the increase in energy, fuel and food prices, is expected to make life very challenging for our lowest income households over the coming months and the capacity in our scheme means that we are in a good place to support them.

Community fund

As a responsible business we always strive to go the extra mile to support local communities to leave a lasting legacy, especially if we are investing in or disrupting their local area. Since the launch of the community fund in 2017 we have supported over 700 local community projects to help them deliver a wide range of community benefits. We provide £100,000 every year to support various strands of funding which includes local community groups who can apply for a donation of up to £1,000 for a project. The funding also provides an opportunity for colleagues to apply for £200 for projects or organisations which are close to their heart or to support a local initiative. Additionally, we match fund national charities such as Children in Need and our charities of choice WaterAid and the Prince's Trust. All the applications received through our community fund website are collated and decided on by a panel of colleagues across the business who meet monthly. Since the start of the fund, it has gone from strength to strength and has resulted in many local community groups benefitting to make local improvements to the environment or support community benefits promoting health, wellbeing and education. This helps us to maintain our reputation as a responsible business with a core focus on all those communities where we are working and investing.

Community investment

At the start of the pandemic the business worked in partnership with the Trussell Trust and donated £100k to 98 foodbanks in our operational area. To continue providing this essential support during difficult times the Board decided to donate a further £100,000 which was distributed to foodbanks in July 2021.

Water resilient community projects and other community activities

Following the success of the pilot scheme in the Rhondda Fach in 2018- 19 we have run two Water Resilient Community projects concurrently in Rhyl and the northern part of the Rhymney Valley between Rhymney and Bargoed. Our focus on the project areas of Rhyl and Rhymney-Bargoed, which concluded this year (having started in 2020-21), was to help people struggling with their bills, provide water-saving devices, offer fun lessons in schools, and support local community projects. The impact of these projects included over 200 customers referred for financial support from partners, resulting in over £35,000 of savings on their bills; over 500 water efficiency devices sent to households; almost 6,000 children participating in education sessions; 50 hours of colleague volunteering; over 550 children trialling a water efficiency gaming app; the co-creation of an illustrated book (written and designed by 15 school children) to educate children about sewer abuse; 46 investigations for sewer misconnections; and over £9,000 of grant funding provided to local groups from our Community Fund.

Biodiversity

In 2017 we published our forward looking plan for biodiversity – 'Making time for nature' as required by Section 6 of the Environment (Wales) Act 2016. This sets out how we propose to comply with our strengthened biodiversity duty as an integral part of the provision of our services. At the end of 2020 we published our updated Biodiversity Plan. This consists of 30 overarching commitments from across the business. This year we have published our Biodiversity Strategy and continued to work with colleagues across the business – our Biodiversity Champions – to enhance biodiversity at our operational sites. Further information is included in the Annual Report and accounts of GCHC.

Social

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

Directors' report (continued)

Equality, diversity and inclusivity

We want our workforce to better reflect the communities we serve. Our EDI Strategy supports our efforts to:

- Embed a culture where respect, communication, and understanding is fostered and diversity and inclusivity positively valued
- Understand and address needs of different groups
- Embed inclusivity in all our work, ensuring that equality and diversity are considered, implemented and assessed with regards to policies, services, and decision-making processes
- Ensure an environment where discrimination, harassment, and bullying is not tolerated.

Having established 'grass roots' networks to support underrepresented groups, each with their own Executive team member sponsor, we are working to ensure our workplaces are welcoming and inclusive for everyone who works for us. We have supported 30 outreach visits to secondary schools during 2021-22 and are supporting STEM and WISE (Women into Science and Engineering) events. We also actively collaborate with and learn from other energy and utility organisations through a working group with Energy & Utility Skills. We set a target of 80% of colleagues having added details about their personal characteristics to our HR system in order to create a baseline set of metrics against which we can measure attraction, retention, and progress through the Group of generally under-represented groups. As at March 2022, 64% of colleagues had completed information requests for at least one personal characteristic. Our Diversity 'Ambassadors' continue to champion the importance of creating this baseline information. We have also created an Equality, Diversity and Inclusivity calendar which helps us to schedule the internal and external events educating and celebrating diversity throughout the year, and colleagues are encouraged to attend.

Annual membership

- Stonewall Diversity Champion – for the first year we took part in the Stonewall Global Workplace Equality Index which assesses and ranked 238 out of 403 organisations – which sets a baseline target against which we hope to improve in 2022-23.
- Women in Science and Engineering (WISE) Membership – membership enables us to be part of the Ten Steps benchmarking project so that we can measure progress against other organisations.
- Business Disability Forum – which provides practical resources and guidance for managers.
- Education Engineering Scheme Wales (EESW) – under this scheme, we provide engineering based problems for students' projects to the schools with which we are working.

We have also worked with the following organisations over the last year:

- Business in the community (BITC) – Race Charter, Age at Work network, webinars and best practice reports. We are working with BITC to deliver training on Bystander Intervention, Everyday Advocate, Conscious Inclusion and Let's Talk About Race. In addition to this we signpost their articles and podcasts and we attend Race Charter updates and are part of the Age at Work network, where we have presented to share best practice.
- Work with me – Scope – Welsh Water's recruitment team has partnered and supported at events where colleagues with a disability have talked through their role, the disability they have and the support available from their manager. The events highlight our vacancies and raise awareness of us as a potential future employer.
- Time to Change Wales – We signed a pledge with Time to Change Wales to promote positive mental health and support in breaking the stigma with mental health. This is done through: Delivery of mental and wellbeing awareness training; Internal campaigns led by the H&S team; Celebrating 'Time to Talk' day.
- Chwarae Teg –We work with Chwarae Teg as a leading organisation promoting workplace equality in Wales. We are working with them to deliver webinars during 2022 which will cover practical guidance on issues such as: Managing Challenging Behaviour; Speak Up Stand Out; How to Say No Brilliantly; and Change Your Thinking Get Results
- Carers Wales – webinars and sharing best practice– We have worked with Carers Wales to deliver online sessions covering: Support that managers can provide to team workers who are carers; Identifying sources of support for colleagues who are carers. Following this we are now in the process of setting up a colleague-led carers network.
- Legacy International –have supported us with information for colleagues and managers on access to work for disabled people. They also help to publicise our job vacances to a diverse audience.
- Armed Forces covenant – We have signed the covenant and we provide support to individuals who are ex-armed forces, a spouse or child of serving personnel or a reservist for the armed forces.

Our support for graduates and apprentices

We have two graduate routes in Welsh Water, both two years in duration. One of the routes is a Management Development Programme designed to create our leaders of the future. Alongside six monthly rotational placements graduates also take part in a range of coaching, management development and soft skills workshops. The other route is our Technical Development Programme, designed to create resilience within the business in roles that can be more difficult to fill. The graduates are allocated one business area in which to complete their programme. We have a diverse range of apprenticeships available across different skill sets within our frontline and customer-facing roles. We recruit around 30 apprentices each year – some who start at 16, as soon as they leave school, as well as those who have studied in further education or who want a change in their career later in life.

Supporting our colleagues
During 2021-22 we have increased our focus on mental health to address the impact of Covid on working practices and personal wellbeing, including introducing a daily 'wellbeing hour' to encourage those working from home to spend time outside during daylight hours in the autumn and winter period, and holding events with external speakers to encourage frank discussion on mental health issues. During our revalidation audits in 2021, we have been successful in retaining the Welsh Government Corporate Health Standard at both Gold and Platinum levels. We have also continued our work to ensure colleague wellbeing, which includes the provision of Wellbeing Champions and regular activities and events.

Human rights
We are committed to respecting human rights in relation to colleagues, and our supply chain. Our internal Code of Conduct is supported by several Group policies including, Anti-bullying and harassment, Whistleblowing, Antibribery, Corruption, and Anti-Fraud**.**

Working collaboratively
Partnership working is particularly important to the delivery of our Environment, Social and Governance strategy. Collaboration with partner bodies is the primary way we conduct Innovation developments and Research, whether this be through UK Water Industry Research, or Spring (the new Innovation Centre of Excellence for the sector. In March 2022 Ofwat set out its proposals for a more collaborative approach in Wales to the next price review (PR24). We will work closely with key regulators and stakeholders through a 'PR24 Forum' with the aim of reaching joint positions on the long-term outcomes to be delivered, and the pace and cost of that delivery. We welcome this and are confident that this process will help to ensure that the final settlement delivers the right balance of outcomes for customers and the environment.

We partner with a range of universities, for example in relation to our Covid monitoring and technological developments where we are partnered with Bangor and Cardiff as well as the Welsh Government to install monitors at 44 waste water treatment works to establish the prevalence of Covid-19 in different catchments across Wales. Similarly, we are in partnership with several universities shaping and supporting their Doctorate Schools undertaking research in water or a related field.

We partner with the Welsh Government and Regulators on policy development and support a variety of groups such as NRW's Wales Water Forum. Many of our Biodiversity initiatives as outlined in our Biodiversity plan are partnerships, where we bring funding and resources to leverage those of the NGO community. We are currently supporting the five Nutrient Management Boards set up to improve the water quality of Habitats Regulation designated rivers .

We have also set up the Brecon Beacons Mega Catchment partnership to improve land management practices, and so create social and environmental capital, all of which should increase the ecosystems resilience of those water catchments. We will draw on our experience of contributing to the development of the Wye Nutrient Management Plan where a number of different organisations and sectors (environmental regulators, council bodies, third sector organisations and Welsh Water) are working together towards meeting phosphorous targets. A similar collaborative approach is being developed for other Welsh SAC (Special Areas of Conservation) rivers. As part of our focus on carbon reduction initiatives, we are co-leading a cross-industry group sharing innovation trials and best practice with Scottish Water, and we are supporting Anglian Water through the Ofwat Innovation Fund to help build an industry-wide approach to visualising whole life carbon. These are just a few examples of the partnerships we have, supporting various 'Team Wales' efforts, all of which create social and environmental capital for our customers and the communities we serve.

Beyond this we have a longstanding relationship with WaterAid, the charity which transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities, which was founded by members of the UK water industry in 1981. During 2021-22 we pledged to work with WaterAid in delivering a three-year project to assist in the delivery of sanitation infrastructure. in Uganda, funded by the UN Habitat organisation. We are proud to be the only UK water company to be selected to deliver this important project.

Supplier code of conduct
We launched our Supplier Code of Conduct in 2021 and we are revising this to support our Sustainable Procurement Policy which we intend to promote in 2022.

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

Modern slavery act 2015
Our Anti-Slavery Policy sets out Welsh Water's commitment to acting ethically and with integrity in our supply chain arrangements and to ensuring fair work practices across our business. Our People and Change Team maintains recruitment polices to protect against slavery and human trafficking in our own operations and we are working towards meeting the Welsh Government's 12 commitments in its Code of Practice on Ethical Employment in supply chains. Our Anti-Slavery statement can be found at dwrcymru.com/AR2021-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 actively 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. No breaches of policy were notified to Internal Audit or the external whistleblowing hotline during the period 2021-22.

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, including respecting their data protection rights in compliance with legislation. Our Privacy Statement is available on our website at dwrcymru.com/privacy. Our policies also reinforce the role of individuals in keeping information secure and accurate. The Technology Committee of the Board regularly reviews our approach to cyber security risk (see the report of the Chair of the Technology Committee on page 141 of the 2021-22 Annual Report and Accounts of GCHC).

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 a payment of £30,000 to Step Change to support the work the charity does in providing debt advice to our customers. We are disclosing this payment as this organisation also campaigns for government policy change, including on debt issues. However, none of the funding provided would have been used directly to support campaign work. Other than this, no donations or payments were made which would require to be disclosed under section 366 of the Companies Act 2006.

Financial risk management
The Group'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 Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs.

Dividend
No dividend was declared or paid in the year (2021: none).

Welsh Language Scheme
The Welsh Government has set a target of doubling the number of Welsh speakers by 2050. As a flagship company in Wales, we are committed to supporting this goal, and set ourselves the challenge of increasing the proportion of Welsh speakers who are registered to receive our services in Welsh from 6,472 in 2019 to 25,000 by 2025. Our ambitious target is recognised by the Welsh Language Commissioner as the first of its kind in the private sector in Wales. To help improve the take-up of Welsh language services, we have invested in ensuring that all our new digital platforms (e.g. live-chat functionality, online account management and virtual exhibitions) are now available in Welsh to allow customers to interact with us and in the language of their choice. There are still some areas being developed (such as emergency texts issued to customers to warn them of any disruption to water supplies that are currently only sent in English). In 2021-22 there are 6,568 customers registered on our Welsh language register.

Welsh Language Scheme (continued)

In addition, we received 4,989 contacts from customers via one of our other Welsh Language channels (email, letter, webform, webchat or telephone) and, on average, we received just over 6,300 visitors to our Welsh website every month. We encourage the use of Welsh among our colleagues and have invested in online training to help those who wish to improve their proficiency of this language. This also helps ensure that we have the necessary skillsets to provide an excellent bilingual service.

TCFD: Climate risk assessment

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

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 Group'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 Group's auditor is aware of that information.

Auditor

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

By order of the Board

N Williams
Company Secretary

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

1 June 2022

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group’s profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

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

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

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

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

Opinion

We have audited the financial statements of Glas Cymru Anghyfyngedig ("the Company") for the year ended 31 March 2022 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement Of Changes In Equity, Consolidated Balance Sheet, Parent Company Balance Sheet, Parent Company Statement Of Changes In Equity, Consolidated Cash Flow, Parent Company 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 Group's and of the parent Company's affairs as at 31 March 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; 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 Group or the Company or to cease their operations, and as they have concluded that the Group's and 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 their 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 used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and the interest cover and regulated asset ratios relevant to debt covenants over this period was the impact of increasing costs and inflation.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and facilities (a reverse stress test).

We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and

— we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board/ audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management/ directors including the AVPS and LTVPS target for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting. On this audit we do not believe there is a fraud risk related to revenue recognition because of the regulated nature of the revenues recognized and limited opportunity or incentive for management to manipulate these revenues.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included fixed asset, borrowings and cash entries made to unrelated accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation, taxation legislation, pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: compliance with Ofwat regulatory legislation, Environment Agency, Drinking Water Inspectorate, National Rivers Authority, Natural Resources Wales, health and safety, GDPR and employment law recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and Directors' report

The directors are responsible for the strategic report and the 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 the 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.

Directors' responsibilities

As explained more fully in their statement set out on page 17, 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 Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent 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.

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

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

1 June 2022

Consolidated income statement for the year ended 31 March 2022

Continuing activities	Note	**2022** **£m**	2021 £m
Revenue	2	**807.0**	776.2
Operating costs:			
- Operational expenditure	3	**(346.7)**	(327.6)
- Other operating income	3	**6.0**	-
- Exceptional item	3	**3.8**	(33.5)
- Infrastructure renewals expenditure	3	**(61.8)**	(74.4)
- Depreciation and amortisation	3	**(327.8)**	(333.1)
		(726.5)	(768.6)
Operating profit		**80.5**	7.6
Profit on disposal of property, plant and equipment		**0.6**	0.1
Profit before interest		**81.1**	7.7
Financial expenses:			
Financial income	4a	**4.1**	4.8
Financial expenses	4a	**(187.1)**	(126.1)
Fair value losses on derivative financial instruments	4b	**(113.5)**	(6.8)
		(296.5)	(128.1)
Loss before taxation		**(215.4)**	(120.4)
Taxation	5	**(8.6)**	21.9
Loss for the year		**(224.0)**	(98.5)

The Company has taken the exemption under section 408 of the Companies Act 2006 not to present the parent company's income statement. The result of the parent company for the year to 31 March 2022 was £nil (2021: nil).

Consolidated statement of comprehensive income for the year ended 31 March 2022

	Note	**2022** **£m**	2021 £m
Loss for the year		**(224.0)**	(98.5)
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss) recognised in the pension scheme	21	**10.5**	(1.3)
Related deferred tax	6	**2.7**	0.3
Revaluation of property, plant and equipment	7	**448.4**	28.6
Related deferred tax	6	**(192.3)**	(5.4)
		269.3	22.2
Total comprehensive gain/ (loss) for the year		**45.3**	(76.3)

Consolidated balance sheet as at 31 March 2022

	Note	**2022**	2021
		£m	£m
Assets			
Non-current assets			
Property, plant and equipment	8	**6,264.1**	5,808.8
Intangible assets	9	**203.2**	203.6
Other financial assets:		**-**	
- derivative financial instruments	15	**344.0**	3.3
		6,811.3	6,015.7
Current assets			
Inventories		**4.3**	4.3
Trade and other receivables	11	**592.6**	569.7
Cash and cash equivalents	12	**502.0**	209.1
Other financial assets:			
- derivative financial instruments	15	**84.1**	32.6
		1,183.0	815.7
Total assets		**7,994.3**	6,831.4
Liabilities			
Current liabilities			
Trade and other payables	13	**(613.0)**	(540.0)
Provisions	17	**(2.8)**	(8.5)
Other financial liabilities:			
- borrowings	14	**(85.3)**	(78.3)
- derivative financial instruments	15	**(56.7)**	(39.2)
		(757.8)	(666.0)
Net current assets		**425.2**	149.7
Non-current liabilities			
Trade and other payables	13	**(447.2)**	(401.9)
Employee benefits	21	**(80.7)**	(89.9)
Provisions	17	**(5.7)**	(7.1)
Other financial liabilities:			
- borrowings	14	**(3,981.2)**	(3,676.6)
- derivative financial instruments	15	**(966.2)**	(478.0)
Deferred tax - net	6	**(669.6)**	(471.3)
		(6,150.6)	(5,124.8)
Total liabilities		**(6,908.4)**	(5,790.8)
Net assets		**1,085.9**	1,040.6
Equity			
Share capital	26	**-**	-
Revaluation reserve		**1,339.7**	1,157.1
Retained earnings		**(253.8)**	(116.5)
Reserves		**1,085.9**	1,040.6

The notes on pages 28 to 65 form part of the financial statements.

The financial statements on pages 22 to 65 were approved by the Board of Directors on 1 June 2022 and were signed on its behalf by:

P M Davis
Director

Registered № 3975719

Consolidated statement of changes in equity for the year ended 31 March 2022

	Share capital £m	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 April 2020	-	1,203.7	(86.8)	1,116.9
Loss for the year	-	-	(98.5)	(98.5)
Actuarial loss net of tax	-	-	(1.0)	(1.0)
Revaluation net of tax	-	23.2	-	23.2
Transfer to retained earnings	-	(69.8)	69.8	-
At 31 March 2021	-	1,157.1	(116.5)	1,040.6
Loss for the year	**-**	**-**	**(224.0)**	**(224.0)**
Actuarial gain net of tax	**-**	**-**	**13.2**	**13.2**
Revaluation net of tax	**-**	**256.1**	**-**	**256.1**
Transfer to retained earnings	**-**	**(73.5)**	**73.5**	**-**
At 31 March 2022	**-**	**1,339.7**	**(253.8)**	**1,085.9**

Parent company balance sheet as at 31 March 2022

	Note	**2022**	2021
		£m	£m
Assets			
Non-current assets			
Investments	10	**-**	-
Loans to group undertakings	11	**3.3**	3.3
		3.3	3.3
Current assets			
Trade and other receivables		**0.2**	0.2
Liabilities			
Current liabilities			
Trade and other payables		**(3.5)**	(3.5)
		(3.5)	(3.5)
Net assets		**-**	-
Reserves			
Share capital	26	**-**	-
Retained earnings		**-**	-
Total reserves		**-**	-

Parent company statement of changes in equity for the year ended 31 March 2022

	Share capital £m	**Retained earnings £m**	**Total £m**
Balance at 1 April 2020	-	-	-
Profit for the year	-	-	-
Balance at 1 April 2021	-	-	-
Profit for the year	-	-	-
Balance at 31 March 2022	-	-	-

The financial statements on pages 22 to 65 were approved by the Board of Directors on 1 June 2022 and were signed on its behalf by:

P M Davis
Director

Registered № 3975719

Consolidated cash flow statement for the year ended 31 March 2022

	Note	**2022**	2021
		£m	£m
Cash flows from operating activities			
Cash generated from operations *	18a	**428.0**	347.5
Interest paid	18b	**(116.6)**	(110.7)
Income tax received		**2.3**	2.5
Net cash generated from operating activities		**313.7**	239.3
Cash flows from investing activities			
Interest received		**4.0**	5.1
Purchase of property, plant and equipment		**(237.1)**	(277.8)
Purchase of intangible assets		**(37.3)**	(44.6)
Proceeds from sale of property, plant and equipment		**0.8**	0.2
Grants and contributions received		**23.1**	18.2
Net cash outflow from investing activities		**(246.5)**	(298.9)
Net cash flow before financing activities		**67.2**	(59.6)
Cash flows from financing activities			
Repayment of borrowings		**-**	(2.2)
Bond issue		**300.0**	-
Bond Issue costs		**(2.9)**	-
Bond repayment		**-**	(325.0)
Term loan repayments		**(55.8)**	(49.9)
Payment of lease liabilities		**(15.6)**	(12.9)
Net cash flow from financing activities		**225.7**	(390.0)
Increase in cash and cash equivalents	19b	**292.9**	(449.6)
Cash and cash equivalents at 1 April		**209.1**	658.7
Cash and cash equivalents at 31 March	12	**502.0**	209.1

There were no cash flow activities to report for the parent company during the year to 2022 (2021: none).

* Exceptional costs are included in cash flows generated from operations.

1. Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2022

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

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

Basis of preparation

The consolidated financial statements of Glas Cymru Anghyfyngedig and the parent company financial statements have been prepared and approved by the Directors in accordance with international accounting standards in accordance with UK-adopted international accounting standards ("UK-adopted IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed assets, other financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss. The presentational 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 material to the financial statements, are disclosed on pages 36 to 39.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Intra-group transactions and profits are eliminated on consolidation. The parent company financial statements present information about the Company as a separate entity and not about its group.

Going concern

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

In assessing the appropriateness of the going concern basis of accounting the Directors have reviewed the resources available to the Group in the form of cash and committed bank facilities as well as consideration of the Group's capital adequacy.

The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The financial plan has been subjected to a number of severe but plausible downside scenarios in order to assess the group's ability to operate within existing covenants and facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; low and high inflation environments; elevated levels of bad debt; outcome delivery incentive penalties; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include: deferral of capital expenditure; a reduction in other discretionary totex spend; early termination of expensive debt; and an extension of revolving credit facilities. The directors have also assessed the potential impacts resulting from the conflict in Ukraine with primary impacts linked to cost volatility associated with energy prices and high inflation, and secondary supply chain and chemical price impacts, none of which pose a significant concern to disclose in relation to the Group's ability to continue as a going concern.

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

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

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

Changes in accounting policies and disclosures

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 April 2021:

- **IFRS 9** 'Financial Instruments'**, IAS 39** 'Financial Instruments: Recognition and Measurement', **IFRS 16** 'Leases' and **IFRS 7** 'Financial Instruments: Disclosure amendments relating to Interest Rate Benchmark Reform ('IBOR') reform Phase 1 and 2.

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

IFRS 9, IAS 39, IFRS16 and IFRS 7 amendments relating to IBOR (Phase 2):
In 2021, the Secretary of State for BEIS and the EU endorsed the IASB-published amendments to IFRS 9 'Financial Instruments', and IFRS 7 'Financial Instruments: Disclosures' in respect of interest rate benchmark reform, effective for annual periods beginning on or after 1 January 2021. The amendments address the financial reporting impact from reform of the London Interbank Offered Rate (LIBOR) and similar benchmark interest rates (IBOR Reform). On 1 January 2022, the Bank of England transitioned to the alternative risk-free rate, Sterling Overnight Index Average (SONIA).

The Group will take the relevant practical expedients from certain requirements in IFRS 9 and IFRS 7 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities, including lease liabilities. The practical expedients available for hedge accounting is not applicable as the Group does not apply hedge accounting. At 31 March 2022, the group had a net balance of £3,537 million relating to financial liabilities, along with an additional £200 million of undrawn committed facilities (revolving credit facility), referencing SONIA. The Group has not incurred any material gain or loss in the current year arising from the replacement of LIBOR with the alternative risk-free rate SONIA. For transparency and understanding of the impact the IBOR reforms have on the Group's Treasury dealings, we have included an impact assessment below:

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other interbank offered rates (IBORs) has become a priority for global regulators. Several of the Group's bilateral treasury contracts are impacted by this transition. The Group's risk exposure is made up of £1,639 million of floating rate nominal debt consisting of a mixture of loans, leases, and revolving credit facility ('RCF'), offset by £661 million notional swaps value. The Group has hedged this debt with interest rate swaps and index-linked swaps, although the Group does not hedge account for any of its derivatives. At 31 March 2022, the Group had fixed the interest rate through interest rate swaps on £192 million of floating rate liabilities, and index-linked the interest rate on £389 million notional value of lease liabilities by reference to the Retail Price Index.

Throughout the year, the Group implemented changes to amend the majority of contractual terms of GBP LIBOR-referenced floating-rate debt and swaps to defer the impact of the LIBOR transition to SONIA to financial year 2023. The changes on other liabilities will be monitored closely with the impact not expected to be material.

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:

Amendments
- **IAS 1** amendments – Classification of liabilities
- **IAS 1** amendments – Presentation of financial statements and **IFRS Practice Statement 2** –Making materiality judgements
- **IAS 16** amendments – Proceeds before intended use
- **IFRS 3** amendments – Reference to the conceptual framework
- **IAS 37** amendments – Cost of fulfilling a contract
- **IAS 8** amendments - Distinction between accounting policies and accounting estimates
- **IAS 12** amendments - Deferred tax related to assets and liabilities arising from a single transaction
- **Annual Improvements 2018-20**

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

Future changes to accounting standards (continued)

The Directors anticipate that the adoption of this Standard and Amendments in future periods will have no material impact on the financial statements of the Group or parent company.

Revenue recognition

Revenue represents the income receivable in the ordinary course of business for 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 Group 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 Group'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 99% 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:

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 Group'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.

Other operating income principally relates to sales of gas. Revenue from sales of gas is recognised upon delivery. Exports of renewable electricity is included with power costs as it is treated as a natural hedge to our consumption. Our energy strategy is to enter into contracts which fix the price of consumption less exports of future power purchases in order to reduce the impact of power price variances. Exports of electricity is recognised upon delivery.

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 Group's performance.

Investments

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

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

Property, plant and equipment

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

As at 31 March 2022 the total value of tangible and intangible fixed assets has been revalued to the Group's 'shadow-RCV' (Regulatory Capital/Asset Value), being the 31 March 2022 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).

Infrastructure assets

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

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

The depreciation charge for infrastructure assets is determined for each component of the network and is based on each component's cost, estimated residual value and the expected remaining average useful life. The useful average economic lives of the infrastructure components range principally from 35 to 150 years.

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, system 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).

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

Intangible assets (continued)

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.

IFRS 16 'Leases' accounting policy

The Group 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 Group 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 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 Group's incremental borrowing rate. Generally, the Group 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.

The Group 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 Group's estimated incremental borrowing rate

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

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

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

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

- 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.

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

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

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 benefits

i) Defined benefit scheme

The Group 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. The most recent actuarial valuation of the scheme was carried out as at 31 March 2019.

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

ii) Defined contribution scheme

The Group operates a defined contribution scheme, the DCWW Group 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 Group are interest rate swaps, inflation swaps and power hedges. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the Group. Derivatives are recognised initially and subsequently re-measured at fair value.
During the year to 31 March 2022, none of the Group's derivatives qualified for hedge accounting (2021: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

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

Financing income and expenses

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

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

Taxation

The Group 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 Group plans to use until the end of their useful economic life. The Group anticipates that these assets will then be scrapped for negligible proceeds, or proceeds less than their tax base, and therefore no chargeable gain is expected to arise in the future.

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

Provisions

Provisions for restructuring costs, dilapidations, uninsured losses and losses on swap closure are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been estimated reliably. Restructuring provisions comprise employee severance and pension fund top-up costs. Where the Group 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.

Notes to the financial statements (continued)

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

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 Group 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 three months with banks subject to minimum long-term rating criteria of A-/A3/A-. Bonds can be purchased from certain AA-rated counterparties with maturities of up to one year and commercial paper purchases of up to one year can be placed with certain AAA-rated supranationals only. During the year ended 31 March 2022 the maximum cash investment with a single counterparty was £100m (2021: £100m).

Interest rate risk

The Group is covenanted to hedge at least 85% of its total outstanding financial liabilities into either index-linked or fixed rate obligations. As at 31 March 2022, the Group had hedges covering 100% of its total outstanding financial liabilities into either index-linked or fixed rate obligations, including free cash balances (2021: 99%). For this purpose, floating rate interest liabilities are hedged through a combination of derivative instruments and cash balances. The regulatory framework under which revenues and the regulatory asset value are indexed also exposes the Group to inflation risk. Therefore, subject to market constraints and Board approval, the Group may seek to raise new debt through index-linked instruments or enter into appropriate hedging transactions.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £4,019 million as at 31 March 2022 (2021: £3,707 million), none related to floating rate debt (2021: £45 million). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2022, 95% (2021: 93%) 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 £595 million in the Group's balance sheet at 31 March 2022 (2021: £481 million) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil.

Power price hedges

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

Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The Group's policy is to ensure that the maturity profile does not impose an excessive strain on its ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £4,019 million (2021: £3,707 million) can fall due in any 24 month period.

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

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.

Last year the Group renewed all four of its revolving credit facilities and increased three of them by £10m each. As at 31 March 2022, the Group had committed undrawn borrowing facilities of £200m (2021: £200m) and cash and cash equivalents (excluding debt service payments account) of £460m (2021: £187 million). The undrawn facilities are available for one year with a one year extension option. There is also a £10m overdraft facility renewable on an annual basis.

As at 31 March 2022 there was also a special liquidity facility of £135 million (2021: £135 million); this is required in order to meet certain interest and other obligations that may not be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the Group's debt financing covenants. The facility has been provided by an insurance provider and is renewable on a rolling five-year evergreen basis.

Capital risk

The Group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the Group operates, capital is monitored on the basis of the gearing ratio. This is calculated as net debt (as defined in the Group's borrowing covenants) as a proportion of its Regulatory Capital Value and linked to the movements in the Retail Prices Index as determined by Ofwat. As at 31 March 2022 gearing was 58% (2021: 60%).

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

Critical accounting estimates and judgements

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

Provision for impairment of trade receivables

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

Measured debt based on historical evidence:

- 100% of debt not recovered for a period of over a year; and
- 95% of debt less than a year old

Unmeasured debt based on historical evidence:

- 100% of debt not recovered for a period of over four years;
- 95% of debt not recovered between one and four years; and
- 81% of debt less than a year old.

Accounting estimate - 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 and the current affordability crisis impacting UK households).
The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. The key sensitivity assumptions used in the provisioning process are as follows:

- Removal of 2% deterioration in collection rates (£3.8 million) because the anticipated bad debt charges associated with the Covid-19 pandemic didn't materialise during the year to the extent previously expected;
- A £2 million sensitivity, equivalent to 1% deterioration in cash collection rates, providing for the current economic situation; and
- 90% of charging orders will be recovered in future periods based on historic trend.

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

Provision for impairment of trade receivables (continued)

To the extent that the failure to recover debts in arrears alters by 5%, the provision for impairment would increase or decrease by £5.5 million (2021: £3.9 million). Charging orders are secured against property owned by customers, providing security over debt owed. We make an assumption that 90% of these charging orders will be received. To the extent that this assumption was to alter by 10%, the provision for impairment would increase or decrease by £1 million (2021: £1 million).

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 2022 would increase or reduce by £8.8 million (2021: £9.8 million). The key assumptions include: discount rates, RPI, pay growth, mortality and increases to pensions in payment and deferred pensions. It should be noted that actual rates may differ from the assumptions used due to changing market and economic conditions and longer or shorter lives of participants and, as such, this represents a key source of estimation uncertainty. A further source of estimation uncertainty pertains to the inflation risk premium (IRP) which has been set at 0.4% this year, compared with 0.6% in the prior year. The impact of the change in the IRP applied represents a significant area of judgment, with the change expected to have an impact of increasing the obligation by circa £17.2 million. Sensitivities in respect of the assumptions used during the year are disclosed in note 21.

If the scheme's assets underperform relative to the discount rate used to calculate the liabilities, this will increase the value of the projected deficit. With the exception of cash, assets consist of pooled investment funds, alternative strategy funds and property funds which are not quoted on an active market. Of total assets amounting to £427.5 million (2021: £442.7 million), assets with a fair value of £99.9 million (2021: £99.8 million) are Level 3 financial assets; these are considered to be the least liquid and hardest to value and are therefore subject to a higher degree of estimation. The fair value of these assets has been estimated based on the latest available observable prices, updated with reference to movements in comparable observable indices to the reporting date, and adjusted for judgements to reflect differences in the liquidity and credit components of the asset pricing. A 5% movement in the fair value of these Level 3 financial assets would increase or decrease the overall carrying value of the pension liability by £5.0m (2021: £5 million). (See also note 21.)

Accounting judgement impact on pension benefits

The mortality assumption used to calculate the present value of the pension obligations is broken down into two distinct parts. Firstly, current mortality rates (base table), and secondly, how these rates should allow for future improvements. For the present value calculation, the S3PxA base tables have been used with improvements in line with the Continuous Mortality Investigation (CMI) 2021 projection model, with a long-term trend rate of 1.0% p.a. These assumptions remain unchanged from those adopted last year and are consistent with the mortality assumptions currently used for funding purposes. Future period assumptions will be updated following the completion of the formal triennial valuation of the Scheme as at 31 March 2022.

No accounting estimate has been made in these accounts to predict the long-term impact of COVID-19 on life expectancies due to the current number of uncertainties surrounding this estimate. Furthermore, the CMI has not made any allowance for COVID-19 within their latest projection model but will monitor the position as more data becomes available. The CMI model is used by UK pension schemes and insurance companies which need to make assumptions about future mortality rates. The CMI have stated that mortality experience during 2020 and 2021 is likely to be an outlier and not indicative of the future path that mortality rates will follow. For this reason, the CMI places no weight on the data for 2020 or 2021 when projecting mortality rates into the future and therefore the assumptions used to calculate the present value of pension obligations, with no explicit allowance for COVID-19, remain appropriate at the current time.

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

Fair value estimation

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

- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2**: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (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 Group's treasury derivatives are categorised as Level 2. In accordance with IFRS 13 an adjustment factor has been applied to the swaps based on industry standard practice to take into account credit risk by estimating future cash flows based on applicable interest rate curves. Projected cash flows are then discounted back using discount factors which are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate.

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

At 31 March 2022 the fair values of derivatives were as follows:

Level 2:
Assets: trading derivatives £17.1 million, treasury derivatives £389.0m (2021: trading derivatives £3.9 million, treasury derivatives £28.1 million).
Liabilities: trading derivatives £nil treasury derivatives £1,022.9 million (2021: trading derivatives £nil, treasury derivatives £nil).

Level 3:
Assets: trading derivatives £22.0m, treasury derivatives £nil (2021: trading derivatives £3.9 million, treasury derivatives £nil).
Liabilities: trading derivatives £nil treasury derivatives £nil (2021: trading derivatives £nil, treasury derivatives £517.2 million).

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

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

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.

Useful economic life impact on depreciation

The estimated useful economic lives of Property Plant and Equipment (PPE) and intangible assets is based on management's experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE and intangibles investment to the group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively. As such, this is a key source of estimation uncertainty. The depreciation and amortisation expense for the year was £339.1 million. A 10 per cent increase in average asset lives would have resulted in a £29.9 million reduction in this figure and a 10 % decrease in average asset lives would have resulted in a £32.9 million increase in this figure.

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

Climate change

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

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

Further information on our climate-change strategy is in the 2021-22 Annual Report and Accounts of GCHC 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).

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 Group has only domestic activities there is also only one geographical segment; therefore, the disclosures for this segment have also already been given in these financial statements.

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

Group	**2022**	2021
	£m	£m
Regulated revenue		
Water	**321.6**	323.1
Sewerage	**424.2**	399.8
Retail	**55.0**	49.1
Total regulated revenue	**800.8**	772.0
Other (non-regulated)	**6.2**	4.2
Total revenue	**807.0**	776.2

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 Group's core water and sewerage business.

3. Operating profit

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

Group	2022 £m	2021 £m
Operating expenditure		
Power	**62.7**	45.8
Chemicals	**10.5**	9.5
Materials and equipment	**8.7**	7.1
Vehicles and plant	**7.6**	6.7
Office expenses	**5.7**	5.6
Property costs	**3.5**	4.7
Insurance	**6.8**	6.6
Sewerage contractors	**22.4**	20.1
Laboratories and analytical services	**1.3**	1.1
Collection commissions	**3.1**	2.8
IT contracts	**12.9**	14.6
Bought-in services and other costs	**37.7**	40.1
	182.9	164.7
Employee costs (note 20)	**165.0**	168.1
Staff costs capitalised	**(67.5)**	(67.9)
	97.5	100.2
Research and development credit	**(0.6)**	(0.9)
Trade receivables impairment	**23.7**	20.9
Rates	**26.2**	26.5
Natural Resources Wales/Environment Agency charges	**16.5**	15.8
Fees payable to auditors	**0.5**	0.4
Total operational expenditure	**346.7**	327.6
Other operating income	**(6.0)**	-
Exceptional items	**(3.8)**	33.5
Infrastructure renewals expenditure	**61.8**	74.4
Depreciation and amortisation		
- Depreciation of property, plant and equipment	**300.3**	309.4
- Release of deferred income	**(10.2)**	(9.1)
- Amortisation of intangible assets	**37.7**	32.8
Total depreciation and amortisation	**327.8**	333.1
Total operating costs	**726.5**	768.6

The Group incurred insignificant expenses relating to short-term leases, leases of low-value assets or variable lease payments in 2022 and 2021.

Other operating income principally comprises income from the export of internally generated gas. Exports of renewable electricity is included within power costs as it is treated as a natural hedge to our consumption. Our energy strategy is to enter into contracts which fix the price of consumption less exports of future power purchases in order to reduce the impact of power price variances. During the year, consumption charges amounted to £76.7 million (2021: £49.2 million) and we exported £14.0m (2021: £3.4 million).

3. Operating profit (continued)

Services provided by the Group's auditors

During the year the group headed by the parent company, Glas Cymru Holdings Cyfyngedig (GCHC), obtained the following services from its auditors; £403,000 of which were paid by the Group's wholly-owned subsidiary, Dŵr Cymru Cyfyngedig whilst the remainder were paid by the subsidiaries in the Welsh Water Holdings Limited group.:

	Group	
	2022	2021
Audit fees	**£000**	£000
Audit of parent company and consolidated financial statements	**35**	34
Audit of subsidiary companies	**305**	268
Total audit fees	**340**	302
Audit-related assurance services		
Review of interim financial statements	**33**	24
Regulatory audit services pursuant to legislation	**84**	82
Investor report reviews	**4**	8
Bond issuance reviews	**25**	-
Environment Agency levy assurance work	**6**	6
Total audit and audit-related assurance services	**492**	422
Total cost of services provided by the Group's auditors	**492**	422

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 item

In the year to 31 March 2022 we have recognised an exceptional item totalling £(3.8) million. This item represents a release of the bad debt provision as a result of anticipated bad debt charges associated with the Covid-19 pandemic not materialising during the year; this is disclosed as exceptional due to its nature and with the corresponding Covid-19 charge having, in the previous year, been shown as exceptional.

In the year to 31 March 2021 the Group incurred significant additional costs as a direct result of the COVID-19 pandemic; due to their size and nature these costs, amounting to £29.4 million, were disclosed in aggregate as an exceptional item on the face of the income statement. In addition, a further £4.1 million of restructuring costs were disclosed as exceptional following a reassessment of the level of restructuring provision, taking into account delays to the restructuring plans as a result of the COVID-19 pandemic.

4. Financing costs

a) Finance cost before fair value losses on derivative financial instruments

	Group	
	2022	2021
	£m	£m
Finance income	**4.1**	4.8
Interest payable on bonds	**(51.1)**	(75.6)
Indexation on index-linked bonds	**(67.0)**	(21.2)
Indexation on index-linked loan	**(17.9)**	(3.2)
Interest payable on leases (including swaps to RPI)	**(37.9)**	(11.6)
Other loan interest	**(22.2)**	(16.8)
Other interest payable and finance costs	**(5.8)**	(7.0)
Net interest charge on pension scheme liabilities	**(1.6)**	(2.0)
Capitalisation of borrowing costs under IAS 23 (2022: 5.0%; 2021: 3.7%)	**16.4**	11.3
Financial expenses	**(187.1)**	(126.1)
Net finance cost before fair value adjustments	**(183.0)**	(121.3)

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 Group'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 15 in respect of derivative financial instruments recognised in the balance sheet.)

	Group	
	2022	2021
	£m	£m
Fair value losses on interest rate swaps	**(158.4)**	(18.8)
Fair value gains on index-linked swaps	**13.5**	2.5
Fair value gains on trading derivatives	**31.4**	9.5
Total fair value losses on derivative financial instruments	**(113.5)**	(6.8)

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

5. Taxation

Analysis of (charge) /credit in the year:

	Group 2022 £m	2021 £m
Current tax		
- Current tax on research and development credit	**(0.1)**	(0.2)
- Adjustment in respect of prior years	**0.2**	0.4
Total current tax	**0.1**	0.2
Deferred tax		
- Origination and reversal of timing differences	**39.6**	22.2
- Adjustment in respect of prior years	**(0.2)**	(0.5)
- Effect of tax rate change	**(48.1)**	-
Total deferred tax (charge)/credit (note 6)	**(8.7)**	21.7
Taxation	**(8.6)**	21.9

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

Operating expenditure includes a Research & Development tax credit of £0.6 million (2021: £0.9 million). The tax credit is taxable and the corresponding charge of £0.1 million (2021: £0.2 million) is shown above. The Research & Development Expenditure Credit claimed is a government incentive that provides tax credits for qualifying research and development expenditure. Claims are made based on an assessment of qualifying expenditure in accordance with the criteria specified under the incentive.

Current taxes in respect of prior years of £0.2 million (2021: £0.4 million) relate to tax credits for Research & Development, energy efficient capital expenditure and the remediation of contaminated land. As a consequence, a deferred tax charge in respect of prior years of £0.2 million (2021: £0.5 million) has arisen from claiming these tax credits and also from adjustments to deferred tax balances in respect of capital expenditure.

Deferred taxes have been calculated at 25% (2021:19%) with the exception of temporary differences with a tax value of £42.4 million which are expected to reverse in the year ending 31 March 2023. These have been calculated using a corporation tax rate of 19% which will apply for the year ending 31 March 2023; after which the 25% rate will apply. As a result of calculating deferred taxes using the 25% rate, the total deferred tax liability has increased by £150.5 million of which £48.1 million and £102.4 million has been charged to the income statement and statement of changes in equity respectively.

The company estimates that expenditure of £26 million will qualify for a 130% 'super deduction' (2021: £nil). Consequently, a tax credit of £1.5 million (£26 million x 30% x 19%) has arisen in the period.

The effective rate of tax for the year is lower (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	Group 2022 £m	2021 £m
Loss before tax	**(215.4)**	(120.4)
Loss before tax multiplied by the corporation tax rate in the UK of 19% (2021: 19%)	**40.9**	33.3
Effect of:		
- Adjustments in respect of prior years	**-**	(0.2)
- Depreciation charged on non-qualifying assets	**(2.8)**	(0.8)
- Expenses non-deductible for tax purposes	**(0.1)**	(0.1)
- 130% super deduction for plant and machinery	**1.5**	-
- Effect of changing rate for deferred taxes from 19% to 25%	**(48.1)**	-
Taxation	**(8.6)**	21.9

5. Taxation (continued)

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

	Group	
	2022	2021
	£m	£m
Loss before tax	**(215.4)**	(120.4)
Expected tax charge (19%)	**40.9**	22.9
Depreciation in excess of capital allowances	**(38.4)**	(27.7)
Pension costs in excess of payments	**(0.3)**	(0.4)
Expenses not deductible for tax purposes	**(0.2)**	(0.1)
Corporate interest restriction	**(0.5)**	-
Fair value movements in derivatives - non taxable	**(3.7)**	1.1
IFRIC 18 - release of income not taxable	**1.9**	1.7
Movement in provisions deductible when paid	**1.2**	0.1
Capitalised interest - tax deductible when capitalised	**3.1**	2.1
R&D Expenditure Credits taxed in prior years	**0.1**	-
Adjustments in respect of prior years	**0.2**	0.5
Tax losses carried forward	**(4.4)**	-
Group relief	**0.2**	-
Total tax	**0.1**	0.2

The Group invests heavily in capital expenditure and is therefore able to claim tax relief in the form of capital allowances, a Government tax relief which aims to stimulate this type of investment. As the Group has no shareholders the surpluses it generates help keep water bills down and are also reinvested to improve the quality of services to customers, rather than being paid to shareholders as dividends. This reinvestment is often in the form of capital expenditure which attracts further capital allowances. As a result of the Group's profit forecasts and the capital allowances it is able to claim, the Group does not expect to pay corporation tax during AMP7 (2020 – 2025).

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

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

Tax relief is claimed for interest costs which include the effect of the current year cash flows relating to treasury derivative financial instruments. Tax relief is also claimed for interest which is capitalised as part of fixed assets (see note 4). The group is entirely UK resident for tax purposes and is funded wholly by external debt which is fully deductible in accordance with UK tax legislation.

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

6. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2021: 19%).

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

	Group	
	2022	2021
	£m	£m
At 1 April	**471.3**	487.9
Credit to income statement	**8.7**	(21.7)
Credit to statement of comprehensive income	**(2.7)**	(0.3)
Charge to revaluation reserve	**192.3**	5.4
At 31 March	**669.6**	471.3

Analysis of amounts of deferred tax (credited)/charged to the statement of comprehensive income and revaluation reserve:

	Group	
	2022	2021
	£m	£m
Defined benefit pension scheme	**2.0**	(0.3)
Increase in corporation tax – pension scheme	**(4.7)**	-
Credited to the Statement of comprehensive income	**(2.7)**	(0.3)
Revaluation of fixed assets using a tax rate of 25% (2021: 19%)	**85.2**	5.4
Increase in corporation tax rate – revaluation of fixed assets	**107.1**	-
Charged to the Revaluation Reserve	**192.3**	5.4

	Group	
	2022	2021
	£m	£m
Effect of:		
- Tax allowances in excess of depreciation	356.3	295.7
- Deferred tax on revaluation of fixed assets	446.1	271.1
- Capital gains rolled over	4.0	3.0
- Deferred tax on tax losses carried forward	(6.2)	(0.3)
- Deferred tax on losses on derivative financial instruments	(109.3)	(79.3)
- Pensions	(19.3)	(16.4)
- Other tax differences	(2.0)	(2.5)
Net deferred tax	**669.6**	471.3

Deferred taxes have been recognised on the temporary difference between the carrying amount of the fixed assets in the accounts and the amounts that will be deductible for tax purposes (capital allowances) in future years. As capital allowances have exceeded the depreciation charged on the fixed assets to date, there is a deferred tax liability of £356.3 million at the balance sheet date (2021: £295.7 million).

A deferred tax liability of £446.1 million (2021: £271.1 million) has also been recognised in relation to revaluation surpluses arising from revaluing fixed assets to reflect Ofwat's 'shadow regulatory capital value'. The associated deferred tax charge is charged to the revaluation reserve.

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. These deferred tax assets will be recovered against the deferred tax liabilities in relation to fixed assets which will reverse in the same periods.

Deferred tax has not been provided on £133.0m of chargeable gains which have been rolled over where the new asset has been classified as operational structure e.g. concrete tanks. These assets are typically demolished or scrapped at the end of their useful economic life and therefore we do not expect a chargeable gain will arise in the future. If deferred tax were recognised in respect of these gains, then the deferred tax liability at 31 March 2022 would increase by £33.3 million (2021: £25.3 million) being the rolled over gain multiplied by the rate used to calculate deferred taxes of 25% (2021: 19%).

6. Deferred tax (continued)

The Group has tax losses of £24.8 million carried forward at 31 March 2022 (2021: £1.6 million). The Company has a deferred tax balance of £0.3 million (2021: £0.2 million).

7. Revaluation reserve

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

As at 31 March 2022 the total value of tangible and intangible fixed assets has been revalued to the Group's 'shadow-RCV', being the 31 March 2022 RCV published by Ofwat in its PR19 Final determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

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

	Group	
Revaluation reserve movement	**2022**	2021
	£m	£m
Revaluation reserve as at 1 April	**1,157.1**	1,203.7
Revaluation of assets to RCV	**448.4**	28.6
Depreciation charge on revalued assets	**(90.7)**	(86.2)
	357.7	(57.6)
Deferred tax on revaluation	**(192.3)**	(5.4)
Deferred tax on depreciation charge	**17.2**	16.4
	(175.1)	11.0
Revaluation reserve as at 31 March	**1,339.7**	1,157.1

8. Property, plant and equipment

Group

Current year	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2021	**43.0**	**2,798.2**	**4,734.0**	**278.6**	**7,853.8**
Revaluation	**-**	**85.5**	**-**	**-**	**85.5**
Additions net of grants and contributions	**-**	**145.8**	**157.6**	**4.0**	**307.4**
Disposal	**(0.4)**	**-**	**-**	**(1.2)**	**(1.6)**
At 31 March 2022	**42.6**	**3,029.5**	**4,891.6**	**281.4**	**8,245.1**
Accumulated depreciation					
At 1 April 2021	**24.1**	**57.4**	**1,691.5**	**272.0**	**2,045.0**
Revaluation	**-**	**(123.0)**	**(239.9)**	**-**	**(362.9)**
Charge for the year	**0.9**	**65.6**	**231.1**	**2.7**	**300.3**
Released on disposal	**-**	**-**	**-**	**(1.4)**	**(1.4)**
At 31 March 2022	**25.0**	**-**	**1,682.7**	**273.3**	**1,981.0**
Net book value					
At 31 March 2022	**17.6**	**3,029.5**	**3,208.9**	**8.1**	**6,264.1**
At 31 March 2022 (historic cost)	**17.6**	**2,120.8**	**2,333.3**	**7.8**	**4,479.5**

The net book value of property, plant and equipment includes £297.3 million in respect of assets in the course of construction (2021: £272.9 million) and £96.5 million of borrowing costs capitalised in accordance with IAS 23 (2021: £85.0m), of which £14.3 million were additions in the year (2021: £9.5 million).

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

Group - 2022	Infrastructure assets £m	Operational structures £m	Total £m
Net book value at 1 April 2021	**633.3**	**29.0**	**662.3**
Revaluation	**62.3**	**3.0**	**65.3**
Depreciation charge for the year	**(38.6)**	**(5.6)**	**(44.2)**
Net book value at 31 March 2022	**657.0**	**26.4**	**683.4**
Net book value at 31 March 2022 (historical cost basis)	**459.9**	**19.2**	**479.1**

8. Property, plant and equipment (continued)

2021	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2020	43.1	2,632.5	4,562.0	276.9	7,514.5
Additions net of grants and contributions	-	165.7	172.0	3.3	341.0
Disposal	(0.1)	-	-	(1.6)	(1.7)
At 31 March 2021	43.0	2,798.2	4,734.0	278.6	7,853.8
Accumulated depreciation					
At 1 April 2020	23.0	1.9	1,469.7	271.2	1,765.8
Revaluation	-	(12.9)	(15.7)	-	(28.6)
Charge for the year	1.1	68.4	237.5	2.4	309.4
Released on disposal	-	-	-	(1.6)	(1.6)
At 31 March 2021	24.1	57.4	1,691.5	272.0	2,045.0
Net book value					
At 31 March 2021	18.9	2,740.8	3,042.5	6.6	5,808.8
At 31 March 2021 (historic cost)	18.9	2,023.8	2,332.9	6.6	4,382.2

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

Group - 2021	Infrastructure assets £m	Operational structures £m	Total £m
Net book value at 1 April 2020	654.4	33.6	688.0
Revaluation	4.2	0.2	4.4
Depreciation charge for the year	(25.3)	(4.8)	(30.1)
Net book value at 31 March 2021	633.3	29.0	662.3
Net book value at 31 March 2021 (historical cost basis)	467.6	22.3	489.9

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

The parent company owns no property, plant or equipment.

9. Intangible assets

Group:

Current year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2021	**462.2**	**(258.6)**	**203.6**
Additions/(charge) for year	**37.3**	**(37.7)**	**(0.4)**
At 31 March 2022	**499.5**	**(296.3)**	**203.2**

Prior year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2020	417.6	(225.8)	191.8
Additions/(charge) for year	44.6	(32.8)	11.8
At 31 March 2021	462.2	(258.6)	203.6

9. Intangible assets (continued)

Intangible assets principally comprise computer software and related system developments.

The net book value of intangible assets includes £45.1 million in respect of assets in the course of construction (2021: £39.0m). The net book value of intangible assets includes £10.6 million of borrowing costs capitalised in accordance with IAS 23 (2021: £9.3 million) of which £2.1 million were additions in the year (2021: £1.8 million).

The parent company owns no intangible assets.

10. Investments

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

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

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

	Principal activities	Tax Residency	Country of incorporation	Holding
Dŵr Cymru (Holdings) Limited	Holding company	UK resident	England and Wales	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	UK resident	England and Wales	100%
Dŵr Cymru (Financing) UK plc	Raising finance	UK resident	England and Wales	100%

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

11. Trade and other receivables

	Group	
	2022	2021
	£m	£m
Current		
Trade receivables	**558.0**	551.2
Provision for impairment of receivables	**(69.5)**	(77.8)
Trade receivables - net	**488.5**	473.4
Prepayments and accrued income	**92.4**	86.9
Other receivables	**11.7**	9.4
Total trade and other receivables	**592.6**	569.7

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

As at 31 March 2022, based on a review of historical collection rates it was considered that £69.5 million (2021: £77.8 million) of trade receivables were impaired and these have therefore been provided for. The impaired receivables relate mainly to the measured and unmeasured supply of water and sewerage services. Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired.

Notes to the financial statements (continued)

11. Trade and other receivables (continued)

The ageing of receivables was as follows:

Current year Trade receivables	Total £m	Provided for £m	Net £m
Billings in advance	**384.6**	**-**	**384.6**
Under one month	**16.2**	**(1.4)**	**14.8**
Between one and six months	**30.1**	**(3.1)**	**27.0**
Between six months and one year	**22.6**	**(1.8)**	**20.8**
Between one and two years	**32.2**	**(30.1)**	**2.1**
Between two and three years	**22.0**	**(20.3)**	**1.7**
Over three years	**50.3**	**(12.8)**	**37.5**
	558.0	**(69.5)**	**488.5**

Prior year Trade receivables	Total £m	Provided for £m	Net £m
Billings in advance	369.1	-	369.1
Under one month	25.0	(2.5)	22.5
Between one and six months	37.8	(3.6)	34.2
Between six months and one year	26.7	(2.9)	23.8
Between one and two years	40.2	(28.4)	11.8
Between two and three years	29.8	(21.4)	8.4
Over three years	22.6	(19.0)	3.6
	551.2	(77.8)	473.4

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

	Group	
	2022 **£m**	2021 £m
At 1 April	**77.8**	81.8
Charge to income statement	**18.8**	32.4
Receivables written off during the year as uncollectable	**(27.1)**	(36.4)
At 31 March	**69.5**	77.8

During the year the Group has written off £27.1 million of debt which had been provided for in full (2021: £36.4 million).

The total charge to the income statement of £19.9 million (2021: £33.4 million) includes the removal of the estimated impact on collection rates of the Covid-19 pandemic and the bad debt element of collection charges under arrangements with third parties who collect debt on the Group's behalf. During the year, the Covid-19 sensitivity overlay has been included as exceptional (see note 3).

For the year ended 31 March 2021, the impact of the pandemic on the bad debt charge has been disclosed separately as part of the exceptional item (see note 3).

	Group	
	2022 **£m**	2021 £m
Core bad debt charge	**22.6**	19.9
COVID-19 impact	**(3.8)**	12.5
Third party	**1.1**	1.0
Total	**19.9**	33.4

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, with the exception of the Covid-19-related element which has been disclosed as an exceptional item owing to its size and nature.

11. Trade and other receivables (continued)

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

The tables below illustrate the impact of applying the "expected loss" model in accordance with IFRS 9. Debt provisioning is based on historical experience as adjusted for certain forward-looking factors, including the impact of charging orders which improve the underlying collectability of debt. The Group holds around 7,000 charging orders as collateral against £12 million of debt (2021: 7,000 orders against £12 million of debt).

Current year	**Historical default rates**	**Forward-looking adjustment**	**Adjustment total**	**Historical impairment**	**Forward-looking adjustment**	**Total impairment**
	%	**%**	**%**	**£m**	**£m**	**£m**
Billed in advance	-	-	-	-	-	-
< 1 month	9.2%	(0.9%)	8.3%	1.9	(0.2)	1.7
1 > 6 months	10.2%	(0.9%)	9.3%	4.0	(0.4)	3.6
6 months > 1 year	11.4%	(0.9%)	10.5%	3.4	(0.3)	3.1
1 > 2 years	73.9%	(0.9%)	73.0%	30.6	(0.4)	30.2
2 > 3 years	75.9%	(2.8%)	73.1%	21.5	(0.9)	20.6
> 3 years	78.1%	(7.8%)	70.3%	12.2	(1.9)	10.3
				73.6	(4.1)	69.5

Prior year	**Historical default rates**	**Forward-looking adjustment**	**Adjustment total**	**Historical impairment**	**Forward-looking adjustment**	**Total impairment**
	%	**%**	**%**	**£m**	**£m**	**£m**
Billed in advance	-	-	-	-	-	-
< 1 month	9.0%	1.0%	10.0%	2.3	0.2	2.5
1 > 6 months	8.4%	0.8%	9.2%	3.2	0.3	3.5
6 months > 1 year	10.1%	0.8%	10.9%	2.7	0.2	2.9
1 > 2 years	76.0%	(5.3%)	70.7%	30.5	(2.1)	28.4
2 > 3 years	78.0%	(6.2%)	71.8%	23.3	(1.8)	21.5
> 3 years	78.1%	6.0%	84.1%	17.7	1.3	19.0
				79.7	(1.9)	77.8

The Group's trade receivables provisioning methodology incorporates an "expected loss" model which also determines an appropriate level of losses against which to provide in the measured income accrual. The impact on the accrual as at 31 March 2022 is £4.0m, being a revenue provision of 5% against a gross balance of £80.7 million (2021: £5.4 million and 7%).

The parent company's loan to group undertakings of £3.3 million (2021: £3.3 million) represents loans to wholly-owned subsidiaries Glas Cymru (Securities) Limited of £1.3 million (2021: £1.3 million) and Dŵr Cymru Cyfyngedig of £2.0m (2021: £2.0m). Interest on these loans has been waived.

12. Cash and cash equivalents

	Group	
	2022	2021
	£m	£m
Cash at bank and in hand	**52.0**	86.1
Short-term deposits	**450.0**	123.0
	502.0	209.1

The effective interest rate on short-term deposits as at 31 March 2022 was 0.7% (2021: 0.1%) and these deposits had an average maturity of 31 days (2021: 12 days). All cash and cash equivalents were held in sterling.

13. Trade and other payables

	Group 2022 £m	2021 £m
Current		
Trade payables	**49.3**	46.0
Capital payables	**38.4**	18.0
Other taxation and social security	**3.8**	3.5
Accruals and deferred income	**521.5**	472.5
	613.0	540.0

	2022 £m	2021 £m
Non-current		
Deferred income	**447.2**	401.9

14. Other financial liabilities – borrowings

Current	Group 2022 £m	2021 £m
Interest accruals	**12.1**	8.3
Bonds	**(0.7)**	(0.6)
Term loans	**56.3**	53.4
Lease liabilities	**17.6**	17.2
	85.3	78.3

Non-current	Group 2022 £m	2021 £m
Interest accruals	**35.7**	39.9
Bonds	**2,986.5**	2,620.9
Term loans	**581.0**	621.8
Lease liabilities	**378.0**	394.0
	3,981.2	3,676.6

The parent company has no borrowings.

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

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

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

The Group's Class A Bonds of £1,075 million (2021: £1,052 million) benefit from a guarantee from Assured Guaranty UK Ltd. Assured Guaranty's credit rating is graded as A1/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 A1/AA/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 £1,422 million (2021: £1,378 million).

The Group's Class C bonds of £500 million (2021: £200 million) were rated Baa2/BBB/BBB+ by Moody's, Standard & Poor's and Fitch respectively.

15. Derivative financial instruments

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

Group - 2022	Fair values	
	Assets	Liabilities
	£m	£m
Current		
Index-linked swaps	**53.2**	**(49.2)**
Interest rate swaps	**-**	**(7.5)**
Power hedging swaps	**30.9**	**-**
	84.1	**(56.7)**
Non-current		
Index-linked swaps	**335.9**	**(915.4)**
Interest rate swaps	**-**	**(50.8)**
Power hedging swaps	**8.1**	**-**
	344.0	**(966.2)**
Total	**428.1**	**(1,022.9)**

Group - 2021	Fair values	
	Assets	Liabilities
	£m	£m
Current		
Index-linked swaps	28.1	(28.6)
Interest rate swaps	-	(10.6)
Power hedging swaps	4.5	-
	32.6	(39.2)
Non-current		
Index-linked swaps	-	(403.9)
Interest rate swaps	-	(74.1)
Power hedging swaps	3.3	-
	3.3	(478.0)
Total	35.9	(517.2)

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

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

Interest rate swaps
At 31 March 2022 an interest rate swap fixes the interest rate on £192 million (2021: £192 million) of floating liabilities held by the Group. The maturity date of the swap is 31 March 2031 and the fixed interest rate is 5.67% per annum, payable quarterly.

Index-linked swaps

Lease swaps
The index-linked swaps have the effect of index-linking the interest rate on £379 million (2021: £379 million) of lease liabilities by reference to the Retail Prices Index (RPI).

The notional amount of index-linked swaps allocated to leases as at 31 March 2022 was £389 million (2021: £391 million), representing the average balance on the leases subject to floating interest rates for the year to 31 March 2022. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

15. Derivative financial instruments (continued)

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

Notional amount	£389 million amortising (2021: £391 million amortising)
Average swap maturity	14 years (2021: 15 years)
Average interest rate	1.63% fixed plus RPI (2021: 1.42% fixed plus RPI)

Bond swap

The index-linked swap have the effect of index-linking the interest rate on £1,250m of fixed rate bonds by reference to the RPI (2021: £950m)

The principal terms are as follows:

Indexed notional amount	£1,407 million (2021: £1,014 million)
Swap maturity	17 years (2021: 18 years)
Interest rate	0.16% indexed by RPI (2021 0.15% indexed)

16. Financial risk management

The policies of the Group in respect of financial risk management are included in the accounting policies note on pages 35 and 36. 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:

	2022	2021
Assets:		
Cash and cash equivalents	**0.7%**	0.1%
Liabilities:		
Bonds	**3.1%**	3.2%
Term loans	**0.6%**	0.5%
Other unsecured loans	**4.3%**	2.9%
Lease obligations	**2.3%**	1.2%

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

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

b) Liquidity risk

Group - 2022	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	**502.0**	-	-	-	**502.0**
Trade and other receivables	**592.6**	-	-	-	**592.6**
	1,094.6	-	-	-	**1,094.6**
Liabilities:					
Bonds	**0.8**	**0.8**	**566.1**	**2,431.8**	**2,999.5**
Term loans	**56.3**	**85.3**	**232.6**	**263.0**	**637.1**
Other unsecured loans	-	-	-	**0.2**	**0.2**
Lease liabilities	**17.6**	**1.0**	**282.6**	**94.4**	**395.6**
Trade and other payables	**613.0**	**10.2**	**30.6**	**406.4**	**1,060.2**
Future interest payable	**140.4**	**126.2**	**347.7**	**626.5**	**1,240.8**
	828.1	**223.5**	**1,459.6**	**3,822.3**	**6,333.4**

16. Financial risk management (continued)

Liquidity risk

Group – 2021	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	209.1	-	-	-	209.1
Trade and other receivables	569.7	-	-	-	569.7
	778.8	-	-	-	778.8
Liabilities:					
Bonds	**0.7**	**0.8**	**422.8**	**2,209.0**	**2,633.3**
Term loans	**53.4**	**52.6**	**223.1**	**346.0**	**675.1**
Other unsecured loans	**-**	**-**	**0.1**	**0.1**	**0.2**
Finance lease liabilities	**17.2**	**1.0**	**233.6**	**159.4**	**411.2**
Trade and other payables	**540.0**	**9.1**	**27.3**	**365.5**	**941.9**
Future interest payable	**107.5**	**108.3**	**323.4**	**652.5**	**1,191.7**
	718.8	**171.8**	**1,230.3**	**3,732.5**	**5,853.4**

The minimum lease payments fall due as follows:

	2022 £m	2021 £m
Gross lease liabilities		
Within one year	**24.5**	34.6
Between two and five years	**257.5**	252.3
After five years	**167.6**	169.4
	449.6	456.3
Future interest	**(54.0)**	(45.1)
Net lease liabilities	**395.6**	411.2
Net lease liabilities are repayable as follows:		
Within one year (note 14)	**17.6**	17.2
Between two and five years	**283.6**	234.6
After five years	**94.4**	159.4
Total over one year (note 14)	**378.0**	394.0

c) Fair values

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

	2022 Book value £m	2022 Fair value £m	2021 Book value £m	2021 Fair value £m
Bonds (note 14)	**2,999.5**	**3,604.2**	2,633.3	3,426.4

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

16. Financial risk management (continued)

d) Borrowing facilities

As at 31 March 2022, the Group had available undrawn committed borrowing facilities of £200m expiring as set out below, in respect of which all conditions precedent had been met (2021: £200m).

	2022	2021
	£m	£m
Expiring in more than one year:		
- revolving credit facilities	**200**	200
	200	200

Last year the Group renewed all four of its revolving credit facilities and increased three of these by £10m each, such that available commitment is now £200m (2021: £200m). The facilities are all available for one year with a one year extension option. There is also a £10m overdraft facility renewable on an annual basis.

As at 31 March 2022 there was also a special liquidity facility of £135 million (2021: £135 million); this is required in order to meet certain interest and other obligations that may not be funded through operating cash flow in the event of a standstill being declared by the security trustee, following an event of default under the Group's debt financing covenants. A standstill would arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. The facility is a five-year evergreen facility provided by an insurer.

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

e) Capital risk management

Gearing ratios (Glas Cymru Holdings Cyfyngedig group)

	2022	2021
	£m	£m
Total borrowings	**(4,066)**	(3,755)
Less: cash and cash equivalents	**502**	209
Net debt	**(3,564)**	(3,546)
Regulatory capital value (RCV)	**6,460**	6,010
Total capital	**2,896**	2,464
Less: unamortised bond costs and swap indexation	**(171)**	(77)
Total capital per bond covenants	**2,725**	2,387
Gearing ratio	**58%**	60%

As set out on page 36, the Group 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.

17. Provisions

Group - 2022	Restructuring provision	Uninsured loss provision	Other provisions	Total
	£m	£m	£m	£m
At 1 April 2021	**10.5**	**4.6**	**0.5**	**15.6**
Charged to Income Statement	**-**	**1.3**	**-**	**1.3**
Unused amounts reversed	**(4.8)**	**-**	**-**	**(4.8)**
Utilised in year	**(2.0)**	**(1.6)**	**-**	**(3.6)**
At 31 March 2022	**3.7**	**4.3**	**0.5**	**8.5**
Split as:				
Amounts to be utilised within one year	**1.4**	**1.4**	**-**	**2.8**
Amounts to be utilised after more than one year	**2.3**	**2.9**	**0.5**	**5.7**
At 31 March 2022	**3.7**	**4.3**	**0.5**	**8.5**

Group - 2021	Restructuring provision	Uninsured loss provision	Other provisions	Total
	£m	£m	£m	£m
At 1 April 2020	10.0	3.8	0.5	14.3
Charged to Income Statement	4.1	2.5	-	6.6
Utilised in year	(3.6)	(1.7)	-	(5.3)
At 31 March 2021	10.5	4.6	0.5	15.6
Split as:				
Amounts to be utilised within one year	6.8	1.4	0.3	8.5
Amounts to be utilised after more than one year	3.7	3.2	0.2	7.1
At 31 March 2021	10.5	4.6	0.5	15.6

The parent company had no provisions at 31 March 2022 (2021: none).

Restructuring provision
This provides for the cost of a reduction in the headcount of 184 to meet a challenging cost efficiency target for the regulatory period 2020 to 2025. This forecast is reassessed each year and the forecasted reduction to headcount has reduced from c.222 to 184 following lower than expected headcount reductions in the current year, partially recovered through natural attrition and a delay in the profiling of reductions. As a result, the provision has reduced by £4.8 million and this amount has been written back to the income statement.

For the year to 31 March 2021, an additional restructuring cost of £4.1 million was incurred which related to a further reduction of 22 employees envisaged during AMP7.This was treated as exceptional by its nature (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 Group's business.

18. Net cash inflow from operating activities

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group 2022	2021
	£m	£m
Operating profit	**80.5**	7.6
Adjustments for:		
- Depreciation and amortisation	**327.8**	333.1
- Changes in working capital:		
(Increase)/decrease in trade and other receivables	**(24.5)**	4.3
Increase in inventories	**-**	(0.3)
Increase in trade and other payables	**51.3**	3.3
Decrease in provisions	**(7.1)**	(0.5)
	19.7	6.8
Cash generated from operations	**428.0**	347.5

b) Interest paid

	Group 2022	2021
	£m	£m
Interest payable per income statement	**187.1**	126.1
Less non-cash items:		
- Indexation on index-linked bonds	**(67.0)**	(21.2)
- Indexation on index-linked debt	**(17.9)**	(3.2)
- Amortisation of bond issue costs	**(1.5)**	(1.3)
- Interest charge on pension scheme liabilities	**(1.6)**	(2.0)
- Amortisation of bond issue premium	**0.8**	0.8
- Effect of capitalisation under IAS 23	**16.4**	11.3
- Increase in accruals	**0.3**	0.2
	(70.5)	(15.4)
Interest paid	**116.6**	110.7

19. Analysis and reconciliation of net debt

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

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

	Group	
	2022	2021
	£m	£m
Cash and cash equivalents	**502.0**	209.1
Debt due after one year	**(3,567.5)**	(3,242.7)
Debt due within one year	**(55.6)**	(52.8)
Lease liabilities	**(395.6)**	(411.2)
Accrued interest	**(47.8)**	(48.2)
	(4,066.5)	(3,754.9)
Net debt	**(3,564.5)**	(3,545.8)

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

	Group	
	2022	2021
	£m	£m
Net debt at start of year	**(3,545.8)**	(3,462.4)
Movement in net cash	**292.9**	(449.6)
Movement in debt arising from cash flows	**(227.1)**	390.3
Movement in net debt arising from cash flows	**65.8**	(59.3)
Movement in accrued interest	**0.4**	0.3
Indexation of index-linked debt	**(84.9)**	(24.4)
Other non-cash movements	**-**	-
Movement in net debt during the year	**(18.7)**	(83.4)
Net debt at end of year	**(3,564.5)**	(3,545.8)

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:

	2022	2021
	£000	£000
Salary (including benefits in kind)	**1,119**	1,292
Fees	**556**	566
	1,675	1,858
Long-term incentive plan	**146**	111
Highest paid Director: P Perry (2021: P Perry)		
Aggregate emoluments[1]	**503**	495
Accrued pension under defined benefit scheme	**73**	305
Long-term incentive plan	**99**	75

[1] excluding pension accrual and long-term incentive plan

Retirement benefits are accruing for one Director (2021: one) under defined benefit schemes. None of the Directors are a member of the defined contribution scheme (2021: none).

Remuneration payable to the Executive Directors in respect of the financial year ended 31 March 2022 was as follows:

- A retrospective fee reduction of £3,100 taking place retrospectively in June 2021.
- Base salaries were increased by 2% for the Executive Directors in April 2021. 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 2021-22, awards have been made equivalent to: 19.1% of base salary for performance against the Customer element, 12% against Operational Performance, 8.9% against the Strategic Annual Focus element. This gives a total award for AVPS of 40% of base salary. This compares with 45.7% in 2020-21.
- Under the LTVPS, the overall maximum that can be awarded in the AMP7 five year regulatory period is 300% of salary (i.e. 60% per annum), except in the case of the Chief Executive Officer, where the maximum award is 100% per annum from 2019-20. LTVPS awards for AMP7 were based on Totex performance and Performance Development measures (made up of continuous service measures and investment programme measures).
- For the Totex element of LTVPS targets, an award of 30% of salary has been awarded for this objective. The result was 31.9% but reduced because of the 30% cap.
- For the Performance Development element of the scheme measured for the year to 31 March 2022, a payment of 0% of salary has been awarded.
- This gives a total award for LTVPS of 30% of base salary for the Chief Executive Officer.

(Further details are provided in the 2021 Remuneration Report which forms part of GCHC's 2021 annual report and consolidated financial statements.)

20. Employees and Directors (continued)

b) Staff costs during the year

	2022	2021
	£m	£m
Wages and salaries	**137.9**	140.1
Social security costs	**14.9**	15.1
Other pension costs	**12.2**	13.7
	165.0	168.9

Of the above, £67.5 million (2021: £67.9 million) 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 Group	**2022 Number**	2021 Number
Regulated water and sewerage activities	**3,546**	3,602

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

	2022	2021
	£m	£m
Executive directors	**1.1**	1.3
Other key personnel	**3.3**	3.2
	4.4	4.5

21. Pension commitments

The Group operates a funded defined benefit pension scheme for current employees (based on final pensionable salary and pensionable service), the DCWW Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. The Welsh Water Pension Scheme was closed to new members from 31 December 2005 and closed to the majority of sections of the scheme to future accrual 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 Group put arrangements in place via an Employer-Financed Retirement Benefit Scheme (EFRBS) for four 'capped' Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the DCWW Pension Scheme. At 31 March 2022, there were two Executive Members (2021: two) with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

Risks

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

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

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

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

21. Pension commitments (continued)

• Life expectancy

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

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 as at 31 March 2022 and the principal assumptions made by the actuaries were:

	2022	2021
Discount rate	**2.8%**	2.0%
RPI Inflation assumption	**3.7%**	3.0%
Rate of increase in pensionable salaries	**3.7%**	3.0%
Rate of increase in pensions in payment	**3.5%**	2.9%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	**86.8 years**	86.7 years
- Current pensioners aged 65 - females	**89.2 years**	89.0 years
- Future pensioners aged 65 (currently aged 45) - males	**87.8 years**	87.8 years
- Future pensioners aged 65 (currently aged 45) - females	**90.3 years**	90.2 years

The mortality assumptions are the S3PxA base tables with future improvements in line with the CM1 2021 projection model with a long-term trend rate of 1% p.a. The base assumptions in (CMI) 2021 have been applied with no allowance made for the impact of Covid-19 based on the CMI having stated that mortality experience during 2020 and 2021 is likely to be an outlier and not indicative of the future path that mortality rates will follow.

A change in accounting estimate this year pertains to the inflation risk premium (IRP) which has been set at 0.4%, compared with 0.6% in the prior year. The impact of the change in the IRP applied represents a significant area of judgement, with the change expected to have an impact of increasing the obligation by circa £17.2 million.

Changes in the defined benefit obligation are as follows:

	2022 £m	2021 £m
At 1 April	**528.9**	470.3
Current service cost	**0.4**	0.4
Interest expense	**10.3**	11.1
Remeasurement: loss from change in financial assumptions	**(18.5)**	61.4
Benefits paid	**(16.6)**	(14.3)
At 31 March	**504.5**	528.9

Changes in the fair value plan assets are as follows:

	2022 £m	2021 £m
At 1 April	**442.7**	387.6
Interest income	**8.7**	9.1
Actuarial (losses)/gains	**(8.0)**	60.1
Contributions	**0.7**	0.2
Benefits paid	**(16.6)**	(14.3)
At 31 March	**427.5**	442.7

Scheme assets	**2022 £m**	2021 £m
Cash	**5.3**	16.7
Equity	**322.3**	326.2
Absolute return	**-**	-
Property	**-**	-
Private equity	**99.9**	99.8
	427.5	442.7

21. Pension commitments (continued)

With the exception of cash, assets consist of pooled investment funds, which are not quoted on an active market, shown by the category in the table above. Of the total, assets with a fair value of £99.9 million are Level 3 financial assets (2021: £99.8 million); these are considered to be the least liquid and hardest to value and are therefore subject to a higher degree of estimation. See also the critical accounting estimates in note 1. Experience gains and losses are differences between the actual events as they have turned out and the assumptions that were made as at the date of the earlier actuarial valuation.

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

	2022 **£m**	2021 £m
Income statement:		
Service costs	**0.4**	0.3
Interest costs	**1.7**	2.0
Total charged to the income statement	**2.1**	2.3
Other comprehensive income:		
Actuarial (loss)/gain on plan assets	**(8.0)**	60.1
Actuarial gain/(loss) on defined benefit obligation	**18.5**	(61.4)
Total credit/(charged) to the statement of comprehensive income	**10.5**	(1.3)

	2022 **£m**	2021 £m
Present value of funded obligations	**(504.5)**	(528.9)
Fair value of plan assets	**427.5**	442.7
	(77.0)	(86.2)
EFRBS unfunded liability	**(3.7)**	(3.7)
Net defined benefit liability recognised in the balance sheet	**(80.7)**	(89.9)

There were no special contributions paid in the year to 31 March 2022 (2021: £none).

	Change in assumption	**Movement in Liabilities**
Discount rate	0.10%	£8.8m
Price inflation	0.10%	£8.6m
Life expectancy	1 year	£15.6m

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

Effect on future cash flows
The level of contributions is reviewed at each triennial valuation. The next valuation is due as at 31 March 2022. The Group must reach agreement with the Trustee (based on actuarial advice) within 15 months of the valuation date.

Under the current Schedule of Contributions, no deficit recovery contributions are expected to be paid for the year-ending 31 March 2023. Future service contributions (consisting of amounts payable by members and the Group) will be in the region of £175,000.

The duration of the Scheme's liabilities is approximately 19 years.

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

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

21. Pension commitments (continued)

The Trustees have put in place a diversified investment strategy which aims to meet the liabilities of the Scheme. Details are set out in the Scheme's Statement of Investment Principles and available to view (available on the Group's website at https://corporate.dwrcymru.com/en/library/company-statements/dcww-pension-scheme-statement-of-investment-principles). Day-to-day decisions around asset selection have been delegated to BlackRock as their fiduciary investment manager.

22. Lessor

	2022	2021
Operating lease	**£m**	**£m**
Lease income	**0.1**	0.6

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

The remaining term of the lease is 10 years, with the total undiscounted current minimum lease receipts amounting to £1.0m, recognised evenly over the remaining term.

In addition the Group leases two waste facility sites at Nash and Eign to an associated company, Welsh Water Organic Waste Limited. The Group has classified this lease as an operating lease because it does not transfer substantially all the risks and rewards incidental to the ownership of the land. The lease for Nash ends on November 2022 with the total undiscounted lease receipt of £0.1 million. The lease for Eign ended on February 2022 and is currently being renegotiated.

23. Capital and other financial commitments

The Group's business plan at 31 March 2022 shows net capital expenditure and infrastructure renewals expenditure of £457 million (2021: £367 million) during the next financial year. While only a portion of this amount has been formally contracted for, the Group is effectively committed to a majority of the total as part of the capital investment programme approved by its regulator, Ofwat.

24. Contingent liabilities

The Company is defending five separate claims brought by groups comprising individuals and entities operating personal search businesses. The claims are for the repayment of charges received for drainage and water searches, on the basis that these charges were allegedly levied contrary to the European Information Regulations ('EIR'), and injunctive relief. The latest notified collective claimed quantum of the five claims (before claims for interest) is £3.7 million and we are not anticipating any substantive change to the total sums claimed. The Court has ordered that the claims be progressed concurrently, with issues to be determined in stages. At this stage, settlement is not deemed probable and so no provision has been recognised and the claims are being actively defended.

Leakage and per capita consumption reported this year are provisional, as we have initiated a third-party review of our interpretation of Ofwat guidance on reporting methodology for these performance commitments. Once the conclusions of the review are known later this year, we will review our published outcomes for 202-21 and 2021-22 and our baseline data from 2017-18 used for setting targets. This review may result in the restatement of our AMP7 reported performance and consequently a possible change in previously reported Outcome Delivery Incentives. Pending the conclusion of this review we will not take the benefit of any reward applicable to our performance in 2021-22.

25. Related party transactions

In accordance with the exemption afforded by IAS 24 there is no disclosure in the consolidated financial statements of transactions with entities that are part of the Glas Cymru Anghyfyngedig group.

A wholly-owned subsidiary of the Group, Dŵr Cymru Cyfyngedig, paid costs during the year on behalf of two other members of the larger group headed by the ultimate parent undertaking, Glas Cymru Holdings Cyfyngedig. The outstanding balances are reported as intercompany balances: £20,239 (2021: £10,879) in respect of Cambrian Utilities Limited, £18,901 (2021: £18,901) in respect of Welsh Water Infrastructure Limited, £1,153,352 (2021: £320,559) in respect of Welsh Water Organic Energy (Cardiff) Limited), and £55,131 (2021: £147,563) in respect of Welsh Water Organic Waste Limited.

26. Share capital

	2022	2021
	£	£
Authorised		
10 (2021: 10) ordinary shares of £1 each	**10**	10
Allotted and fully paid		
10 (2021: 10) ordinary shares of £1 each	**10**	10

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

27. 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 2022 the market value of the trust fund was £109 million (2021: £116 million). Interest receivable includes £3.0m (2021: £3.0m) in respect of distributions from the Elan Valley Trust Fund.

28. Immediate and ultimate holding company and controlling party

The immediate and ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales on 15 December 2015. The largest and smallest groups within which the results of the Company are consolidated are those headed by Glas Cymru Holdings Cyfyngedig and Glas Cymru Anghyfyngedig respectively. Both consolidated financial statements can be obtained from the Company Secretary at Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT.