GLAS CYMRU

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2022

ENHANCING THE WELLBEING OF OUR CUSTOMERS AND THE COMMUNITIES WE SERVE, BOTH NOW AND FOR GENERATIONS TO COME

A PURPOSE-LED BUSINESS

OUR PURPOSE IS CENTRAL TO EVERYTHING WE DO AND GUIDES ALL OF OUR DECISION-MAKING.

OUR PURPOSE

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

OUR VISION

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

OUR STRATEGY

Our strategy sets out how we will tackle the long-term challenges and embrace the opportunities which will affect our business, our services to customers, and the communities that we support.

OUR ESG FOCUS

As a purpose-led business, our strategy naturally has a strong focus on achieving positive environmental, social and governance outcomes.

OUR MODEL

As a water company without shareholders our corporate structure is unique in the UK utilities sector, ensuring that our single focus is to act in the best interests of customers.

> Read more about our business model and value created for stakeholders on pages 2 to 4

OUR CULTURE

Our culture is built on delivering value and the desired outcomes for our customers and the environment, striving to do a better job for them through learning and innovation, embracing change and the sharing of best practice with other organisations.

> Read more about our culture on pages 6 to 7

FOCUSED ON THE WELLBEING OF OUR CUSTOMERS AND THE COMMUNITIES WE SERVE

OUR STRATEGY

CUSTOMERS

▼

VISION

▼

WELSH WATER 2050, WELLBEING COMMITMENTS, ESG STRATEGY

▼

LONG-TERM DELIVERY STRATEGY AND PLANNING

▼

5-YEAR BUSINESS PLANS SUBMITTED IN THE PRICE REVIEW PROCESS

▼ ▼ ▼

AMP7 | AMP8 | AMP9

▼

ANNUAL BUSINESS PLANNING PROCESS

> Read more about our strategy and focus on ESG on pages 82 to 97

OUR ESG FOCUS

ENVIRONMENT (see pages 84 to 88)

- Environmental Performance
- Improving river water quality and controlling phosphate pollution
- Enhancing Biodiversity
- Journey to Net Zero Carbon emissions

SOCIAL (see pages 90 to 94)

- Educational and Visitor Centres
- Assistance for Vulnerable Customers
- Supporting our Communities
- Our People – promoting Diversity & Inclusion

GOVERNANCE (see pages 95 to 97 – and also our Governance Report, pages 107 to 169)

- Compliance with high standards of corporate governance
- Governance structure and scrutiny
- Setting a responsible and transparent long-term strategy: Welsh Water 2050 Review
- Developing best practice in TCFD (Task Force on Climate-related Financial Disclosures) reporting

BUSINESS MODEL

OUR ACTIVITIES

We are focused on our core services, treating and distributing clean water, and treating wastewater so it can be safely returned to the environment.

IN ORDER TO DELIVER OUR PURPOSE, WE:

1. Take water, treat it and distribute high-quality drinking water to our customers across most of Wales and parts of Herefordshire
2. Collect, treat, and safely return wastewater to our rivers and seas across most of Wales, Chester and Deeside – protecting public health and the environment across our supply area
3. Reuse waste where possible and convert it into energy that powers some of our sites
4. Provide excellent levels of service to all of our customers, in particular to those who are vulnerable or struggling to pay their water bills, as well as to developers and business customers.

DRINKING WATER

Collection of Water

Treatment of Water

Distribution of Water to Customers

CUTOMERS AND COMMUNITIES

Collection of Wastewater from Customers

Treatment of Wastewater

THE ENVIRONMENT

Conversion of waste into energy to power our sites

Returning Water to Rivers

THE GLAS MODEL

By improving performance and investing for the long term, we can maintain our reputation and access borrowing at lower cost. We don't have shareholders, so any money we make is reinvested in the business to benefit customers, not paid in dividends to shareholders.

LONG-TERM ADVANTAGES

We believe that our Glas Model, the long-term financing on which it is based, and our clear purpose give us five important advantages, particularly in the longer term:

- **Earning the trust of our customers** – Our customers know that we are focused on providing excellent customer service to them at the best value for money
- **A supportive and focused workforce** – The ability to recruit and retain high quality people in our business, attracted by its strong sense of purpose and the importance of the job we do
- **Our purpose and vision at the centre** – A strong corporate culture that reflects that purpose and which helps to motivate and guide our people
- **Ability to take the long-term view** – A longer-term planning horizon than most businesses are allowed – enabling us to invest in our assets, systems, and people for the optimal long-term result
- **The benefits of our low-risk financing structure** – Secure access to long-term, low-cost finance from bond investors who are attracted to the low-risk, single-purpose nature of our business, entrenched through the strong commercial disciplines in our corporate and financing structures, and by our focus on climate adaptation measures and ESG performance.

THE GLAS MODEL

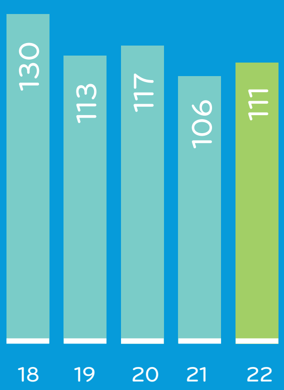
Welsh Water* has been owned by Glas Cymru since 2001. Glas Cymru has no shareholders and therefore works solely to enhance the interests of the customers and communities that it serves.

We provide a vital public service to around 3.1 million people in Wales and neighbouring parts of England. We provide our customers with safe, clean water and take their used water away, treating it so that it can be returned to the environment. We recycle the organic material resulting from the wastewater treatment process, generating valuable electricity and gas, and minimising the impact on the environment. Many of our customers are businesses, hospitals and schools that depend on a reliable supply of water, and developers with whom we work to provide the infrastructure required to support economic development across our supply area.

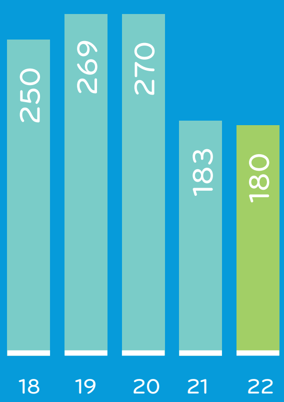
*Dŵr Cymru Cyfyngedig (referred to through this report as Welsh Water or Dŵr Cymru).

KEY OPERATIONAL OUTCOMES

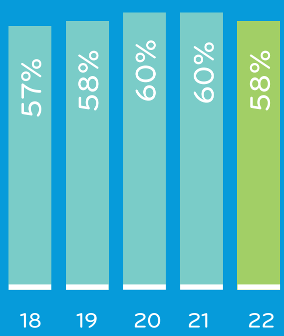
TOTAL CARBON EMISSIONS (MARKET BASED, INCL SCOPE 3) $ktCO_2$



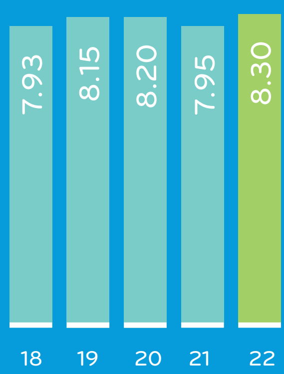
ACCIDENT RATE



GEARING



CUSTOMER TRUST



> Read more about our performance on pages 46 to 53
and about our greenhouse gas emissions on page 100

OPERATIONAL PERFORMANCE 2021-22

Health and Safety

- 22 Lost Time Injuries (LTIs) - pre-Covid (2019-20: 28)
- 350 days lost due to illnesses (2020-21: 446)
- 80% of LTIs resulted in 3 or less days off work (2020-21: 53%).

Treating wastewater

- 98.32% compliance at Wastewater Treatment Works (2020-21: 99.66%)
- Sewer collapses per 1,000km of sewer 2021-22: 6.71 (2020-21: 7.69).

Financing

- Gearing currently at 58% (down from 93% in 2001)
- Operating profit: £81m
- Amongst the highest credit ratings in the UK utilities sector.

Liquidity

- As at 31 March 2022 the group had total available liquidity of £715 million, including £200 million of undrawn revolving credit facilities.

Credit ratings

BONDS	MOODY'S	S&P	FITCH
Class A*	A1	AA	A
Class B	A3	A-	A
Class C	Baa2	BBB	BBB+

All with stable outlook

* The Class A bonds are guaranteed by Assured Guaranty UK Limited (A1/AA/NR) and revert to the higher of the guarantor's ratings or underlying bond rating.

Providing clean drinking water

- Acceptability of Water: 2.44 contacts per 1,000 people (2020-21: 2.7) - fewer contacts from customers relating to appearance, taste or odour of water.

Minimising our impact on the environment

- Km of river improved in 2021-22: 94 (working with Nutrient Management Boards) (2020-21: 5)
- Internal Flooding incidents – 1.36 per 10,000 sewer connections (2.05 in 2020-21).

Customer service

- Ofwat's C-MeX measure – rated fifth in the Sector for Customer Satisfaction
- Business Customer Satisfaction score – we achieved a score of 4.4 out of 5
- Over 300,000 vulnerable customers temporarily added to our Priority Services Register to receive support during the pandemic (until 31 March 2022)
- More than 144,000 customers receiving financial assistance to pay their water bill
- Over 127,000 of these customers benefit from social tariffs to reduce the amount of their bills; we support more customers with social tariffs, proportionate to our size, than any other water company in England and Wales.

CONTENTS

OUR CULTURE

OUR PURPOSE

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

OUR VISION

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

OUR VALUES

Our culture is encapsulated in our six company values

OUR CULTURE

We take great pride in the work that we do and the services that we provide to our customers. Our culture focuses on delivering value and the desired outcomes for our customers and the environment, striving to do a better job for them through learning, innovation, embracing change and the sharing of best practice with other organisations.

We have a publication scheme through which we routinely make available information about our performance on our website, and we have been leading the sector in terms of making information about environmental performance available to our customers and other stakeholders on our website, see: **dwrcymru.com/environmentsearch**

During 2021-22 we have responded to 377 requests for information from customers and members of the public under the Environmental Information Regulations 2004 (2020-21: 233).

To help us ensure continuous improvement, we have a clearly defined plan which is driven by measurable targets. However, we also rely on our people for their motivation, engagement, and desire to 'do the right thing'. We recognise the value of diversity of thinking within our organisation, and actively seek to develop and encourage a diverse workforce, attracting the best people from all parts of the population we serve. We aim to foster an inclusive culture where everyone can be themselves, develop to their full potential and contribute to the success of the Company, while enjoying a healthy and rewarding career.

During 2021-22 we launched our five-year HR plan, focused on being the best employer in Wales by 2025, through using effective systems and processes to ensure we can develop a highly skilled and engaged workforce.

OUR VALUES IN ACTION

TRUSTED

Our vision is to earn the trust of our customers every day. Although the pandemic proved challenging, it has allowed us to look at more innovative ways of communicating with our customers. One of the methods developed uses virtual consultations where customers have the opportunity to view investment proposals and to see fly-over films and the plans for the work in more detail. We have also piloted using video calls to allow customers to show our customer advisers drainage and sewerage issues so we can diagnose the nature of the problem more quickly.

PROUD

In our employee engagement survey which took place in November 2021, 83% of colleagues said that they were proud to work for Welsh Water. Our first Me and My Community week in September 2021 was well supported and allowed colleagues to volunteer with local community groups and foodbanks as proud ambassadors of Welsh Water.

SAFETY

We have continued our focus on 'Journey to Zero' for accidents and worked with our contractors throughout the year to improve reporting of 'near misses' and positive interventions. Responsibility for Health, Safety & Wellbeing at Board level is held by our CEO, Peter Perry. Below are the results of the three H&S questions asked in the 2021-22 employee engagement survey:

- I believe Welsh Water is committed to employee safety – 92%
- I feel comfortable in reporting any safety concern – 93%
- I understand my role and responsibilities in creating a safe work environment – 98%

EXCELLENCE

We were pleased to be rated a 4* Water and Sewerage Company in the 2021 Environmental Performance Assessment process by the Environment Agency and Natural Resources Wales. We recognise in our performance reporting (see page 46) those areas where we know we need to do better in 2022-23.

HONEST AND OPEN

In February 2022 we published the outputs of our monitoring of 99% of our Combined Storm Overflows (CSOs) on our website – this is part of our publication scheme (see page 6 for more details) and we are committed to maintaining honest and open dialogue with governments, regulators, customers, colleagues, Glas Members, and other stakeholders.

We are not complacent about our Culture and recognise the importance of reinforcing our values in everything we do. Our management and leadership training has been reviewed and renewed in 2021-22 and our HR team supports personal development for individuals at every level of our organisation, and provides informal opportunities for development, such as our recently established 'Read and Lead' book group. We regularly carry out reviews of culture and engagement using independent third parties who report directly to the Board.

HOW WE ARE DOING, AND OUR PLANS FOR THE SHORT, MEDIUM AND LONG TERM

STRATEGIC REPORT

THIS STRATEGIC REPORT DOCUMENTS OUR PERFORMANCE OVER THE YEAR, THE RISKS WE FACE AND HOW WE MITIGATE THEM, AND OUR FUTURE VISION AND STRATEGY.

CHAIR OF THE BOARD'S MESSAGE

> HEARTFELT THANKS TO ALL OUR PEOPLE FOR THEIR FANTASTIC RESPONSE TO THE ISSUES WITH WHICH WE HAVE HAD TO CONTEND IN 2021-22 – A 'PERFECT STORM' YEAR.

THANK YOU SO MUCH

Typically, Chairs finish their annual message with thanks to all those who have contributed to the achievements of the year. So extraordinary had been the 12 months to March 2021 that I started my message by acknowledging the huge debt of gratitude that we owed our people for once again going the extra mile in so many cases despite all the personal pressures they had to contend with as a consequence of the pandemic – home schooling: illness of self, family and friends: bereavement of those close to them: social isolation. Given the continuing pandemic and all the challenges that have arisen during the last 12 months it is absolutely right to begin this year's message in the same vein, with heartfelt thanks to all our people for their fantastic response to the issues with which we have had to contend.

2021-22 could be characterised as a perfect storm with our business and our people in the eye of the storm. An amber hot weather warning for Wales in July; 20% more demand for water off the back of unprecedented levels of 'staycation' tourism; more sludge being produced by small rural works in West Wales than they were ever designed to handle; a real risk to the supply of vital chemicals needed in the water treatment process; more general supplies put at risk by a shortage of HGV drivers; assets crippled by widespread power outages following Storms Eunice and Franklin; a 250% increase in wholesale electricity prices, latterly greatly intensified by the tragedy in Ukraine; intensive demand for water placing greater strain than usual on trunk mains at or reaching the end of their natural life creating higher numbers of difficult bursts; the impact of 18 months or so of isolated home working wearing people down; greater than ever societal focus on the environment engendering a major focus on river pollution; and an effective halt being called to further housing development in Special Areas of Conservation in Wales if our works do not have the ability to treat the additional phosphorous loads that would be generated.

OUR ENVIRONMENT

Again, I make no apology for maintaining my next topic the same as last year: I would expect that I will keep this in pole position for the remainder of my time as Chair, such is the challenge posed to our business and our customers by the changes to our environment caused by global warming and the unsustainable use of natural resources.

We were very pleased to receive the endorsement from Julie James, the Minister for Climate Change, on our announcement of increased green energy generation in the first six months of this year. The Minister commented that she was delighted to hear of our progress against what she described as our ambitious targets for energy self-sufficiency. As she said: 'The Company is placing climate change at the heart of everything it does'. Given last autumn's COP26 Climate Summit, with a broadly encouraging range of commitments by global governments to address climate change, I would particularly draw your attention to the report of our Environment, Social and Governance (ESG) Committee which completed its first 12 months of

CHAIR OF THE BOARD'S MESSAGE

oversight over the strategy that Welsh Water has developed to achieve our own environmental objectives, and in particular our roadmap to deliver full Net Zero Carbon by 2040. What is most important about such an objective is having a plan to get there: without that the goal is just words. Our Board, led by the ESG Committee, has tested the reality of the various elements of our Net Zero strategy, and has found them challenging but credible.

Our biggest challenge will be to address fugitive emissions from the processes employed in our 828 waste water treatment works. However, we know that this is possible because it is already being achieved in other countries, although admittedly not yet on the scale that we will require. As a first step to controlling and reducing these emissions we have recently installed nitrous oxide monitoring equipment at two of our largest waste water treatment works to identify the scale of them.

Next to the challenge of fugitive emissions is that of embedded carbon, in particular in the steel and concrete we use to convey and treat flows of clean and waste water. Further innovation will certainly be needed in our supply chain but increasingly there are already lower carbon alternatives being produced. The construction industry is driving manufacturers to make less carbon intensive steel and concrete and the use of recyclable materials is also becoming increasingly available.

In considering the whole life costs and impacts of our investments, identifying where nature-based solutions such as RainScape, our sector-leading investment in Sustainable Drainage (SUDs) solutions, may play a part is a key factor in our decision-making.

Since 2010-11 we have already achieved a 65% reduction in total emissions, that's operational and embedded carbon underpinned by an electricity supply 24% of which is self-sufficient with the remainder REGO-backed using offshore wind. This makes Welsh Water one of the lowest emitters of carbon dioxide per Ml of water or wastewater treated in the UK water industry. We aim to be 35% energy self-sufficient by 2025 and to achieve a 90% reduction in total carbon emissions by 2030.

At the same time as we plan schemes to benefit carbon emissions our ambition is to also increase biodiversity. We were the first company in Wales to publish, in 2017, our Biodiversity Plan – Making Time for Nature – in which we set out 30 short and longer-term commitments, and we updated this in December 2020. We intend to adopt biodiversity benchmarking which will establish a biodiversity score, using Natural England's methodology, at 100 of our sites. This score will be used to benchmark future proposals, and to track our progress in this area.

In July last year the Customer Challenge Group (CCG) provided our Board with their first annual review of the progress we have made against the Wellbeing Commitments to 2025 that we launched in March 2020 to contribute to the seven national Wellbeing Goals as set out in the Wellbeing of Future Generations (Wales) Act. We developed this as a Wales-specific equivalent to the Public Interest Commitments launched by English water companies.

The CCG concluded that, overall, the Company had made good progress against the commitments and was largely on track, despite the challenges of the pandemic.

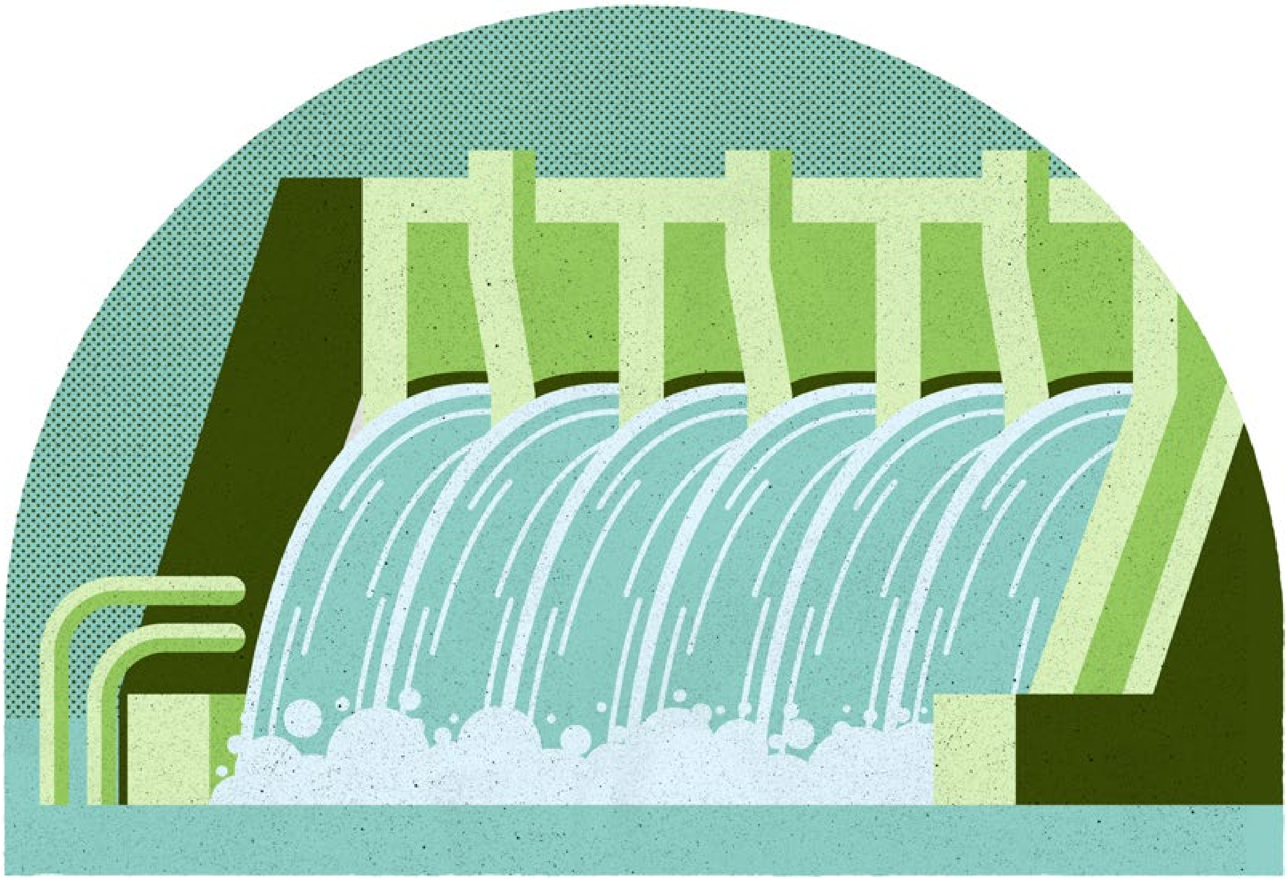
The speed with which ESG issues has risen up the agenda of all our stakeholders is remarkable and personally very heartening. Financial investors now assess a company's record on ESG matters as a leading part of their lending assessment – an environmentally unfriendly business is now becoming a credit risk. Politicians, regulators, interest groups, customers will be much influenced in their view of Welsh Water by our environmental record and by the extent to which our understanding of our climate-related risks and opportunities is embedded in our strategy and its supporting scenario modelling.

We recognise that as well as assessing the physical risks to our assets posed by climate change we will need to adapt our business processes as the environment changes, and that these changes will pose transition risks for both our business and our supply chain.

All these elements form part of our strategy to respond to climate change, and are already high on the agenda of both the Board and the management team.

Not only do we need to do the right thing, but we also need to be able to evidence this through the metrics which are now being adopted to assess the environmental credentials of different organisations – reporting the right ESG measures will become as important as reporting the right financial measures and we are taking steps to obtain an ESG rating for our business. This annual report includes our first full reporting in line with the Task Force on Climate-related Financial Disclosures, reporting which will become increasingly more comprehensive as we develop our assessment of the implications of climate change on our business, and on those businesses with whom we interact, in particular our suppliers.

Any discussion of our impact on the environment has also to cover the subject of Combined Storm Overflows. The issue of untreated discharges into rivers has gained very significant focus over the past year, culminating in the Westminster Government's decision to include within the Environment Act a legal duty on water companies to secure a progressive reduction in the adverse impacts of discharges from storm overflows.



As a company based mainly in Wales, we are within the remit of the Welsh Government as regards legislation and policy for storm discharges. The Welsh Government's focus is on the broader issue of water quality rather than the number of spills occurring during periods of heavy rainfall, which is when CSOs are designed to protect properties from sewer flooding, and when such discharges typically have minimal impact on water quality. We are working with our environmental regulators, central and local government, and those other parties such as the agriculture sector, that have a material impact on the quality of water in our rivers, to develop plans to improve our environmental footprint, in particular as regards those of our rivers that are designated as Special Areas of Conservation (SAC).

A Nutrient Management Board, to which we contribute and for which we have undertaken the source apportionment river quality modelling, has already been established for the river Wye and we are keen to work with other nutrient management boards for SAC rivers once these are established. We are a willing contributor to such taskforces, although they need to be convened by organisations that themselves have a multi-dimensional brief, such as local authorities or NRW, rather than by ourselves.

Whilst achieving improved water quality through multiple parties working together will be something to be delivered across the medium term, we are very conscious of the impact now on customers and opinion-formers of the concept of raw sewage discharges into rivers, particularly through CSOs. We have, therefore, committed an additional £20 million in this AMP to improving river water quality, bringing the total specifically focused on CSO improvement to £101 million. We have also published the action we are planning to take through to 2025, the end of the current price control, to improve river water quality.

INVESTMENT

The wider issue of phasing out CSOs completely will require considerable investment – our estimate just for our Company is somewhere between £9 to 14 billion – such an investment could only be possible across multiple AMPs. We would expect this investment to figure highly – in our Drainage and Wastewater Management Plan which will be published later this year, in the plan for the next price review PR24 and in the longer-term outline planning for the subsequent two price controls – through to 2040 – that Ofwat will require us to submit in October 2023 at the same time as our proposals for PR24. We look forward to working with the newly appointed Ofwat Director for Wales to agree plans that deliver the strategic priorities for water identified by the Welsh Government.

Delivering against our plan to achieve net zero carbon will also require investment as a cost of transition to modify some assets, replace others, change operational processes, and stimulate behavioural change by our customers. Some investment is highly capital intensive in its nature, such as replacing end of life asbestos cement mains: other is more nuanced, such as driving increased awareness amongst our customers of the need to use less water for the good of the environment – the production and distribution of drinking water is heavily energy intensive and not the free good that some of our customers think it is!

CHAIR OF THE BOARD'S MESSAGE

In March 2018, and ahead of developing our detailed plans for the 2019 regulatory price review, we published Welsh Water 2050 to set out our long-term vision for our business and help us address the many challenges that lie ahead - from climate and demographic change to the pace of technological change and increasing customer expectations. In turn, our vision is set within the policy context of the Wellbeing of Future Generations Act (Wales) 2015 and Environment Act (Wales) 2016. Welsh Water 2050 detailed our 18 strategic responses to these challenges which in turn are designed to enable us to achieve our ambition to become a truly world class, resilient and sustainable water service for the benefit of future generations.

Now that we are starting to plan in detail for PR24 it has been appropriate for us to review these strategic responses and update Welsh Water 2050 as published in May 2022. In this update we discuss the latest evidence underlying the need for our strategic responses and review the responses we are making, including how these are likely to be addressed in PR24.

We also identify where our, and society's, priorities may have changed since the document was first drafted, such as the greater urgency with which environmental issues are being addressed. Overall, we assess that we are on track with all bar six of the 18 strategic responses; and for these we explain the challenges we have faced addressing the issue and our plans to get back on track.

We will always seek to invest as efficiently as we can given our investment, whether in capital or media, comes at a cost to our customers. We are, therefore, very open to adopting new ways of structuring the investment we require such as Direct Procurement for Customers ('DPC') introduced by Ofwat as part of PR19. This new delivery model involves a company competitively tendering for the financing and delivery of large infrastructure projects, resulting in the selection of a third-party competitively appointed provider. The aim is to achieve significant benefits for customers through innovation and lower whole-life costs of the project.

We will apply this DPC delivery model to achieve our plan to replace three ageing water treatment works that together meet a large part of the demand for drinking water from south Wales, including Cardiff, by Cwm Taf, a single new works sited in the area of Merthyr Tydfil. This major and highly complex project which will produce up to 180ML per day of treated water (12% of our total production) is not anticipated to start operating until 2030 but will absorb considerable management focus between now and then.

STRIKING THE RIGHT BALANCE

Striking the right balance lies at the heart of the Board's most difficult decisions. Whenever we plan for the future we face the need to square the circle of investment and affordability, at the same time ensuring that our financial ratios justify the credit rating that we need to be confident of being financeable because, unlike those companies with shareholders, we cannot resort to raising equity if we cannot access the debt markets. The upside of our status is that we only have to balance two things -

investment plans and customer bills - and do not need to concern ourselves with a third – returns for shareholders. Everything we do has as its aim to benefit customers, but equally everything has ultimately to be paid for by customers.

We are very conscious of the considerable strains currently being felt by our customers. Not only are there the personal challenges of the pandemic to which I referred at the start but over the past year we have also seen unprecedented levels of increases in basic costs, in particular of energy which itself has triggered material increases in so many other things that are energy dependent, such as chemicals. At the same time, labour shortages have driven up wages in certain sectors with a knock-on impact on the cost of manufactured products and on distribution costs. Our own costs are not immune to these pressures and the price of our services has to reflect the inflation we bear.

We had hoped that this spike in costs would be short-lived as markets readjusted following the disruption caused by the pandemic. Given the developments in Eastern Europe, we are now braced for a longer period of economic uncertainty and extreme pressure on living costs. We will need to continue to balance increasing costs with the investment that will be needed to deliver the priorities that our customers tell us they support, such as improving our environment.

In the meantime we will do all we can to help those of our customers who are finding it difficult to make ends meet. Welsh Water already helps more customers with social tariffs, proportionate to its size, than any other water company – over 127,000 during the last year, with over 144,000 in total benefiting from financial assistance and debt support. The Company is earmarking over £12 million in 2022-23 to support all its vulnerable customers who are struggling with their water bills and it has confirmed that it wants to support an additional 50,000 low-income households to help reduce their water bills. More generally, we aim to increase the take-up of meters to help our customers reduce their use of water and thereby both potentially reduce their bill and benefit the environment.

OUR PEOPLE

I cannot finish without touching on the pandemic and its ongoing impact on our people. We continue to operate a Covid-secure environment both for them and those with whom they come into contact during their work for Welsh Water in line with Welsh Government guidelines.

One of the most difficult decisions all businesses are currently having to make is how to structure the work environment going forward. On the one hand it is very clear that many of those who have worked at home have valued the much increased flexibility it has afforded and are reluctant to lose this. Equally it is clear that many have felt isolated, deprived of the easy informal support they previously had in the office, and much more detached from the Company, rather than viewing themselves as part of a tight-knit community.

40% of new occupational health management referrals this year were for anxiety, depression, and stress. One is seeing a move from people primarily thinking of themselves as part of the Company that employs them to instead considering themselves as an individual, with a contractor, rather than employee, mindset. At the same time, moves to hybrid working mean that some roles, particularly in areas such as technology and data science, are no longer geographically constrained – the world is their oyster! Our Executive team has, therefore, to redouble its engagement with our people, making very clear to them the value of being part of Welsh Water, reinforcing our distinctive culture that is centred on our customers and, in turn, delivers amongst the highest levels of customer trust in the sector.

> “WE WILL DO ALL WE CAN TO HELP THOSE OF OUR CUSTOMERS WHO ARE FINDING IT DIFFICULT TO MAKE ENDS MEET.”

With the strength of our heritage and culture we are optimistic that we will be able to combine the best of both the old, and new, worlds. Let me finish as I started with my thanks on behalf of the Board to everyone at Welsh Water for what they achieve for our customers and communities - it is this focus on our customers that lies at the heart of everything we do.

ALASTAIR LYONS
Chair of the Board

CHIEF EXECUTIVE'S MESSAGE

KEY CHALLENGES IN 2021-22

COVID-19

Last year I began my statement for 2020-21 outlining how the Covid-19 pandemic had virtually started at the same time that I took up the CEO role here at Welsh Water. Well, a year on, Covid is still with us but over the course of the year we have effectively learned to run the business with it being ever present and through the peaks and troughs of its impact.

I want to pay tribute to all my colleagues for enabling us to turn the operating conditions of the pandemic into what has become business as usual. However, it would be wrong not to highlight how this has been achieved. It starts with the commitment of my Executive team and their respective senior managers who have met at the start of each working day throughout 2021 to assess the impact of Covid on the business, but more importantly to plan ahead and be on the front foot with our contingency measures. This is also the team that has led regular simulation exercises throughout the last 24 months that have tested our key activities in scenarios of up to 50% absence.

There have been a number of notable periods during the year when this level of planning has served us well, but it was the Christmas period 2021 when this was put to its most stringent test. Over the holiday period, Omicron cases escalated almost exponentially. On 5 January 2022 we saw 40 positive cases in a single day: until then the highest we had seen was in January 2021 when the record was 14 in a day. In parts of South Wales, we saw 30% absence rates in a number of our critical front line teams at this time, but through our continuity plans, services were sustained with no adverse impact on customers or the environment.

Another very challenging period of the pandemic occurred over the summer and autumn periods of 2021, when a new term, that of 'Staycation', firmly entered our vernacular! The level of tourism significantly increased in parts of Wales and with it the additional strain on our rural water and sewerage services. In a normal year we cope easily with the tourist impact but 2021 was much bigger. To bring this to life, West Wales was worst affected and to provide an example of what happened at many locations, particularly near the coast, I'll focus on a couple of localities in Pembrokeshire. First, St Davids, whose normal population is around 2,000, increased in July to over 15,000 residents, with a number of campsites in the surrounding area bigger than the city itself! The population at the same time in Tenby swelled to nearly 60,000 from the normal 5,000! During this period, water demand increased by 20% and for the first time in our history we had to run waste water tankers around the clock to lower peak sewerage loads on our treatment works: if we had not done this we would have seen the potential for widespread pollution. Over this past winter, we have carried out investment which will mitigate what is likely to become the norm of increased tourism in Wales linked to the pandemic and its aftermath.

The business has also responded well to other challenges throughout the year: in the same way the pandemic has spanned the last two years, so the same has applied to issues with our supply chain. This is mainly linked to EU Exit and wider global economic issues caused by Covid-19.

The most significant issues have been linked to critical treatment chemicals and the associated logistics. Working as part of the industry 'Platinum' level incident response and associated national chemical groups, both our sector and Company-level mitigation plans have been effective. However, this has required weekly and sometimes daily monitoring and action planning throughout 2021 to avert potential shortages. Our chemical suppliers have worked well with us and, working with our suppliers, we have also dealt with the shortage of HGV driver resource without impact on our services. The energy price emergency has also impacted on the availability of some critical chemicals and this has similarly been mitigated. However, we will need to continue to develop medium and long-term contingencies in conjunction with other companies in the sector to reduce our reliance on these largely imported critical elements of our treatment processes. At this point, I would thank and acknowledge the effort expended by our business support teams, especially those in procurement and emergency planning, who have ensured minimal supply chain impact for us and who have also been heavily involved in sector-level contingency measures.

Towards the end of Q4 2021-22 we have also seen the Russian invasion of Ukraine and are naturally keeping an eye on developments as the tragic circumstances unfold. We are not dependent on goods or services from either country and there is minimal risk to our supply chain. However, as an operator of critical national infrastructure we are working closely with UK Government agencies to ensure that appropriate measures are in place to mitigate potential cyber risk.

RIVER QUALITY

The external focus on river water quality has gained significant profile over the last year, with considerable momentum added by political and media spotlights at both a UK level and in Wales. We have put significant effort into ensuring key stakeholders are fully briefed on the different circumstances in our operating area, but also at the same time conveying that we are a business that cares deeply about the environment and wants to make further improvement.

In terms of the differing circumstances, both river and bathing waters in Wales are in broadly better condition than those in England. Some 40% of Welsh rivers meet 'good' ecological status under Habitats Directive standards compared to 16% in England. Wales also has 30% of the Blue Flag Beaches with only 15% of the total UK coastline. However, for the avoidance of doubt, I state this more to illustrate the effective approach to improving quality that we take alongside Welsh Government, Natural Resources Wales, and the Environment Agency, than to hint at any sense of complacency.

CHIEF EXECUTIVE'S MESSAGE

We know there is much more to do and we are absolutely determined to achieve this, something we are continuing to work on through the 'Wales River Quality Improvement Taskforce' – this has to be a Team Wales approach.

Our joint approach to improving river quality means that we focus on improving those of our assets or activities that are causing, or have the potential to cause, the most environmental harm. For many years we have done this in conjunction with our environmental regulators to ensure effective investment that delivers the maximum improvement. Underpinning this approach is our full commitment to being open and transparent about our environmental performance. We were among the first water companies to provide disclosure 'on line' of our storm overflow data and we were at the forefront of installing monitors to capture this information. By April 2022 we had more than 99% of our overflows monitored, a considerable task bearing in mind we have one of the highest number of overflows of companies in England and Wales.

I would add that we are active in forming partnerships to tackle river quality improvement. The evidence in our operating area points to the fact that overall improvement can only be achieved if those sectors who influence river quality or cause pollution work together. To ensure we support this approach, in 2021 we voluntarily undertook an extensive exercise to identify and map sources of pollution on the rivers designated as 'Special Areas of Conservation' in Wales. Broadly in the Wye and Usk catchments where we have carried out modelling we have found that we are responsible for less than 30% of the orthophosphate loading, with agriculture and other sectors being responsible for the rest. From this type of investigatory work we will now seek not only to invest in those of our assets that are making a material contribution to our load, but also to work with others to achieve local sustainable solutions. A good example of this is taking place on the river Wye in Herefordshire where we form part of the local Nutrient Management Board and where we are developing 'wetlands' with Herefordshire Council to offset the additional phosphorus from planned new homes that would otherwise enter the environment. We will embed this approach within our operating area to enable long-term sustainable improvement.

OUR PERFORMANCE

Overall, we have delivered high-quality services to our customers in 2021-22 against our challenging AMP7 non-financial targets. In our clean water business we achieved our leakage target and for the second year in succession we saw improvement in our water network quality measures, which traditionally has eluded us. We remain an industry outlier for these water distribution parameters, especially for discolouration, as a result of the combination of a high pressure distribution system and the prevalence of iron mains as a feature of our industrial heritage. However, we can now see an improvement as our water quality zonal improvement plans are taking effect.

We are, however, disappointed that our broader water quality performance measure (Drinking Water Inspectorate – Compliance Risk Index, or CRI), has been impacted by an increased number of low level bacteriological failures at our treatment works and service reservoirs. Prior to 2021 we consistently delivered upper quartile performance for both of the elements of CRI and view this regression very much as a dip in performance rather than a potential trend. We have a strong recovery plan in place for 2022. We also struggled last year to meet our supply interruption target which was linked to two or three large diameter trunk main incidents rather than poor underlying performance. The pandemic has also seen per capita water consumption remain at an elevated level and we will need support from customers in reducing consumption if we are to achieve our targeted level of reduction by 2025.

Turning to our waste water business, we have achieved the majority of our annual targets, including our internal flooding target, which is particularly important given the impact on those customers affected. We have also improved our record on pollution incidents which is important given the degree of regulatory and public scrutiny of river water quality this year.

The capital programme in Year 2 of AMP7 has invested £334 million (2021: £353 million) as we deliver against our regulatory and stakeholder commitments and maintain our asset base. All our regulatory output targets have been met for 2021-22. Among these some significant schemes completed in the year, including bringing online the final stage of our Llanelli and Gowerton RainScape project with the introduction of two PFET (Peak Flow Equivalent Treatment) plants at Llanelli and Gowerton WWTWs. The new PFET processes are able to treat storm flows and significantly reduce our overflow spills to the environment. We have constructed and brought into service a new service reservoir at Bewdley Bank in Hereford, providing an additional 34Ml of storage, thereby improving the resilience of water supply to our customers in Herefordshire. Our impounding reservoir programme has continued with upgrades completed at Lluest-wen, Lower Carno, Alwen, and Ffynon Llugwy dams to bring them into full compliance with latest reservoir safety standards.

We have embarked on a programme of leakage repair work on our trunk main system and have completed over 100 complex leak repairs, saving over 25 Ml/d of water; that's the equivalent amount of water that would be needed to fill 10 olympic-sized swimming pools every day.

Following the completion of the replacement of the trunk mains running through the upper Rhondda Valley we are now making good progress on the nearby Rhymney Valley trunk main replacement scheme, making the populous valley networks more resilient and improving acceptability of water. We are also driving ahead with our zonal studies programme of removing or renovating old cast iron mains in the network and over the year have completed work in Abergele, Rhyl, north Cardiff, and Bridgend, all contributing to an improving trend in our acceptability of water measure.

We are making good progress on enhancing our visitor and recreational attractions with the reopening of a newly refurbished visitor centre at Llys-y-Frân, in Pembrokeshire - a £5 million investment. In addition to this we have started construction of the new visitor centre at Llanishen and Lisvane reservoirs in Cardiff which will open in 2023. This will complete our programme of five high quality recreational and water sports facilities across Wales. While our water and sewerage business has been stretched due to increased staycation demand during the pandemic, more people have enjoyed the facilities at our visitor centres and partner sites. In 2021 we saw over 843,000 visitors to our four visitor centres at Llyn Brenig in north Wales, Elan Valley in mid Wales, Llandegfedd in south east Wales and Llys-y-Frân in the west as well as two sites where recreational access has been improved at Lliw and Swiss Valley Reservoirs, also in the west. These sites were closed throughout the periods of lockdown restrictions in 2020-21. We have expanded our recreational activities in line with demand for supervised open water swimming, paddle boarding, and sailing. This is a really important and exciting additional aspect of the services we deliver for customers and the communities we serve. It is a very different but equally important public health provision targeted at wellbeing over and above our essential water and sanitation services.

Turning to customers, despite the financial uncertainty faced by our customers over the last 12 months, it is notable that this hasn't yet translated into any significant increase in households struggling to pay their bill, applications for financial assistance or overall debt levels. However, the impact of the increase in the energy price cap, the introduction of the Health and Social Care Levy which will uplift national insurance contributions by 1.25%, and the general cost of living rises, particularly in light of recent events in Eastern Europe, will present a more challenging environment for customers than the pandemic has done to date. Last year we increased the reach of our Priority Services Register to 8.1% of our customer base (2020-21: 5%) and we are now supporting over 144,000 of our customers with financial assistance. This places us in a very good position to respond to the likely increase in need that will arise as household finances are squeezed.

Customer expectations of water companies have grown exponentially and Welsh Water recognises it needs to rise to this challenge. We have seen the impact of this in the Ofwat 'C-MeX' survey results, where there was a downward trend in satisfaction levels since the second half of 2020. This was driven by the increase in household usage (and therefore bills) as a result of the pandemic and working from home. Overall customer satisfaction measured under the Ofwat C-MeX index, saw us achieve fifth place in 2021-22. We have done a lot to improve our communication with customers and the way in which we train our people, however we have put in place further improvement plans for 2022-23 and hope to improve from our overall position this year.

In terms of other key service measures we achieved an improvement in our score for reducing Internal Flooding events score, and maintained our B-MeX score. Overall our final ODI reward/penalty position for 2021-22 is expected to result in a penalty of £8.8 million (2020-21 £5.8 million).

We have not been immune to the financial impact of the pandemic. Rising inflation and other specific cost increases, such as power and material price rises, combined with stretching performance targets, have put real pressure on our cost base. Importantly, however, we have delivered all of our planned cost efficiency projects during the past year.

Excluding exceptional items, our operating costs have increased to £349 million (2021: £329 million) although we continue to maintain rigorous oversight of cost management. As a consequence of the significant increase in the rate of inflation, in particular the rising costs of power, chemicals and the materials needed to produce drinking water and treat wastewater, we confirmed in February that typical household customer bills would see an increase of between 3.8% and 6.6% from April 2022. While the 'Average household bill' will only increase by 0.1% this average includes the heavily discounted HelpU social tariff and is, therefore, not representative of the increases most customers will see.

We have retained our high levels of liquidity and low regulatory gearing in an uncertain environment, and our credit ratings remain among the best in the UK water sector.

PEOPLE

We have maintained a high standard of safety and employee wellbeing performance over the last year. During 2021-22 we saw some further improvements in our occupational health and safety performance. However, the RIDDOR accident rate increased slightly due to a small number of 'slip, trip and fall' incidents resulting in broken bones. This, combined with a reduction in the number of contractors, adversely affected this rate. Throughout the year, we have maintained a heightened focus on mental health and wellbeing. This is something we recognised was essential at the onset of the pandemic and that has continued into the subsequent two years. I am very pleased that we were awarded a RoSPA Gold Medal Award and retained our Welsh Government Platinum standard for our safety performance and occupational health and wellbeing arrangements, respectively, in 2021-22.

Since the onset of the Covid-19 pandemic at the start of 2020 we have not only experienced a period when we have seen the very best from our people but we have also witnessed a time when the whole world of work has changed beyond anything that has gone before in living memory. Over the last two years we have expended every effort to support colleagues through this unprecedented period of change.

CHIEF EXECUTIVE'S MESSAGE

From day one of the pandemic we have ensured a safe and secure working environment especially for colleagues in our operational business areas. Here, our colleagues have turned out every working day of this challenging period, often entering surroundings where their chances of contracting Covid were heightened, to assist customers or take action to protect the environment. It is with enormous pride that I highlight this and the fact that we have not had any confirmed instances of workplace transmission of the virus. For our other colleagues who were able to work from home, while for many people this has brought with it some benefits it has also been challenging, dealing with the impact of isolation, or balancing demands of home and work.

Over the two-year period, I have used my monthly CEO live call with the whole business to convey support and, as stages of the pandemic have unfolded, to engage with colleagues on how we plan to operate when it is safe to return to our offices and depots. During this time, we have issued over 60 Covid safety briefings and formed virtual colleague engagement groups to discuss and agree how the return will be achieved. From this we have a fully agreed plan with our people, and supported by our Trade Unions, which will see most office-based teams returning to the office with a '2–3' hybrid (two days in the office and three days homeworking) arrangement in place from June 2022. Our managerial support procedures for remote working, honed during the pandemic, will remain a priority for all colleagues who lead teams working in this way.

In 2021 we were able to reinstate our annual Employee Engagement Survey, (we were unable to undertake a survey in 2020 as our provider, hit by Covid, withdrew from the market). I am pleased to say that we had an excellent response with an 85% completion return and a 69% overall engagement score. While this is a slight dip in the score compared to pre-Covid results it confirms good levels of motivation and engagement in the majority of teams across the business. Some of the key engagement measures such as, 'I am proud to work for Welsh Water' at 83% and 'I would recommend working at Welsh Water' at 73%, remained at the high levels seen prior to the pandemic. Our challenge now is to focus on the areas for improvement and strive for even better engagement in 2022-23.

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 22 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.

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 backend 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.

> I WANT TO PAY TRIBUTE TO ALL MY COLLEAGUES FOR ENABLING US TO TURN THE OPERATING CONDITIONS OF THE PANDEMIC INTO WHAT HAS BECOME BUSINESS AS USUAL.

LOOKING AHEAD

Despite continuing to deal day to day with the pandemic, we made good progress in 2021 in terms of our longer-term strategy and improvement plans. During the year, it was very encouraging to see both the Welsh Government and Ofwat indicating that there would be a specific PR24 process applied in Wales to support our planning for the next five-year price control period starting in 2025. We are really pleased to hear this, as it will enable the priorities for customers and the environment in our supply area to sit at the heart of the regulatory review process.

For a number of years we have scoped our business plans to embrace the aspirations of the Wellbeing of Future Generations (Wales) Act 2015. This makes complete sense, as ours is a long-term business and the purpose of the Act is to encourage consideration of the decisions we make today in the context of what this will mean for those who follow us. This has particular resonance for us, especially in relation to investment to tackle our key risks such as climate change and the need to make our assets more resilient and less carbon intensive.

The COP26 event took place in September 2021 in Glasgow, and saw the publication of the Intergovernmental Panel on Climate Change reports which set out very starkly the imperative of climate change adaptation for businesses. Through the work of our Asset Planning team, including their approach to 'multi capitals' accounting and consideration of the risks and opportunities of climate change, we are increasingly focused on better understanding climate risks. This report also sees us report against the requirements set by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) for the first time and we have taken the opportunity to integrate this reporting process with our longer term business resilience planning.

During 2021, we met Julie James, the Minister for Climate Change at Welsh Government, and her team on a number of occasions to discuss joint priorities and objectives for the next regulatory period, AMP8, as we begin to develop our PR24 Business Plan. There is much commonality in our respective priorities.

Also during the year the Executive team has made good progress scoping our PR24 objectives and the first cut of our 2025-2030 investment plan. It will not be surprising to confirm that environmental improvement, climate change adaptation, and carbon reduction feature prominently in our initial high level proposals. In order to achieve the very best outcome over the long term for our customers and the environment, we set up in 2020 our new Asset Planning team and we are now seeing the benefits emerging from that. This team is helping us clarify our PR24 priorities, define the opportunities to improve performance, and establish robust business cases supporting the proposed investments. There is more to do to get our draft PR24 plan ready for submission in the autumn of 2023, but we are well on with this and making good progress. In 2022 we will consult on it with customers and other stakeholders, and fully engage with the PR24 Forum, consisting of the Welsh Government and key regulators, to seek collaborative agreement on the plan.

Turning to the shorter term outlook, our priorities are clear for fiscal year 2022-23. This is the reference performance year that establishes a base line for the PR24 regulatory review process, so there will be no let up in our focus next year on service and efficiency.

We very clearly recognise the growing public concern over river water quality and will continue with our approach of transparency of performance and proactive improvement in this important area. We will continue to engage with stakeholders and build effective partnerships to enable this to happen. We have already shown that we are more than willing to go the extra mile by helping other sectors, such as agriculture, with expertise and practical support to tackle pollution, and we plan to build on this approach. We have committed to investing £833 million to improve our wastewater assets, particularly CSOs on sensitive rivers, over the five years 2020-25. Working collaboratively with a wide range of organisations will enable us to play our part in addressing these issues most effectively.

PETER PERRY
Chief Executive

CHIEF EXECUTIVE'S Q&A

HOW WOULD YOU SUMMARISE THE LAST 12 MONTHS?

I am extremely proud of what we have achieved this year despite the ongoing challenges of Covid-19, unprecedented demand for our water and wastewater services due to unrivalled levels of 'staycation' as well as the impact of extreme weather events on our assets and networks. Despite all this, we have delivered a good service to customers, tackling some key areas such as leakage and pollution incidents and leading the way in Wales with our ambitious goals to achieve 'net zero' carbon emissions by 2040. As I referenced in my review, we still need to make improvements in some areas and both we as a company, and the wider sector, have faced intense scrutiny in terms of our environmental performance.

HOW HAS THE COMPANY DEALT WITH THE INCREASED LEVEL OF SCRUTINY OF THE SECTOR?

We know that customers want us to do more to protect the environment. There has been considerable focus on CSOs in recent months, and with monitors on over 99% of our CSOs we have been leading the industry in terms of the amount of data we have voluntarily published on their performance. In addition, we have committed to investing £833 million to improve our wastewater assets, particularly CSOs on sensitive rivers, over the five years 2020-25

While we will play our part it is important to recognise that there are many different factors that impact the quality of our rivers and that a multi-sector, multi-agency response is needed to drive further improvement.

HOW HAS THE COMPANY'S RESILIENCE BEEN IMPACTED OVER THE LAST 12 MONTHS?

After such a unique 2020 with lockdown restrictions, social distancing rules as well as managing the impact of Brexit and extreme weather events on our services, we had better hopes for 2021. Nonetheless, it's been another extremely tough 12 months for colleagues with the continuing impact of Covid-19 casting a shadow on our working and personal lives. The Company's resilience - our ability to anticipate, prepare for, respond and adapt not only to incremental change but also sudden disruptions, has been severely tested time and time again. I am proud of how we continue to respond to circumstances around us and rise to the different challenges we face.

WHAT DOES THE FUTURE HOLD FOR WELSH WATER?

We have an ambitious programme of investment to deliver in the remaining three years of this Asset Management Plan (2020-2025). Innovation, collaboration, and real ambition will be crucial, not just to the success of Welsh Water, but for the wider public good. We are also well underway with developing our Business Plan for 2025-2030. This work is underpinned by our updated long- term strategy Welsh Water 2050 and our longer-term mission to 'become a truly world class, resilient and sustainable water service for the benefit of future generations'. With the Welsh Government setting its own legislation, policies and expectations, we will continue to work closely with key stakeholders and the Welsh Government-led PR24 Forum to develop a bespoke plan informed by customers and tailored for Wales' needs.

HOW HAS THE COMPANY DEVELOPED ITS ESG STRATEGY OVER THE PAST YEAR?

Given our strong company purpose, which we incorporated into our corporate constitution through our Articles of Association in 2019, we were already committed to ensuring that Welsh Water is a wider force for good in all of our interactions with customers, communities, landowners and developers across our supply area. However, a renewed focus on Environmental, Social and Governance (ESG) issues and increasing interest from bondholder investors about our activities in these areas, led us to set up the ESG Committee as a Committee of the Board. The Committee is responsible for setting our ESG Strategy, reviewing our performance against a set of performance indicators relevant to Environmental, Social and Governance issues, and monitoring the quality of our corporate reporting of these issues, to ensure that we follow current and emerging best practice in this area. As part of this, we have reviewed our risk governance and the effectiveness of the business' consideration of climate-related risks and opportunities, and we have used our preparation for the first year of TCFD disclosures to ensure these issues are fully integrated into our long-term planning and strategy (see page 98).

OUR BUSINESS IN SUMMARY

WHAT WE DO

Serve:

- **3.1 million** customers

Manage:

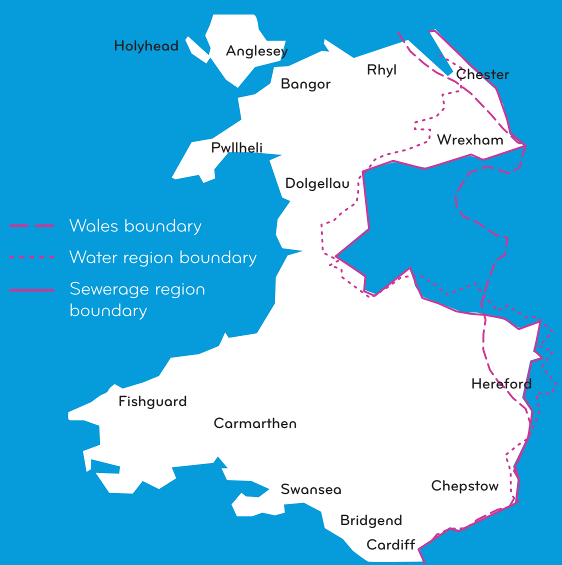
- **27,832km** of water mains
- **36,959km** of sewers
- **828** sewage treatment works
- **61** water treatment works
- **£30 billion** estimated asset replacement value

HOW WE DO IT

- A company 'limited by guarantee' since 2001 – unique 'non-shareholder' ownership model
- Single purpose - better value for customers and long-term stewardship
- High levels of investment funded through public debt markets
- Our non-shareholder model combined with low financial gearing levels results in lower financing costs
- Strong corporate governance (majority of Non-Executive Directors on the Board)
- 71 Glas Members (with no financial stake in the Company but who play an important corporate governance role as stewards of the business)

OUR OPERATING AREA

Welsh Water's supply covers most of Wales as well as parts of Herefordshire in England. Our sewerage area covers most of Wales and parts of Chester and Deeside.



WHO WE SERVE

We are the sixth largest of the 11 regulated water and wastewater companies in England and Wales, in terms of the population we serve.

HOUSEHOLD CUSTOMERS

We provide essential services to more than three million people across most of Wales, Herefordshire, and parts of Deeside and Cheshire. We offer customers in vulnerable circumstances the ability to register to receive priority service from us in the event of an incident, and we provide financial assistance to over 144,000 customers who struggle to pay their water bills. We pride ourselves on our customer service and we work to earn the trust of all our customers every day – the latest CCWater trust survey in July 2021 showed we had achieved our highest ever trust score of 8.30 (July 2020: 7.95). Customers rate trust on a scale of 1 to 10, where 1 is 'do not trust them at all' and 10 is 'completely trust them'.

COMMERCIAL BUSINESS CUSTOMERS

We have dedicated teams that support all our business customers, large and small. This includes around 110 customers who are participants in the competitive retail services for water (for water companies based wholly or mainly in Wales, only customers who use more than 50Ml per year at a single site can choose their water retailer). There are, therefore, around 110,000 business customers for whom we remain the monopoly provider. We provide a tailored service to those business customers who request our expert knowledge and support to ensure we meet their expectations and help them manage their water and wastewater processes. We also offer business customers a range of additional services that complement our core service provision, such as leak detection and network optimisation, and we offer advice on issues such as water quality and cold weather preparations. Over each of the last three years we have achieved an excellent business customer satisfaction rating of 88% in our independently run random customer surveys.

DEVELOPER CUSTOMERS

One of our key priorities is to provide the essential water and wastewater infrastructure and services to support and promote economic growth and development across our supply area. Our dedicated expert team supports our developer customers, whether concerned with providing new housing, commercial or industrial premises. The customer service experience of our developer services customers is measured by D-MeX, a new mechanism introduced by Ofwat in 2020-21. As at the date of publication, we estimate that we will be rated 11th in the sector for D-MeX in 2021-22 (2020-21: 12th) and we remain keen to further improve our D-MeX rating (see page 50). The team also supports the many major infrastructure projects being undertaken in our area, such as those relating to new highways and rail, that typically require investments in water and wastewater infrastructure totalling around £50 million in committed works on a rolling annual basis.

MARKET AND REGULATION

THE WATER SECTOR

The Water Sector in England and Wales comprises 11 Water and Sewerage Companies, of which Welsh Water is the sixth largest, and nine Water Only Companies.

Every day, over 50 million household and non-household consumers in England and Wales receive good quality water, sanitation, and drainage services.

Since the water industry was privatised in 1989, a regulatory framework has been in place to ensure that consumers receive high standards of service at a fair price. This framework has allowed companies to invest more than £130 billion in maintaining and improving assets and services.

Water and wastewater companies operating the public water and wastewater networks hold instruments of appointment as water and sewerage undertakers respectively, for the purposes of the Water Industry Act 1991, supplying water and wastewater services directly to customers connected to their networks.

REGULATORY FRAMEWORK

Details of our regulators are set out on page 26.

Our regulators cover financial and economic issues, environmental performance and compliance, water quality, and customer service issues.

We work closely with all of our regulators, and our own independent challenge groups (see page 55) to establish the key areas for investment in each five-year investment period (Asset Management Period – or AMP) and to balance short and longer-term investment needs of the business against the affordability of customer bills in each period.

Copies of the reports published by these regulators on Welsh Water's performance can be found on our website dwrcymru.com or on the website of the relevant regulator.

FUNDING CYCLE

The economic regulation of the water industry in England and Wales is based on price controls set by Ofwat on the amount that water and wastewater companies can charge for their services during each AMP cycle. The current AMP7 cycle covers 2020-25.

Ofwat undertakes a detailed Price Review process (currently PR24, to make funding decisions for AMP8 – 2025-30 – which will be finally determined in 2024). As part of the Price Review process, Ofwat undertakes a detailed review of costs, investment plans and the priorities set by the water quality regulator, the Drinking Water Inspectorate, environmental regulators – Natural Resources Wales and the Environment Agency. The process also takes into account the views of stakeholders such as the Department for the Environment, Flood and Rural Affairs (Defra) and the relevant Welsh Ministers, each of which publishes Strategic Priorities and Objectives Statements, and also takes into account views from CCWater and the outputs from customer engagement (see below for more information on Welsh Government).

The Price Review process is intended to reward companies for efficiency and delivering the outcomes and performance standards that customers expect. Companies generally retain a share of any savings attributable to efficiency, so that there is an incentive to make such gains. Our corporate structure and the fact that we do not have to pay shareholder dividends means that Welsh Water can use any surpluses it generates for the benefit of customers.

In December 2019 we received Ofwat's Final Determination in relation to our AMP7 plan, which set out our price controls with effect from April 2020, and the performance Outcome Delivery Incentives we need to meet over this AMP (2020-25). This report sets out our performance for year 2 of this five-year AMP period (see page 47 onwards for details of our performance in 2021-22 towards meeting these goals), and explains how we are planning for the next AMP (2025-30) (see page 38).

We plan our investments over these five-year AMP cycles. The current five-year investment plan for 2020-25 sets out what we are doing in this period towards meeting the objectives of our longer-term WW2050 strategy. When we prepare for each AMP we also engage with our customers to get their feedback on our plans for the future (see page 93).

WELSH GOVERNMENT

The Welsh Government is the devolved government of Wales.

The Welsh Government has powers to bring forward new legislation to the Senedd in respect of areas such as water, environmental regulation, and flood defences, and the Senedd may pass legislative consent orders in respect of UK parliament legislation which deals with such devolved areas. The Welsh Government has responsibility for executive powers, policy and legislation in most areas relevant to Welsh Water as a company which operates 'mainly' in Wales for the purposes of the legislation. The Welsh Government also works closely with Defra, which sets the relevant policy framework for English Water and Sewerage Companies.

Some of the key areas where policy and legislation has developed in Wales since the Government of Wales Act 2006 are in relation to non-household retail competition (which applies to a much more limited extent in Wales than for companies 'wholly or mainly' in England), charges for new connections for developer customers, and support for social tariffs.

MARKET AND REGULATION

THE FUTURE OF THE WATER SECTOR

The water industry continues to face significant pressures from the impacts of climate change and population growth, and the last year has continued to see growing public interest in environmental issues. Innovation will play a key part in helping us meet the challenges ahead of maintaining and enhancing the resilience of our services to customers, reducing our environmental impact while enhancing our environment and communities where we can, and balancing future investment needs with affordable bills.

In autumn 2021, the Welsh Government published Future Wales: the National Plan 2040 which set out its development framework for Wales. It is also due to publish its Strategic Policies Statement to Ofwat to support the next price review in 2024, and Ofwat has consulted on its own Long Term Strategy and Vision in recent months.

Our updated long-term strategy, Welsh Water 2050, sets out how we will tackle the challenges we face over the next three decades, and how we will prioritise these issues in order to ensure that Welsh Water remains resilient over the long term and that we can continue to deliver for our customers.

OUR REGULATORS

OFWAT
ofwat.gov.uk

THE WATER REDRESS SCHEME (WATRS)
watrs.org

HEALTH AND SAFETY EXECUTIVE
hse.gov.uk

WELSH LANGUAGE COMMISSIONER
comisiynyddygymraeg.cymru/english

NATURAL RESOURCES WALES AND ENVIRONMENT AGENCY
naturalresources.wales

gov.uk/government/organisations/environment-agency

DRINKING WATER INSPECTORATE
dwi.gov.uk

CCW
www.ccwater.org.uk

OUR ENVIRONMENTAL, SOCIAL AND GOVERNANCE FOCUS

The nature of the services we provide, and our clear purpose to support our communities and the environment, as set out in our Articles of Association since 2019, means that Environmental, Social and Governance issues are at the heart of what we do. For the full ESG Report please see pages 82 to 97.

ENVIRONMENT We are committed to reducing our overall environmental footprint, and to enhancing the natural environment in which we work wherever possible, in order to benefit nature and the communities we serve. Our performance in key areas in 2021-22 has been variable - in some areas we have beaten our target (internal flooding incidents, km of rivers improved) but in others we know we have more work to do (wastewater treatment works compliance, external flooding).

ENVIRONMENTAL PERFORMANCE – IN 2021-22

POLLUTION INCIDENTS:

Target (per 10,000km of sewer):
23.72

Performance:
23.17 Previous year: 21.46

WASTEWATER TREATMENT WORKS COMPLIANCE:

Target:
99.00%

Performance:
98.32% Previous year: 99.66

FLOODING INCIDENTS:

Target (internal flooding, per 10,000 sewer connections):
1.60

Performance:
1.36 Previous year: 2.05

Target (external flooding, per 10,000 sewer connections):
25.44

Performance:
26.27 Previous year: 25.82

> For other key metrics relevant to Environmental Performance, please see the performance scorecard on pages 47 to 53.

ENVIRONMENTAL PROTECTION: IMPROVING RIVER WATER QUALITY AND CONTROLLING PHOSPHATE POLLUTION

We are working with our environmental regulators and with local partners such as the Wye Nutrient Management Board to reduce our impact on rivers and to focus our investment in CSOs on areas where we can improve water quality.

OUR ACHIEVEMENTS:

KM OF RIVER IMPROVED:

Target:
5km

Performance:
94km Previous year: 5km

INVESTMENT IN CSOs TO IMPROVE WATER QUALITY:

AMP7 funding allocated:
£83m

Additional funding allocated from contingency funds:
£20m

INVESTMENT IN WASTEWATER TREATMENT WORKS TO REMOVE PHOSPHATE FROM DISCHARGES TO SAC (SPECIAL AREAS OF CONSERVATION) RIVERS:

£95m

In June 2021 the Board established an ESG Committee to oversee our ESG strategy and reporting. Welsh Water's long-term strategy, Welsh Water 2050 (see page 36), and our Wellbeing Commitments (see page 39) are entirely consistent with the ESG Strategy approved by the Committee in February 2022.

In March 2022 the Board resolved to support the Ten Principles of the United Nations Global Compact on human rights, labour, environment, and anti-corruption (for further information, please see page 95).

During February – April 2022 we worked with the consultancy firm, Jacobs, on an exercise to support the disclosures made on pages 98 and 99 in accordance with the recommendations made by the Task Force on Climate-related Financial Disclosures.

IMPROVING BIODIVERSITY

We made a commitment in our Biodiversity Plan entitled 'Doing the right thing for nature' that we would revise/update our current Biodiversity Plan and publish it by the end of 2020. We have now published our second Biodiversity Plan available at **dwrcymru.com/environment**

OUR ACHIEVEMENTS:

We were the first company in Wales to publish our biodiversity report 'Making time for nature' in 2017.

We committed to 30 objectives for improving diversity on our estate and we are piloting a net gain for biodiversity on key capital projects.

In 2020 we published an update showing we had made progress against all but one of our commitments. Our next update will be published in December 2022.

We are supporting two LIFE (EU) funded river habitat restoration projects worth £15 million led by NRW. These are in the Dee and SE Wales Rivers, including the Usk. The Usk is also part of an Ofwat innovation funded catchment project (with £1m being investment by the Ofwat fund on the Usk alone).

We are also investing in nature-based solutions, particularly in our catchment and waste water nutrient management work. For the future, we will mainstream nature-based solutions which can achieve our water quality targets and increase the resilience of our assets, and at the same time sequester carbon, reduce long-term running costs, enhance biodiversity, and create social and local economic capital.

CLIMATE MITIGATION: JOURNEY TO NET ZERO

Our 'Journey to Net Zero' strategy aims to achieve a reduction in our total carbon footprint (operational and embedded carbon) of 90% by 2030, compared to 2010-2011 estimated baseline of ~335kton (+/-15kton), and aims for carbon neutrality (or better) by 2040.

OUR ACHIEVEMENTS:

In 2021 the Glas Board approved the carbon reduction targets for Welsh Water and the associated roadmap to achieve these targets.
See **dwrcymru.com/netzero**

ENERGY SELF-SUFFICIENCY:

Target:

32%

Performance:

24% Previous year: 23%

Long-term target 50% (by 2050)

GREENHOUSE GAS EMISSIONS:

Performance:

111 ktCO_2

Previous year:

106 ktCO_2

Long-term target: zero (by 2040)

OUR ENVIRONMENTAL, SOCIAL AND GOVERNANCE FOCUS

SOCIAL

At the heart of our long-term strategy is our wider purpose – supporting our colleagues, customers and communities.

EDUCATION AND VISITOR ATTRACTIONS

Despite the pandemic, we have maintained our ambitious target to reach large numbers of 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 last year and even then were only able to reach smaller groups due to restrictions on the mixing of groups and classes within schools.

OUR ACHIEVEMENTS:

EDUCATION DELIVERED TO CHILDREN AND YOUNG PEOPLE:

Target:

72,000

Students reached:

46,000

Previous year: 6,000 - numbers affected by pandemic restrictions

VISITORS TO OUR VISITOR ATTRACTIONS:

Despite the Covid-19 restrictions (which closed our centres for a large part of 2021), we saw a high level of visitors to our centres during the months when the centres were open to the public:

Target:

675,000

Visitors:

843,000

Previous year: 295,000 visitors – numbers also affected by pandemic restrictions

ASSISTANCE FOR VULNERABLE CUSTOMERS

We provide proportionately more financial assistance to those customers who struggle to pay their bills than any other utility company.

We also maintain a Priority Services Register so that we can ensure we provide equivalent services to vulnerable customers during operational incidents.

OUR ACHIEVEMENTS:

CUSTOMERS RECEIVING FINANCIAL ASSISTANCE:

Target:

133,000

Actual:

144,000

Figures include those benefiting from social tariffs.

Previous year: 143,478

CUSTOMERS ON PRIORITY SERVICES REGISTER:

Target:

102,000

Actual:

116,000

(as at 31 March 2022 - not including the 300,000 temporarily added during the pandemic as a result of data sharing with Welsh Government which ended on 31 March 2022)

Previous year: 78,703

More generally, we have not maintained our performance against Ofwat's C-MeX customer service score in 2021-22; our overall score placed us fifth (2021: fourth). We are aiming to improve performance against this measure in 2022-23,

SUPPORTING OUR COMMUNITIES

We have followed up our original Water Resilient Communities projects in Maerdy/Porth with additional programmes in Rhyl and Rhymney Bargoed.

We have now partnered with over 50 local organisations in these areas to help us engage with local people, including providing advice on eligibility for social tariffs and other financial assistance.

OUR ACHIEVEMENTS:

200 customers referred for financial support leading to over £30,000 of savings on bills;

500 water efficiency devices sent to households;

6,000 children participating in education sessions;

50 hours of colleague volunteering;

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;

£9,000 of grant funding provided to local groups

CONTRIBUTIONS TO LOCAL FOODBANKS:

Actual:

£1,000

contributed to each of 100 food banks across Wales in 2021 (2020-21: donations made to 100 foodbanks).

OUR PEOPLE

Employee Engagement: we had 85% completion of our 2021 Engagement Survey, and despite the challenges of the last two years of working with pandemic restrictions, we achieved an engagement score of 69%.

Equality, Diversity and Inclusivity: our policies are supported from the top of the organisation – the Board, CEO and Executive team have all engaged directly with our Diversity Ambassadors during the year.

We are striving to improve our metrics on protected characteristics in our workforce, encouraging colleagues to provide data that we can use as a baseline to measure improvements in diversity and to consider reporting data on our ethnicity pay gap.

OUR ACHIEVEMENTS:

METRICS VOLUNTARILY RECORDED BY COLLEAGUES:

Target:

80%

Actual:

66.5%

of colleagues recorded their ethnicity data
Previous year: 45% (see page 94)

RECRUITMENT AND RETENTION:

Turnover across the business remains low at

1.29%

for the month of March 2022 (March 2021: 1.46%)

We are working with our key suppliers to improve transparency of employment practices and in 2021-22 key suppliers signed up to our Supplier Code of Conduct, incorporating reference to our Anti-Modern Slavery policy.

OUR ENVIRONMENTAL, SOCIAL AND GOVERNANCE FOCUS

GOVERNANCE

Since Glas Cymru acquired the business of Welsh Water in 2001, we have followed the UK Corporate Governance Code and worked to ensure good governance and informed decision-making at all levels of the organisation. We recognise that good governance needs to underpin all of our decision-making as a key part of our commitment to Earn the Trust of our Customers Every Day.

COMPLIANCE WITH HIGH STANDARDS OF CORPORATE GOVERNANCE

We comply with the UK Corporate Governance Code in accordance with our commitment to conduct ourselves as if we were a listed company (see page 118 for an analysis of compliance with the Corporate Governance Code on a 'comply or explain' basis).

We published a revised Board Diversity Statement on our website in February 2022 following Board approval, and this includes an aim to appoint at least one Non-Executive Director from a BAME background by 2025.

We work to ensure that our Board presents diverse skills, background and experience (see pages 130 and 131 of the Governance report) and that we take into account the views of stakeholders in our decision-making (see page 54 for our section 172 statement).

We have committed to supporting the Ten Principles of the United Nations Global Compact on human rights, labour, environment, and anti-corruption and report annually on our progress in these areas.

GOVERNANCE STRUCTURE AND SCRUTINY

'Critical friendships' and challenges to our decision-making from key stakeholders are an important part of our governance focus. Our Board of Directors, comprised of a majority of independent Non-Executive Directors, maintains an active interest in our Environment, Social and Governance strategy and performance against our objectives. In June 2021 the Board set up an Environment, Social and Governance Committee, which meets quarterly, to focus on ESG strategy and performance in support of the Company's overall strategy.

In addition, we are fortunate to have an active body of Glas Members (see pages 122 and 125) which meets at least twice a year and receives a detailed update from the Executive team on key performance issues.

We established the Independent Environmental Advisory Panel (IEAP) to support us to maximise the benefits derived from our investment programme for customers and the environment.

The Customer Challenge Group (CCG) critiques our Customer Strategy, providing independent scrutiny by household and business customer representatives. It also assesses our progress against the Wellbeing Commitments we published in 2020.

SETTING A RESPONSIBLE AND TRANSPARENT LONG-TERM STRATEGY: WELSH WATER 2050 REVIEW

In autumn 2021, we asked Cardiff University to undertake a fresh look at the wider context in which we provide our services, and the challenges ahead to be navigated in reaching our Welsh Water 2050 goals as first published in 2018.

This takes into account recent changes in the wider context, such as the impact of the Covid pandemic on our workforce and communities, the heightened awareness and impacts of climate change, and greater volatility in the wholesale energy markets.

We consulted with Glas Members in March 2022 and the review document was approved by the Board in March 2022 and published on our website in May 2022 (See page 36 and **dwrcymru.com/ourplans**).

ENSURING BEST PRACTICE IN REPORTING OF TCFD (TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES)

We have worked with Jacobs consultancy during 2021-22 to benchmark our reporting against climate change related risks and opportunities and to ensure compliance with the requirements of the G20's Task Force for Climate-related Financial Disclosures (TCFD) (see page 98 for our TCFD report).

We have built on our transparent disclosure of greenhouse gas emissions in previous years, and considered in depth the transition and physical risks relating to climate change, as well as potential opportunities and synergies relating to innovation and Research and Development initiatives, where we can work with others to adapt our business so as to find solutions to some of the most challenging issues facing the services we provide.

OUR LONG-TERM PLANNING

Welsh Water has published a long-term strategy – Welsh Water 2050. This outlines the key challenges and opportunities for the business over the next 30 years, and how we plan to respond to them to ensure a resilient and sustainable service over the long term.

WELSH WATER 2050

Five years ago, we announced our long-term mission, within Welsh Water 2050, to become 'a truly world class, resilient and sustainable water service for the benefit of future generations'. Welsh Water 2050 sets out the key trends and challenges that we face over the long term, informed by experts, academics and partners. In order to address these long-term trends and challenges we set out 18 Strategic Responses, and committed to update our strategy on a five-yearly basis, the first of which we undertook in 2021-22. The review considered the extent to which our 18 Strategic Responses are still fit for purpose, how far we have come, what has changed in the context within which we operate, and the implications for the next price review (PR24) for delivering against these Strategic Responses. Our updated view of the long-term challenges and opportunities is summarised below, and the full report is available at **dwrcymru.com/ourplans**.

We will use Welsh Water 2050 and the recent review as the basis of completing Ofwat's new requirement for companies to submit a long-term delivery strategy as part of the PR24 price review process. This will set out in detail the outcomes that we are aiming to achieve by 2050, and the key investments that will be required.

WELLBEING COMMITMENTS

We launched our Wellbeing Commitments in 2020 as a Wales-specific alternative to the Public Interest Commitments developed by the English water companies in 2019. Our approach was to develop Wellbeing Commitments aligned to the seven Wellbeing Goals identified in the Wellbeing of Future Generations (Wales) Act. Our progress against these was reviewed by the Customer Challenge Group (CCG) in July 2021 and a six-month update published subsequently in November 2021. For more details on our progress and the CCG feedback, see page 39.

Our review of Welsh Water 2050 highlighted the centrality of climate change in our future planning. We have therefore begun a process to build on this, in the process implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which will look specifically at the various drivers and impacts of climate change, and what they mean for the future of the business, both in terms of threats and opportunities. Our 2022 TCFD report is published and available at **dwrcymru.com/tcfd** - see pages 98 and 99 below for further details.

For 2022-23 reporting, after discussion and agreement with the CCG, we have integrated our Wellbeing Commitments with focus areas consistent with our ESG Strategy principles, to enable greater clarity of reporting against a single set of objectives.

LONG-TERM OPPORTUNITIES AND CHALLENGES

CLIMATE CHANGE

The increasing frequency and severity of extreme weather events such as drought and flooding. As is the case for all sectors, we will need to adapt our business to respond to more extreme weather and to manage the risks of transition, both those specific to our business and in wider society.

HOW THIS IS ADDRESSED IN OUR STRATEGY

Our long-term delivery strategy, which is under development, will be looking at where we need to prioritise investment, and do things differently, to manage the impacts of climate change. The impact on water supply and demand is managed through the Water Resource Management Plan, and flooding risk assessment is being developed under the new Drainage and Wastewater Management Planning framework.

DEMOGRAPHIC AND BEHAVIOUR CHANGES

The impacts of an ageing population and population growth. Changes to water demand and use patterns, including those due to tourism and home versus office working.

HOW THIS IS ADDRESSED IN OUR STRATEGY

We regularly review our Vulnerable Customer Strategy to ensure that the needs of elderly and vulnerable customers are being met. We are reviewing the implications of the major tourism influx to Wales that we saw last summer on water demand and waste water processing, to ensure provision is sufficient over the long term.

CHANGE IN CUSTOMER EXPECTATIONS

Growing customer expectations for rapid problem resolution and environmental responsibility. Reputational risks in an age of social media, especially regarding the environment.

HOW THIS IS ADDRESSED IN OUR STRATEGY

We have made several updates to our digital offering to customers to help meet growing expectations on customer service. Regarding customer views on our environmental role, our approach is to be transparent as to our performance, and prioritise investments to the biggest real long-term improvements to the environment, such as our focus on our contribution to river water quality. Our customer engagement programme ensures that we are listening to the views of customers and understanding their expectations and needs.

ECONOMIC FLUCTUATIONS AND STRUCTURAL CHANGES

Our planning includes preparation for responding to economic downturns and macroeconomic challenges, protecting affordability of bills for customers, and remaining resilient in the face of potential supply disruptions and changes to the structure of the economy.

HOW THIS IS ADDRESSED IN OUR STRATEGY

With low gearing and high liquidity we are in a strong position to withstand financial shocks. Affordability of bills for customers will be a primary concern as we balance the competing demands for future investment. We work closely with the rest of the industry on the risks of resourcing disruptions, as we did in the run-up to EU Exit.

ENVIRONMENTAL CHANGE

Invasive species, land use change and an increased risk of environmental pollution may lead to a reduction in water quality and biodiversity. However, co-operative approaches for the delivery of enhanced ecosystems services could lead to better environmental outcomes.

HOW THIS IS ADDRESSED IN OUR STRATEGY

We have a long-term programme of working with land managers and others in upstream catchments to protect raw water quality. We will be looking carefully at how we can make best use of our land holdings to support biodiversity, water quality and other benefits, particularly as post-EU Exit funding arrangements for such ecosystem services are rolled out.

During 2021-22 we launched our Biodiversity Strategy and we have encouraged colleagues from around the business to volunteer as Biodiversity Champions. While we are still in the process of establishing the baseline in order to measure progress in implementing the Biodiversity Strategy, we are also recognising opportunities to improve biodiversity on our sites and to achieve biodiversity gains by working with our partners and contractors across the capital projects investment programme.

PROTECTING ESSENTIAL INFRASTRUCTURE

The challenge of ensuring legacy infrastructure is fit for purpose given current and future operating conditions. Growing threats of cyberattacks and the importance of protecting customer data.

HOW THIS IS ADDRESSED IN OUR STRATEGY

We have a new Asset Planning function, which is examining how the condition of our assets is likely to change over time, taking account of climate change. Protecting critical assets will be a focus of the next price review. We have taken measures to further enhance our cyber security and protect customer data in the light of the increased risk resulting from developments in eastern Europe, and will keep this under regular review.

POLICY AND REGULATORY CHANGE

Costs and resource implications of climate change mitigation policies such as net zero carbon. Tightening environmental standards especially regarding the use of CSOs and biosolids recycling to land, but also drinking water quality and policies around river and bathing water quality. Opportunities created by the potential for regulatory innovation and better collaboration with stakeholders.

HOW THIS IS ADDRESSED IN OUR STRATEGY

We have announced our net zero carbon objectives and will be seeking support for our plan as part of the next price review. Our approach on environmental regulations is to work closely in partnership with our regulators to reach the best solution for customers and the environment. We are currently very much focused on river water quality, including the use of Combined Storm Overflows, and the regulations around the recycling of biosolids to land.

PROTECTING PUBLIC HEALTH

Ensuring safety of drinking water in the face of threats to raw water quality. Playing our part in helping to prevent and manage infectious diseases and pandemics, and ensuring our services are resilient to such threats. Adapting to changing societal expectations around healthy lifestyles and good mental health.

HOW THIS IS ADDRESSED IN OUR STRATEGY

We work closely with the Drinking Water Inspectorate to ensure any risks to drinking water quality are minimised. We now have an extensive programme of monitoring of wastewater to help government detect patterns of Covid-19 infections and other diseases. We are also helping to promote societal health and wellbeing with the opening of new visitor centres.

OUR LONG-TERM STRATEGY

WELSH WATER 2050

The first five-yearly review was undertaken over the last 18 months aimed at updating Welsh Water 2050 and ensuring that our long-term strategy is optimised given the latest view of the world as it is now and as we expect it to be in the future. Reviews such as this will keep the strategy current and feed into the preparations of our long-term delivery strategy.

Since 2018, we have seen several dramatic and unexpected 'shocks', including EU Exit, extreme weather events, and of course the Covid-19 pandemic. These have emphasised the importance of being adaptable and resilient as a business, and of keeping a close eye on current and future trends. In light of this we re-evaluated the Strategic Responses and confirmed that they remain sound as the best way of ensuring we can continue to provide a resilient and sustainable service over the long term. We amended the emphasis in Strategic Response 18 to recognise the evolution in the Company's ambitions around achieving net zero carbon emissions.

KEY ● On track ● At risk

FUTURE GENERATIONS ACT – WELLBEING GOALS

- A — A prosperous Wales
- B — A resilient Wales
- C — A healthier Wales
- D — A more equal Wales
- E — A Wales of cohesive communities
- F — A Wales of vibrant culture and thriving Welsh language
- G — A globally responsible Wales

STRATEGIC RESPONSES	STATUS
DRINKING WATER A B C G	
1. Safeguarding clean drinking water through catchment management	On track
2. Enough water for all	On track
3. Improving the reliability of drinking water supply systems	On track
4. Protecting our critical water supply assets	On track
5. Achieving acceptable water quality for all customers	At risk
6. Towards a lead-free Wales	At risk
CUSTOMERS & COMMUNITIES A B C E	
7. Working with customers and communities	On track
8. Ensuring affordability of services delivered to customers	At risk
9. Supporting customers in vulnerable circumstances	On track
10. Addressing our 'worst served' customers	At risk
11. Employer of choice	On track
12. Leading edge customer service	On track
13. Smart water system management	On track
ENVIRONMENT A B C G	
14. Supporting ecosystems and biodiversity	On track
15. Using nature to reduce flood risk and pollution	At risk
16. Cleaner rivers and beaches	At risk
17. Protecting our critical wastewater assets	On track
18. Achieving net zero carbon emissions by 2040 and promoting a circular economy (as updated)	On track

We reviewed progress against our Strategic Responses and found that in all bar six we were on track, identifying what was needed to be achieved to address those that we concluded were currently at risk. Read Welsh Water 2050 and the latest Welsh Water 2050 Review and Update document online at **dwrcymru.com/ourplans**

OUR PLAN FOR THOSE STRATEGIC RESPONSES NOT CURRENTLY ON TRACK

5: ACHIEVING ACCEPTABLE WATER QUALITY FOR ALL CUSTOMERS.

'Acceptability' of water refers to discolouration, odour or taste abnormalities. Our performance in this area lags most of the industry, with a primary challenge around discolouration from deposits accumulating in old cast iron mains pipes, which can then be released into drinking water. We are working closely with the Drinking Water Inspectorate who are supportive of the targeted approach we are taking, and we are achieving improvements. There are some things we can do 'upstream' to mitigate the problem, and we are maximising our effort in that area, but ultimately replacement of mains pipes is likely to be a major part of the long-term solution.

6: TOWARDS A LEAD-FREE WALES

This response means going beyond our core functions, replacing the customer-owned portion of supply pipes where lead is found. This investment outside our own network is part of our contribution to achieving wider societal and governmental goals. We are making solid progress in the current investment period (AMP7), despite a slow start due to the pandemic. But at the current rate of replacement we will not be able to replace all lead supply pipes by 2050. The rate of expenditure will need to increase, unless we can significantly bring down the unit cost, and we will need to continue to work closely with the Welsh Government, Public Health Wales and the Drinking Water Inspectorate.

8: ENSURING AFFORDABILITY OF SERVICES DELIVERED TO CUSTOMERS

While we continue to deliver a sector-leading social tariffs programme to support those customers who struggle to pay their water bills, our objective of ensuring the affordability of services over the long term is at risk in the current environment. Inflation is rising rapidly and the dramatic increase in energy bills in 2022 will put domestic finances under extreme pressure for many. Striking the right balance between delivering the solutions required to ensure long-term resilience and sustainability, and keeping bills as low as possible, will be all the more important at the next price review.

10: ADDRESSING OUR 'WORST SERVED' CUSTOMERS

All customers deserve a good level of service, and we are working towards this goal over the long term. At present, the disproportionate cost of solutions to address problems for very small numbers of customers is an obstacle to progress, especially in the face of wider challenges. On the wastewater service side, climate change is tending to increase repeat flooding events, and working against our target. We continue to engage with customers and stakeholders on striking an appropriate balance between competing priorities. Our 'WaterFair' scheme provides discounts on bills for customers who remain on our worst served registers.

15: USING NATURE TO REDUCE FLOOD RISK AND POLLUTION

Our Rainscape programme in Llanelli was an early example of how to apply low-carbon, nature-based solutions to a problem – excess surface water run-off. Our aim is to apply this same approach to other urban areas in Wales, to help adapt to the changing climate by slowing down the run-off into combined sewers during heavy rainstorm events, which can cause flooding and pollution. We plan to work with local authorities and other partners in future to develop more of these types of initiatives (see page 97 for details of how we are Working Collaboratively). The development of an accepted method of valuing such benefits, through our use of multi-capital accounting, will help us to work with partners to build a case for such investment in the longer term.

16: CLEANER RIVERS AND BEACHES

This area continues to receive enormous attention from the public, regulators and government as concerns over the state of health of rivers across the UK have grown, with the River Wye prominent among them. This is a complex area where water companies are just one of a number of important contributors to the situation, and where we are operating with imperfect information on causes and effects. Tackling this issue will require significant investment, but just as importantly, an approach to the problem which is joined up, well informed, long term, and focused on the most effective ways of minimising the impact of our services on the environment. This is the approach that we are taking, working alongside the Welsh Government, Natural Resources Wales and others.

OUR LONG-TERM STRATEGY

OFWAT LONG-TERM DELIVERY STRATEGY

Ahead of PR24 we are following new guidance from Ofwat to set out the specific outcomes that we intend to deliver by 2050, the external factors influencing our ability to do so, and the specific quantified investments needed to sustain and improve services to deliver those outcomes in the face of the challenges and opportunities. The outcomes will be developed collaboratively with regulators and other stakeholders in Wales.

This 'Long-Term Delivery Strategy' will follow adaptive planning principles, meaning that it will describe a 'core pathway', based on a set of baseline assumptions, and a number of 'alternative pathways' for investment responding to different future scenarios, based on specified 'triggers'. While it will necessarily remain a simplification of an uncertain future, the Delivery Strategy will facilitate engagement with customers and stakeholders to seek to strike the right balance between long-term needs and shorter-term affordability pressures, and will shine further light on the impact of climate change, technology, and other future trends.

Our Asset Planning team will play a crucial role here in assessing the impact of a changing external environment on the performance of our assets, and in evaluating the optimal investment pathways and options needed to sustain and improve performance, while effectively managing risk. It is already clear that climate change adaptation will be at the heart of our investment plans, as we respond to more extreme weather events and deal with droughts and floods on a more regular basis. There will also be an important role for climate change mitigation in order to adapt our operational processes and capital projects solutions to help to reduce our environmental footprint and to achieve our Net Zero Carbon strategy.

We are committed to working closely with the Welsh Government, Natural Resources Wales, and other stakeholders to optimise our Long- Term Delivery Strategy, ensuring fairness between current and future customers, and protecting services over the long term. In order to support this analysis, we plan to publish our updated Water Resource Management Plan later in 2022, resetting the baseline for water availability and abstraction, and our Drainage and Wastewater Management Plan, which is taking a strategic approach to assessing the long-term investment needs in our wastewater network in order to meet the challenges posed by climate change.

PLANNING FOR PR24

The business plan we put forward for approval by Ofwat at the next price review for 2025-30 (PR24) will cover the first five years of our Long-Term Delivery Strategy. As noted above, this will be developed through the Welsh Government led PR24 Forum, to help ensure that we achieve a balance, reached on a collaborative basis, between the affordability of customer bills and required investment.

WELLBEING COMMITMENTS 2020

We launched our Wellbeing Commitments in March 2020 as a Wales-specific alternative to the Public Interest Commitments published by the English water companies. Our approach was to develop Wellbeing Commitments aligned to the seven Wellbeing Goals identified in the Welsh Government's Wellbeing of Future Generations (Wales) Act 2015 (the 'Act').

Our Wellbeing Commitments mark out how we intend to realise the ambitions of the seven Wellbeing goals in the Act, bringing together the aims of our 2020-2025 Business Plan and the longer-term Welsh Water 2050 strategy. These commitments set out measurable targets to 2025 and beyond.

The Customer Challenge Group (CCG) reviewed performance against these Wellbeing Commitments at the half year and attended the ESG Committee to report back on the group's views of the Company's performance to date. The Chair of the CCG also discussed with the Committee the developments in the wider context during the two years since the launch of the Wellbeing Commitments. For future years' reporting, we intend to incorporate the Wellbeing Commitments within those targets we measure under the 10 principles of the ESG Strategy approved by the ESG Committee in February 2022, and we will report consistently on performance against this combined set of objectives. We will aim to ensure that our ESG objectives continue to be aligned with the Act's Wellbeing Goals.

The table below sets out in the left hand column those targets we set ourselves when we launched the Wellbeing Commitments in 2020, and the middle and end columns detail the progress we have made to date.

Key: 1 Ahead of target 2 On target 3 Target at risk (there is a risk that the 2025 target may not be achieved)
4 Behind target for where we need to be by 2025

WELLBEING COMMITMENTS	COMMENT	OVERALL GOAL
A PROSPEROUS WALES		
Keeping bills affordable We committed to keeping bill increases below inflation for each year up to 2025	• From 1 April this year our prices increased by between 3.8 and 6.6% for most household customers, given the significant increase in inflation over the past 12 months. We have not taken this decision lightly and kept increases as low as possible and fair for all customer groups. According to our regulatory settlement, there was scope to raise prices further, but we have tried to minimise any increase. We have absorbed as much as possible of our inflated costs, but we cannot absorb them all.	3
Providing the best service to developers We promised to build on our customer service offering for developers with a new system of automatic compensation	• Our Developer Customer Service Commitment has been in place since 2018 and provides automatic compensation payments where we fail to meet our service levels. This was extended to include New Appointments and Variations (NAVs) (new water and wastewater service providers) last year. We continue to invest significantly to improve our service to all developer customers and this should also support an improvement in our Ofwat D-MeX score. We await confirmation of our score for 2021-22 although we recognise that our scores compared with companies in England are disadvantaged by developers' reaction to building regulations in Wales that apply to our services.	3
Boosting Business Customer Satisfaction We aimed to maintain an upper-quartile ranking for business customer satisfaction as assessed by CCWater* *This measure is not currently available and was replaced with our own survey for business customers, albeit the survey has been disrupted as a result of the impact of the pandemic	• We achieved a score of 4.4 out of 5 in our business customer satisfaction survey this year. However, we would like to do even better. • CCWater published a survey in January 2022 – the sample comprised registered businesses, charities and public-sector organisations based wholly or mainly in England. Additional contacts were sourced from Welsh Water, which provided a list of all eligible organisations in Wales (customers using 50 ML or more per year at a single site). We achieved 100% for the survey question 'how satisfied or dissatisfied are you with your current clean water and waste water retailer' albeit this was based on eight responses given the restricted size of the eligible market in Wales.	2

OUR LONG-TERM STRATEGY

Key: 1 Ahead of target 2 On target 3 Target at risk (there is a risk that the 2025 target may not be achieved)
4 Behind target for where we need to be by 2025

WELLBEING COMMITMENTS	COMMENT	OVERALL GOAL
A RESILIENT WALES		
Reducing leakage in our network We committed to reducing leakage in our network by 15% during 2020-25	• Over the last 20 years or so, we have reduced water leakage by a third. We have achieved our reduction target for this year (although methodology for reporting is under review, see page 222) and remain on track to achieve a 15% reduction by 2025.	2
Making sure we're ready for future challenges We need to ensure our services can cope with future stresses such as extreme weather events We committed to doubling the amount of rainwater we divert from our sewer network by 2025	• While we have improved operational resilience with investment this year we did not meet our surface water removal target for the year because of the difficulty in identifying affordable relevant schemes. • We are working with Nutrient Management Boards for the Wye and Usk rivers to better understand the impact of discharges from Combined Storm Overflows (CSOs).	3
Working in partnership at catchment level We committed to working with agricultural and landowning partners at a catchment level to ensure optimal raw water quality	• Covid-19 has significantly impacted the delivery of our WaterSource drinking water catchment management programme (to be delivered by 2025). However, we are continuing to research how the quality of our raw water is changing and are working in partnership with local landowners and key stakeholders to deliver mitigations that will protect water quality in key catchments, such as the Brecon Beacons Mega-catchment.	2
A HEALTHIER WALES		
Increasing access and wellbeing across the areas we serve We committed to major investments in our visitor centres at Llys-y-Frân (Pembrokeshire) and Llanishen/Lisvane reservoirs (Cardiff) We targeted increasing the number of visitors to our attractions to 830,000 a year by 2025	• Our new visitor centre in Llys-y-Frân in Pembrokeshire opened in 2021 and has seen a significant number of visitors. • We have commenced construction of the new visitors centre at Llanishen/Lisvane. • We exceeded our target for visitors to our recreational facilities across our area in 2021-22 (843,000 visitors).	1
Supporting Refill Cymru We promised to work in partnership with the Welsh Government and the Water Health Partnership as part of Refill Cymru	• The introduction of Covid-19 related restrictions meant that we have been unable to make progress towards meeting this goal. Following the relaxation of restrictions we will be able to work with the Welsh Government to help support the provision of refill points for drinking water bottles and reduce dependency on single use plastics.	4
Helping protect and develop our people We committed to maintaining and building on our Platinum Corporate Health Standard	• 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. • 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.	2

WELLBEING COMMITMENTS	COMMENT	OVERALL GOAL
Removing lead pipes We targeted supporting 7,000 customers with lead supply pipe removal by 2025	• This programme has been delayed due to the Covid-19 pandemic as we have been unable to carry out work in customers' homes. However in 2022-23 we will be focused on making better progress towards meeting our AMP7 target of replacing 7,000 lead supply pipes by 2025.	3
A MORE EQUAL WALES		
Supporting customers who struggle to pay We committed to maintaining our progress in supporting low-income households with social (discounted) tariffs – benefiting more than 130,000 customers	• We currently support over 144,000 customers through our discounted tariffs and debt relief schemes. • Welsh water is industry leading in the number of customers in receipt of financial assistance.	2
Promoting Priority Services We targeted increasing the numbers of customers on our Priority Services Register to 100,000 by 2025	• We temporarily added over 300,000 customers in vulnerable circumstances to our Priority Services Register so that they could receive additional practical support in the case of any operational incidents arising during the pandemic. The agreement with Welsh Government to share the Shielded Patients List ended on 31 March 2022, and the details of these customers have been removed from our Priority Services Register. • We have also grown our Priority Services Register by an additional 37,600 households this year.	1
Social Mobility Pledge We committed to the Social Mobility Pledge	• Since signing up to the Social Mobility Pledge, we continue to implement our Welsh Water Resilient Communities project, providing targeted support to areas where Welsh Water aims to deliver extensive capital investment, but where this can also cause significant social, emotional and economic impacts on residents. We ensure that we connect with the local population on an educational, employment and engagement basis. So far, we have supported the Rhondda Fach, Rhymney, Bargoed and Rhyl areas, with Newport West identified for the next project. We are also working alongside the Prince's Trust to improve outcomes for local young people through the 'Get into...' programme. • Since July 2021 we have been capturing some basic data on social mobility to begin to build a picture of the candidates applying and succeeding in gaining employment with Welsh Water. • Welsh Water is an active member of the Cardiff Commitment, supporting Willow High and Cathays High (two high schools located locally to our Head Office) where we complete one support activity each quarter and we participate in the employer forum. Colleagues also delivered sessions for local feeder primary schools as part of the November 'Open your Eyes' week.	1

OUR LONG-TERM STRATEGY

Key: 1 Ahead of target 2 On target 3 Target at risk (there is a risk that the 2025 target may not be achieved) 4 Behind target for where we need to be by 2025

WELLBEING COMMITMENTS	COMMENT	OVERALL GOAL
Living Wage Employer We committed to build on our accreditation as a Living Wage Employer, promoting fair pay practices to our supply chain	• We continue to honour our commitment to be a Living Wage Employer and will increase all colleague salaries to at least the new Real Living Wage of £9.90 per hour from 1 April 2022. • We are working with our supply chain to promote fair employment practices. 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.	1
A WALES OF COHESIVE COMMUNITIES		
Community-based initiatives We promised to expand our Water Resilient Communities initiative	• See above under 'Social Mobility', which explains the focus of Water Resilient Communities project activities in Rhondda Fach, Rhyl and Rhymney/Bargoed. This place-based approach will now be repeated in Newport West, with preparations underway.	1
Educating future customers We targeted reaching up to 75,000 children by 2025 to help promote stewardship of our environment	• Despite Covid-19 restrictions impacting our ability to conduct face-to-face education lessons, with the lifting of restrictions we are confident of reaching our targets for 2022-25. During the pandemic we made innovations in our education provision to continue to engage with future customers despite the restrictions.	2
Providing opportunities for local people We committed to working with The Prince's Trust in our Water Resilient Community areas to promote 'Get Into' programmes	• We supported the Government's Kickstart scheme and provided six month placements in our operational, retail and finance departments. Three of the young people are now in full-time employment with us. • See above under 'Social Mobility' for details of our work with The Prince's Trust. We also supported 37 schools outreach events for years 7-13 at schools across our supply area during 2021-22.	1
A WALES OF VIBRANT CULTURE AND THRIVING WELSH LANGUAGE		
Encourage our Welsh identity We committed to providing an equally good service through the medium of Welsh or English. Target to increase the number of customers registered for our Welsh language service	• We encourage customers to sign up for our Welsh language provision. Currently we are behind our target as regards numbers of customers signing up for our Welsh language service but we are addressing this by encouraging greater engagement by customers through the medium of Welsh. See page 94 for details of the support we provide to colleagues to encourage the use of Welsh in our workplaces.	3
Supporting Welsh culture We committed to taking an active role at major Welsh cultural events	• Our activities in this area have continued to be severely restricted as all major events in Wales were cancelled for a second successive year in 2021 due to the Covid-19 pandemic. We are planning to support a range of events during summer 2022.	3

WELLBEING COMMITMENTS	COMMENT	OVERALL GOAL
Providing bespoke training to colleagues We promised to encourage the use of Welsh among colleagues and offer language lessons to those who wish to learn	• This year we continued with our Welsh language lessons for colleagues. These are delivered for beginners, intermediate and advanced. We have started a fortnightly Friday Morning 'Coffi a Clonc' to offer an opportunity for learners to come along and practise their Welsh language with Welsh-speaking colleagues.	2
Increasing inclusivity at work We promised to build on our partnerships with organisations such as Chwarae Teg, Stonewall Cymru and Disability Wales.	• We have continued to build on our partnerships this year – see our Social reporting section below on page 94 for further details.	2
A GLOBALLY RESPONSIBLE WALES		
Achieving carbon neutrality We committed to reducing greenhouse gas emissions and increasing our energy self-sufficiency to 35% by 2025, meaning we are independent of the electricity grid through a mix of self-generated and private wire schemes.	• Our new Advanced Anaerobic Digestion plant at Cog Moors in the Vale of Glamorgan is operational. This will help to reduce our carbon footprint and reduce charges for customers by deriving revenue from energy generation. However, we are behind on our plans to be independent of the electricity grid due to increased power requirements during adverse weather events in 2021-22 and to support increased water consumption as a result of 'staycations' in some areas. • Since we established our Wellbeing Commitments, we have committed to achieving net zero carbon by 2040 and launched our strategy to achieve this (see below, page 86).	3
Fair Tax Mark We committed to seeking accreditation with the Fair Tax Mark	• We have been accredited with the Fair Tax Mark – the gold standard for responsible tax conduct. We were the first company in Wales to be awarded this.	2
Tackling the global water challenge We promised to continue to support communities in Uganda to build sustainable and safe water and wastewater systems and provide hygiene education	• We continue to carry out smaller, socially distanced fundraising activities, in line with Covid guidelines, as well as continuing to support the WaterAid lottery which is open to all colleagues to join through payroll. • We are really grateful that many of our customers have chosen to respond to opportunities to support WaterAid highlighted in the leaflet we enclose with our annual bills. Since we partnered together on the water bill insert campaign in 1994, our customers have raised over £11 million for WaterAid. That means that over 700,000 people have been assisted with clean water, decent toilets, and good hygiene.	2

HOW THE BUSINESS RESPONDED TO THE CHALLENGES OF 2021-22

	OPPORTUNITIES AND CHALLENGES	OUR RESPONSE
Ongoing Covid-19 pandemic	• Ongoing financial and health and wellbeing impact on our customers, particularly those in vulnerable circumstances. • Need to adapt ways of working to ensure continuity of service while keeping workforce safe and following government guidelines. • Growth of UK-based tourism, creating summer demand spikes in tourist hotspots	We have continued with measures implemented in 2020-21 to provide extra support to household customers who are vulnerable or in debt. We maintained measures in place to protect the health of employees, with only limited return to office working. We have taken the opportunity to transform and optimise our office environments to capitalise upon the 'smarter way of working'.
Cost of living crisis	• Rise in inflation and cost of energy in particular could impact customers' ability to pay their water bills.	We continued to publicise our industry-leading social tariffs for customers who struggle to pay, and limited bill increases as much as possible. We will continue to monitor the situation closely as the full effect of energy price rises is felt in 2022-23.
Public and policy focus on river water quality and use of combined storm overflows	• Created a challenge to explain how we are tackling the issues, and to accelerate interventions where appropriate to reduce the impact of our activities in priority areas.	Our approach has been to be transparent about the problems where they exist and provide information to help customers and stakeholders understand the issue and the part that we play. We have worked closely with government and regulators to develop a long-term prioritised programme of investment focusing on making tangible improvements to river water quality and the wider environment.
Extreme weather events	• Storms Arwen (November 2021), and then Eunice and Franklin (February 2022) again posed major challenges to our operational teams. They provided further evidence of the growing frequency of extreme weather events as a result of climate change.	Our teams responded well and there was minimal disruption in services. We are building our understanding of the impact of climate change and will integrate the resulting insights into the development of our long-term plans.
Russian invasion of Ukraine	• It is too early to assess the full impact of the crisis on Welsh Water, but it is already pushing up energy prices further, and there are risks of broader security concerns, in particular relating to cyber security.	We have to some degree hedged against rising energy prices, which will cushion the impact in the short term. We are ensuring our protections against cyber attacks and other security threats remain strong, and will monitor the situation closely as it develops.
Responding to climate change	• Developing our Net Zero Carbon Strategy and our wider response to climate-related threats and opportunities, including our reporting as required by the Task Force on Climate-related Financial Disclosures (TCFD).	We launched our Net Zero Carbon Strategy in summer 2021 and have embedded consideration of our climate-related risks and opportunities into our long-term planning, establishing this alongside the TCFD reporting process.
Improving the resilience of water supplies	• We need to respond to regulatory notices to improve the quality of our drinking water in the South East Wales Conjunctive Use System (SEWCUS) and to ensure adequacy of supply against future demand.	We have continued to progress the development of our Cwm Taf Project to construct a major new water treatment works (see overleaf).

CWM TAF PROJECT – GOVERNANCE

THE PROJECT

One of the key long-term projects in our AMP7 investment programme is Cwm Taf, the project to construct a new water treatment works at Merthyr Tydfil, to replace three existing works at Pontsticill, Llwyn-on and Cantref. The project will deliver a new treated water storage tank, and all associated raw and treated water pipelines and pumping stations to feed the new works, and will also supply existing network configurations which will build greater resilience to current and future supplies. A public consultation took place during February and March 2022 to share the Company's proposals for the Project, including those proposals being developed to benefit the local community alongside the new treatment works. A project website is being updated with all the latest information at **dwrcymru.com/cwmtaf**

A Committee of the Board was established in December 2021 to oversee progress and recommend to the Board the necessary approvals and Board assurances required under Ofwat's Direct Procurement for Customers delivery model.

The Members of the Committee, which comprises a majority of Non-Executive Directors, and is chaired by the Chair of the Board are: Alastair Lyons (Chair), Graham Edwards, Jane Hanson (all Non-Executive Directors) and Peter Perry and Mike Davis. Other attendees include senior management from the operational, regulatory and procurement areas of the business. The Committee met twice during 2021-22 and five meetings are planned in 2022-23 to support the development of the project.

Llwyn-on water treatment works

Indicative visualisation of proposed Water Treatment Works from Morlais Castle 15 years after construction, with potential mitigation planting

OUR PERFORMANCE 2021-22

As a result of the continued impact of Covid-19, we sustained significant short-term absence issues during 2021-22, despite no traceable workplace transmissions. While this did not impact customer service, it led to additional pressure on colleagues, particularly those in specialist teams and/or in remote locations. We have continued to provide support through Wellbeing Champions across the business, 479 colleagues having now attended i-act training to promote positive mental health and wellbeing, and through our Employee Assistance Programme.

Summer 2021 saw a much greater number of 'staycation' holidays than we have experienced in the past, with greater tourist numbers and temporary campsites putting pressure on both water and wastewater services in some parts of our supply area, in particular in St Davids, Pembrokeshire, where we have since invested £2 million to increase resilience of the water supply.

Storms Eunice (which triggered a rare 'Red' weather warning across Wales) and Franklin caused significant operational disruption. These storms resulted in over 400 power outages to our assets, as well as significant flooding and wind damage. Thanks, however, to the diligence of local teams, the impact on services to customers was minimal.

We have seen significant supply chain issues caused by a combination of Covid-19 supplier issues, EU Exit and geo political developments, particularly affecting chemical supplies and energy costs. We have worked with the rest of the water sector to improve the resilience of chemical supplies, and our energy team has worked to limit the impact of escalating energy costs by further improving our supply of self-generated renewable power and forward purchasing our energy supply requirements (see page 100).

We are very conscious of the impact of the cost of living challenge on many of our customers who are financially vulnerable, and we have maintained our levels of support with advice on how to monitor water usage and better control water bills, and providing financial assistance to help with bill payments for industry-leading numbers of customers (see page 91).

We have seen an increase in RIDDOR Injuries to nine, compared to six in 2020-21, and the number of Lost Time Injuries (LTIs) at 22 was above target but was better than in the most recent pre-Covid year (2019-20: 28). During 2020-21, there were 15 LTIs. We have also seen fewer working days lost; 350 in 2021-22 (2020-21: 446 days). Many injuries were minor, resulting in under seven days off work and were due to slips, trips, falls, and manual handling incidents, which is similar to previous trends. Our Health and Safety performance is published annually in a separate report which can be found at **dwrcymru.com/handsreports**.

In November 2021, Ofwat and the Environment Agency wrote to all water and wastewater companies in England and Wales requesting information in relation to compliance with waste water treatment works' permit conditions concerning pass forward flow (or the amount of sewage treated at each location). We sent a detailed response to both sets of enquiries, explaining our previous disclosure of any compliance issues regarding these terms in our permits. In March 2022, Ofwat opened a formal investigation into five water companies in England. We have since received a request from the Environment Agency for similar information in relation to six additional treatment works, not included in the first request.

Our Performance table is set out overleaf and comprises 22 key Performance Commitments (PCs) set against our seven core customer promises.

In some cases the Internal Business Plan target for 2021-22 is either more stringent than the target in Ofwat's Final Determination of business plans for PR19 (FD), or lower than the FD target, where the latter is not considered realistically possible for the year's performance. This applies to the targets for Water Supply Interruptions, and Acceptability of Drinking Water, where Ofwat applied a target based on the performance of other companies across the sector, irrespective of company-specific geographical or other factors. In these cases, our internal business plan is as challenging as the Board considers realistic.

Of the total 56 PCs, 15 are common measures across all companies and the remainder are bespoke measures for Welsh Water. The 56 PCs comprise:

- 25 financial PCs (i.e. these have either rewards or penalties applying in the year depending on our performance to meet the Ofwat FD target for the year or the end of the AMP);
- 25 reputational PCs (i.e. no reward or penalty is applicable, but we strive to meet the target set for the year); and
- Six expenditure delivery PCs (i.e. there are penalties both for late delivery during the AMP and non-delivery at the end of the AMP of certain investment programmes 'ringfenced' under the FD)

More detailed reporting on all 56 performance targets can be seen in our Annual Performance Report at www.dwrcymru.com/annualperformancereport available from mid-July 2022.

Outcomes for pollution incidents and our CRI score are provisional only as we await final outcomes from regulators. Leakage and Per Capita Consumption outcomes are also provisional as we are reviewing our methodology for reporting against this PC (see page 222).

OUR MEDIUM-TERM PLANNING – AMP7 PLAN

AMP7 BUSINESS PLAN (2020-2025)

After consulting our customers about their priorities, we agreed with Ofwat a five year programme involving more than £2.0 billion in capital investment and made eight outcome commitments to our customers and colleagues based on the FD. Within these commitments there are a total of 56 targets that we want to achieve by 2025 that will benefit our customers, communities, and our environment. Our performance against 22 key performance targets is set out below, shown against (a) our internal business plan (IBP) targets for 2021-22, and (b) the relevant target for 2021-22 from the Final Determination (FD) set by Ofwat at the end of the PR19 price review process, for AMP7.

OUTCOME COMMITMENTS

1. Clean, safe water for all
2. Safeguard our environment for future generations
3. Personal service that is right for you
4. Put things right if they go wrong
5. Fair bills for everyone
6. Create a better future for all our communities
7. Resilience
8. Developing our people

OUR MEDIUM-TERM PLANNING – AMP7 PLAN

KEY PERFORMANCE COMMITMENTS

AMP7 OUTCOME

2024-25 ON TRACK TO MEET FD TARGETS

1 CLEAN, SAFE WATER FOR ALL

Providing a safe and reliable supply of water is the most vital aspect of our service to customers.

Performance Commitments	2020–21 ACTUAL	2021-22 ACTUAL	2021-22 IBP	2021-22 FD	ODI OUT/UNDER PERFORMANCE PAYMENTS 21-22	COMMENTS
Compliance Risk Index © Achieve upper quartile performance for water quality compliance according to the DWI's Compliance Risk Index (CRI) measure	4.17	9.85	2.90	0	**ODI penalty of £3.660m**	During 2021 we had 49 water quality compliance failures compared to 32 in 2020. These failures have generated a provisional CRI score of 9.85. This will remain provisional until the official score is calculated and published by Drinking Water Inspectorate (DWI) in July. **2021-22** Met IBP target ✗ **2024-25** On track to meet FD Target ✗
Supply interruptions Reduce the average number of minutes/ seconds that affected customers are without water	11:05	16:12	10:24	6:08	**ODI penalty of £6.139m**	The performance for the year out turned at 16 minutes and 12 seconds. This is above the Ofwat Final Determination target of 6 minutes and 8 seconds. Over 5 minutes of the supply interruptions were attributable to three major trunk main failures at Penarth, Port Talbot and Ross on Wye. **2021-22** Met IBP target ✗ **2024-25** On track to meet FD Target ✗
Acceptability of drinking water © Reduce the number of occasions on which customers contact us about the appearance, taste or odour of drinking water	2.70	2.44	2.64	2.07	**ODI penalty of £0.891m**	Our performance for 2021 was 2.44 contacts per 1,000 population against the Internal Business Plan target of 2.64 which was worse than the Ofwat Final Determination target for 2021-22 of 2.07 contacts. **2021-22** Met IBP target ✓ **2024-25** On track to meet FD Target ✗
Lead pipes replaced Identify and replace 7,000 lead pipes across our supply area	1,097	1,462	2,800	2,800	End of AMP ODI	Our performance during the year, of 1,462 lead pipe replacements, was below our Ofwat Final Determination target of 2,800, in part due to pandemic restrictions which meant we ceased all but urgent and essential works in customer properties. We are committed to recovering our position by the end of the AMP. **2021-22** Met IBP target ✗ **2024-25** On track to meet FD Target ✓

AMP7 OUTCOME	2024-25 ON TRACK TO MEET FD TARGETS
2 Safeguard our environment for future generations We take our responsibility for the environment every bit as seriously as our commitments to customers.	At risk of not achieving target

Performance Commitments	2020–21 ACTUAL	2021-22 ACTUAL	2021-22 IBP	2021-22 FD	ODI OUT/UNDER PERFORMANCE PAYMENTS 21-22	COMMENTS	
Treatment works compliance♦ © Improve wastewater treatment works compliance to 100%. Provisional figure awaiting confirmation from NRW	99.66	98.32	99.16	99*	**ODI penalty of £0.476m**	98.32% represents 10 non-compliant WwTWs and WTWs out of a total of 596 permitted treatment works (WwTWs and WTWs). There are 3 non-compliant WTWs.	
						2021-22 Met IBP target	✗
						2024-25 On track to meet FD Target	✓*
Pollution incidents Per 10,000km of sewer♦ © Provisional figure awaiting confirmation from NRW	21.46	23.17	23.72	23.74	**ODI reward of £0.101m**	Performance was worse than last year and the Final Determination target for end of AMP is very challenging.	
						2021-22 Met IBP target	✓
						2024-25 On track to meet FD Target	✗
Leakage♦ 3 Year Average % Reduction. Reporting methodology is subject to review	2.2	5.2	4.8	4.2	Reward deferred (see page 222)	Target for the year has been exceeded, however methodology for reporting is under review, see page 222.	
						2021-22 Met IBP target	✓
						2024-25 On track to meet FD Target	✓
Per capita consumption♦ 3 Year Average % Reduction Reporting methodology is subject to review (see page 222)	(5.2)	(8.9)	1.4	2.0	End of AMP ODI	Three year average consumption: 169 litres/person/day - has remained high following the pandemic.	
						2020-21 Met IBP target	✗
						2024-25 On track to meet FD Target	✗

Key: On target · At risk of not achieving target · Behind target

♦ Performance Commitments applied to all water companies across England and Wales, despite differences in geography and other circumstances between companies, which mean that performance outcomes will differ

© Calendar year measure.

* Ofwat Final Determination Deadband – Performance below the deadband would incur an ODI penalty.

OUR MEDIUM-TERM PLANNING – AMP7 PLAN

AMP7 OUTCOME	2024-25 ON TRACK TO MEET FD TARGETS
3 **Personal service that is right for you** We put particular emphasis on metrics such as customer satisfaction and customer trust and challenge ourselves to be consistently among the best performing companies in the industry.	At risk of not achieving target (amber)

	2020–21	2021-22			ODI OUT/UNDER PERFORMANCE PAYMENTS 21-22	COMMENTS
Performance Commitments	ACTUAL	ACTUAL	IBP	FD		
C-MeX♦ Customer Measure of Experience – Ofwat's comparative assessment of customer satisfaction.	4th	5th	Top 3	n/a	**ODI reward of £1.600m**	We missed our IBP target of coming within the top three of all water and sewerage companies in England and Wales. **2021-22** Met IBP target ✗ **2024-25** On track to meet FD Target N/A
D-MeX♦ (Data not available from Ofwat/Water UK until mid-June) Developer Measure of Experience – Ofwat's measure of customer service for new connection customers.	12th	11th	9th	n/a	**Not yet available**	This is a comparative measure across the sector, although the regulation of development differs in Wales in some important respects and our score reflects that we are required to uphold these differing regulations. **2021-22** Met IBP target ✗ **2024-25** On track to meet FD Target N/A
Business customer satisfaction Average score out of 5 from quarterly surveys	4.4	4.4	4.4	4.5	**ODI penalty of £0.125m**	A market researcher, Accent, undertook a random sample of 250 surveys for our non-household customers in each quarter for 2020-21. The average of these scores for the year was 4.4 out of 5. **2021-22** Met IBP target ✓ **2024-25** On track to meet FD Target ✗
Priority services for customers in vulnerable circumstances♦	5.5	8.1	7.2	5.0	Reputational Measure - no ODI	We temporarily added over 340,000 customers in vulnerable circumstances to our Priority Services Register so that they could receive extra support during the pandemic. **2021-22** Met IBP target ✓ **2024-25** On track to meet FD Target ✓

Key: On target · At risk of not achieving target · Behind target

♦ Performance Commitments applied to all water companies across England and Wales, despite differences in geography and other circumstances between companies, which mean that performance outcomes will differ

© Calendar year measure.

* Ofwat Final Determination Deadband – Performance below the deadband would incur an ODI penalty.

AMP7 OUTCOME	2024-25 ON TRACK TO MEET FD TARGETS
4 Put things right if they go wrong We know that we don't always get everything right for our customers first time. Our customers have told us that the very worst service failure they can experience is sewer flooding, and we are particularly committed to reducing the number of flooding incidents, both within customer properties and on land adjacent.	●

	2020–21	2021-22			ODI OUT/UNDER PERFORMANCE PAYMENTS 21-22	COMMENTS
Performance Commitments	ACTUAL	ACTUAL	IBP	FD		
Internal sewer flooding 💧 Measured per 10,000 sewer connections	2.05	1.36	1.60	1.63	**ODI reward of £1.154m**	We were pleased to see a reduction in the number of incidents in 2021-22. **2021-22** Met IBP target ✓ **2024-25** On track to meet FD Target ✓
Sewer collapses 💧 Measured per 1,000km of sewer	7.69	6.71	7.18	7.20	Penalty only measure – no ODI	We have good progress in proactively identifying obstructions and defects before they become service failures. **2021-22** Met IBP target ✓ **2024-25** On track to meet FD Target ✓
Total complaints Measured per 10,000 connections	122.1	28.2	UQ	UQ	Nil	Change in definition for 2021-22 reporting. **2021-22** Met IBP target ✓ **2024-25** On track to meet FD Target ✓

AMP 7 OUTCOME	2024-25 ON TRACK TO MEET FD TARGET
5 Fair bills for everyone Keeping bills as low as possible is fundamental to earning and maintaining the trust of our customers. From 1 April this year our prices will increase by between 3.8 and 6.6% for most household customers, given the significant increase in inflation over the past 12 months. We have not taken this decision lightly and tried our utmost to keep increases as low as possible and fair for all customer groups. According to our regulatory settlement, there was scope to raise prices further, but we have tried to minimise any increase. We have absorbed as much of as possible of our inflated costs.	●

Company level of bad debt % Uncollected revenue as a proportion of the total revenue billed	4.2	2.5	3.3	2.2	Reputational Measure - no ODI	We are monitoring levels of cash collection carefully as we are conscious that some of our customers may struggle to pay their bills as a result of cost-of-living increases. We have not yet seen a deterioration in collection rates or other key indicators to suggest increased levels of bad debt in the short term. **2021-22** Met IBP target ✓ **2024-25** On track to meet FD Target ✓

OUR MEDIUM-TERM PLANNING – AMP7 PLAN

AMP7 OUTCOME	2024-25 ON TRACK TO MEET FD TARGETS
6 Create a better future for all our communities Welsh Water is dependent on a wide range of partnerships to provide a resilient and high-quality essential public service for the future. Examples include partnerships with universities (through Welsh Water 2050 and our resilience work), farmers (on pesticide reduction), and environmental organisations (many of which sit on our Independent Environmental Advisory Panel). We also work with 300 partners to raise awareness of our services for vulnerable customers.	

	2020–21	2021-22			ODI OUT/UNDER PERFORMANCE PAYMENTS 21-22	COMMENTS	
Performance Commitments	ACTUAL	ACTUAL	IBP	FD			
Vulnerable Customers on Social Tariffs	127k	127k	208k	133k	Reputational Measure - no ODI	The number of customers receiving financial assistance has remained stable, however we are conscious that as a result of the cost-of-living crisis, the number of customers on social tariffs or receiving some other form of financial assistance may increase in the course of 2022-23.	
						2021-22 Met IBP target	✗
						2024-25 On track to meet FD Target	✓
KM of river improved	5	94	10	5	End of period ODI	This target goes to the heart of our strategy to improve river water quality, working in partnership with other bodies such as Nutrient Management Boards.	
						2021-22 Met IBP target	✓
						2024-25 On track to meet FD Target	✓
Community Education	5,800	45,600	72,000	72,000	**ODI penalty of £0.105m**	Following the impact that the pandemic had on our performance last year we have seen an improvement to 45,662	
						2021-22 Met IBP target	✗
						2024-25 On track to meet FD Target	✓
Visitors to recreational facilities	295k	843k	675k	675k	**ODI reward of £0.168m**	Many of our visitor attractions had to close during the pandemic. We saw an improvement to 843,000 visitors in 2021-22 once restrictions were eased.	
						2021-22 Met IBP target	✓
						2024-25 On track to meet FD Target	✓

Key: On target At risk of not achieving target Behind target

♦ Performance Commitments applied to all water companies across England and Wales, despite differences in geography and other circumstances between companies, which mean that performance outcomes will differ

© Calendar year measure.

AMP7 OUTCOME | **2024-25 ON TRACK TO MEET FD TARGETS**

7 Resilience

Strengthening resilience so our customers can depend on their water and wastewater services, both now and in the future, is a major feature of our business plan for 2020–25. Resilience is not just about assets – our plan follows the 'whole-business' approach to resilience.

	2020–21	2021-22			ODI OUT/UNDER PERFORMANCE PAYMENTS 21-22	COMMENTS
Performance Commitments	ACTUAL	ACTUAL	IBP	FD		
Unplanned outages This is a measure of asset health for water abstraction and treatment activities which measures temporary loss of peak production capacity, weighted by duration.	0.73	0.55	1.50	2.34	Penalty only measure – no ODI	Our performance in the year has improved against both our IBP target and the FD target. **2021-22** Met IBP target ✓ **2024-25** On track to meet FD Target ✓

AMP 7 OUTCOME | **2024-25 ON TRACK TO MEET FD TARGET**

8 Developing our people

Our people are our most important assets and ensuring they all return home safely at the end of every shift is our most important priority.

	2020–21 ACTUAL	2021-22 ACTUAL	IBP	FD	ODI OUT/UNDER PERFORMANCE PAYMENTS 21-22	COMMENTS
Reportable injuries The total number of injury reports under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) for employees and contractors.	6	9	8	8	Reputational Measure – no ODI	While the number of RIDDORS increased year on year and we did not meet our business plan or FD target, the number of Lost Time Injuries reduced compared to 2019-20 (last pre-Covid year). **2021-22** Met IBP target ✗ **2024-25** On track to meet FD Target ✓

S172 STATEMENT

The Directors are required to act in a manner which complies with their duties as set out in the Companies Act 2006. The relevant provisions of Section 172 of the Companies Act require a Director of a Company to act in a way they consider, in good faith, would most likely promote the success of the company. In doing this, the Director must have regard, among other matters, to:

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

Set out below is an overview of how the Board has performed its duties in this regard during this year (for further information, please see the Governance Report on pages 107 to 169).

Engagement with our stakeholders plays a vital role in our decision-making such that Boardroom discussions can take into account their interests and the impacts of our decisions. While we aim to maintain a diverse range of skills, backgrounds, and experiences on the Board, we also value hearing directly from our various stakeholders throughout the year. In 2022-23 the Board plans to seek new ways of engaging with different perspectives from our Customer and Communities stakeholder groups, including Developer Services and Suppliers.

Board members will join an online customer research forum in June 2022, and the Board plans to hear directly from the Chair of the Board of Trustees of the pension fund later in 2022.

THE BOARD'S OBLIGATION TO PROMOTE THE LONG-TERM SUCCESS OF THE COMPANY

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, addressing 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

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 details 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 and 125 of our Governance Report; our Members are drawn from across the supply area and the independent Member Selection Panel, chaired by Sir Paul Silk, aims to ensure a broad spread of background, skills and experience within the Membership. Debra Bowen Rees, one of our Non-Executive Directors, is a member of the independent Member Selection Panel and, therefore, 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). 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 Company's principal stakeholders. From 1 April 2022 the newly appointed Chief Risk Officer joined the Executive 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.

BOARD DECISION-MAKING IN RELATION TO OUR STAKEHOLDERS

DECISION	DISCUSSION TOPICS	ACTION TAKEN BY THE BOARD AS A RESULT OF STAKEHOLDER FEEDBACK
Net zero carbon strategy	Strategy to achieve net zero carbon by 2040; 'journey to zero' to publicise our commitment to reducing operational and embedded carbon emissions.	Net Zero Carbon Strategy reviewed by the Board; detailed plan and risks to its achievement reviewed by the ESG Committee and assumptions challenged to ensure the plan is robust and meets regulator and customer expectations.
CSO Strategy	Historical and current stakeholder views; increased customer awareness of environmental issues; aesthetic issues and watercourses as amenities.	The Board reviewed issues concerning CSOs in May, September and December 2021. As a result, an additional £20 million investment was committed by the Board to be invested during AMP7 to tackle problem overflows; an Environmental Communications group was set up and a CSO Roadmap was developed to address water quality issues.
How to structure our charges	Increase in household customer bills above the rate of inflation for the first time in 12 years.	Consideration given to how to minimise the level of charge increases and how these would impact different customer segments: focus on messaging around the increase to include signposting to financial assistance information.
Future Engagement with Customers and the role of the Customer Challenge Group	The Customer Challenge Group (CCG) was set up in AMP6 to represent customer views in the price review process. While Ofwat is no longer mandating a challenge group of this nature, the independent challenge and opportunity for review provided by this Group is valued by the Board.	Peter Davies, the Chair of the CCG, presented the views of the Group regarding its future role to the Board and also provided the ESG Committee with a review of the Company's performance against its Wellbeing Commitments (see page 39). The Board agreed the future role of the CCG in relation to an annual review of performance against the Company's ESG Objectives (see page 82).
Cwm Taf Water Treatment Works Project	A project committee was set up by the Board to monitor the progress of the Project under the 'Direct Procurement for Customers' delivery model set by Ofwat (see page 45).	The Committee received regular updates from the Project team on engagement with Ofwat, Merthyr Tydfil Council, Welsh Government and the local community, including the Cyfarthfa Foundation, which influenced future planning for the Project. The Committee made suggestions for the format and content of public consultation on the Project.
Strategic Review of Commercial business	The Board reviewed the relationship with Cardiff Council with respect to the operation of the food waste plant by Welsh Water Organic Energy Limited.	The Board took into account in its evaluation the feedback from the management team on the improved relationship with Cardiff Council and the improved performance of the food waste plant.
Metering and Per Capita Consumption (PCC) Strategies	The Board considered the views of the Welsh Government, Ofwat, CCWater, EA and NRW and also took into account the feedback from customers in customer research carried out in 2017 and 2021, in agreeing a proposed strategy.	Key elements of the metering and PCC strategy took into account the views of customers, regulators and the Welsh Government, including working to increase awareness of the importance of water efficiency through our education programme in schools and working with customers to reduce leakage and raise awareness of consumption issues through our Project Cartref programme.
People strategy and culture survey	Culture survey carried out by a third party consultant and engagement survey of whole workforce undertaken by a new provider.	Employee engagement action plan developed to reflect the outputs from the engagement survey which was open to all employees and the culture survey which involved extensive interviews with individuals drawn from teams across the business.

FINANCIAL REVIEW

SUMMARY

Robust financial performance, a strong financial position, and sector-leading credit ratings bring significant benefits to the 3.1 million people Glas Cymru serves across most of Wales, Herefordshire and Deeside as we continue with our five-year, £2.0 billion, investment programme.

FINANCIAL HIGHLIGHTS

- Sector-leading credit ratings
- Liquidity of £715 million (2021: £421 million)
- Gearing at 58% (2021: 60%)
- Customer reserves of £2.7 billion (2021: £2.4 billion)

OPERATING CASH FLOWS

Glas Cymru's revenue less underlying operational expenditure is 4% higher than last year, higher revenue having been partially offset by operating cost pressures (3%).

Revenues are higher (by £32 million or 4%) driven by price adjustments, growth and increased consumption for non-household customers, as well as recovery from last year's Covid-related suspension of fixed charges to non-household customers.

Underlying opex, including other operating income, is £14 million (4%) higher than last year reflecting cost pressures in power, as well as additional operational costs following hot weather intervals and high demand during the summer.

An exceptional credit of £4m is recognised as part of a Covid-19 bad debt provision release. Further information on the movements in the bad debt provision is discussed in the operational expenditure section. Exceptional items last year of £34 million related to the impact of Covid-19. We consider £2 million Covid-related costs incurred this year now form part of our ongoing operating expenditure.

Net borrowing costs (excluding fair value movements) have risen significantly, by 51%; lower cash interest following bond refinancing (a £14 million or 13% annual reduction) has been outweighed by the cash and non-cash impact of higher Retail Prices Index inflation on our index-linked debt (£82 million).

Net capital investment totalled £334 million for the year (2021: £353 million) and we remain on track to deliver our £2.0 billion five-year investment programme by March 2025.

STRONG FINANCIAL POSITION

We had total available liquidity at 31 March 2022 of £715 million (2021: £421 million) and we are fully funded to the end of the current regulatory period in March 2025.

Our regulatory gearing at 58% (2021: 60%) remains within our target range of around 60%, supporting a solid investment grade credit rating.

'Customer reserves' (the Company's regulatory capital value less net debt) now stand at over £2.7 billion.

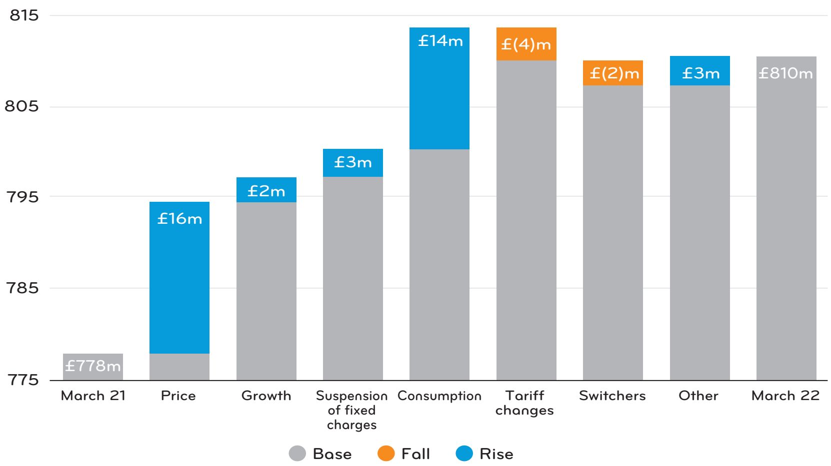
REVENUE

Glas Cymru's turnover in the year to 31 March 2022 was £32 million (4%) higher than last year at £810 million (2021: £778 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.

YEAR-ON-YEAR REVENUE MOVEMENTS (£m)



OPERATIONAL EXPENDITURE

Glas Cymru incurred total operational costs (excluding exceptional items, infrastructure renewals expenditure and depreciation) of £349 million (2021: £329 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.

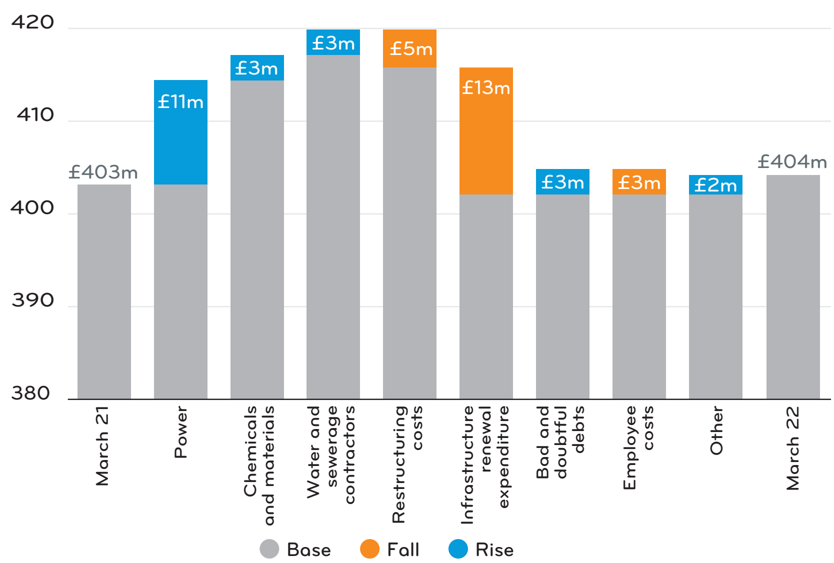
We have experienced a number of cost pressures during the year, mainly relating to rising energy prices driven by the pandemic and the crisis in Ukraine increasing net energy costs by some £17 million. A period of warm, dry weather in the summer saw increased demand for water leading to additional costs 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 £20 million 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 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.

YEAR-ON-YEAR OPERATING EXPENSE, OTHER OPERATION INCOME AND INFRASTRUCTURE RENEWAL EXPENDITURE MOVEMENTS (£m)



FINANCIAL REVIEW

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 a 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.

EXCEPTIONAL ITEMS

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 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.

OPERATING PROFIT

Operating profit is higher than the prior year at £81 million (2021: £7 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.

FINANCIAL EXPENSES

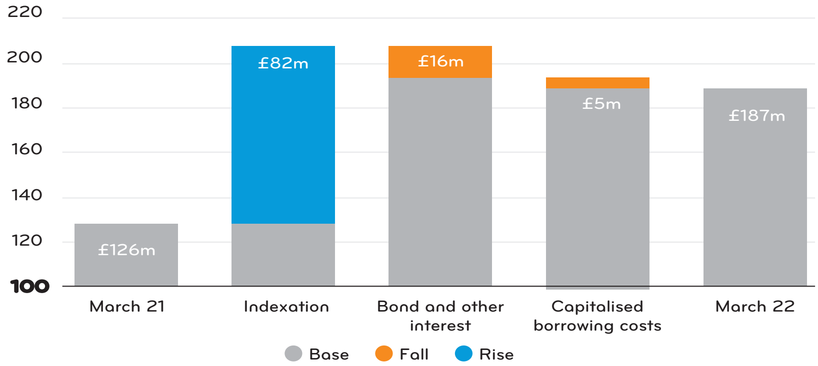
The amount we paid to service our debt, also referred to as net interest payable, totalled £183 million for the year (excluding accounting losses on derivative values). This is 51% higher than the previous year (£121 million), primarily as a result of the impact of higher Retail Prices Index (RPI) inflation 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).

FINANCING

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.

YEAR-ON-YEAR INTEREST MOVEMENTS (£m)



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).

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 £1 million (2021: £1 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 £8 million, compared to last year's tax credit (2021: £22 million credit). The tax charge of £8 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

Glas Cymru 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/taxstrategy**. 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.

FINANCIAL REVIEW

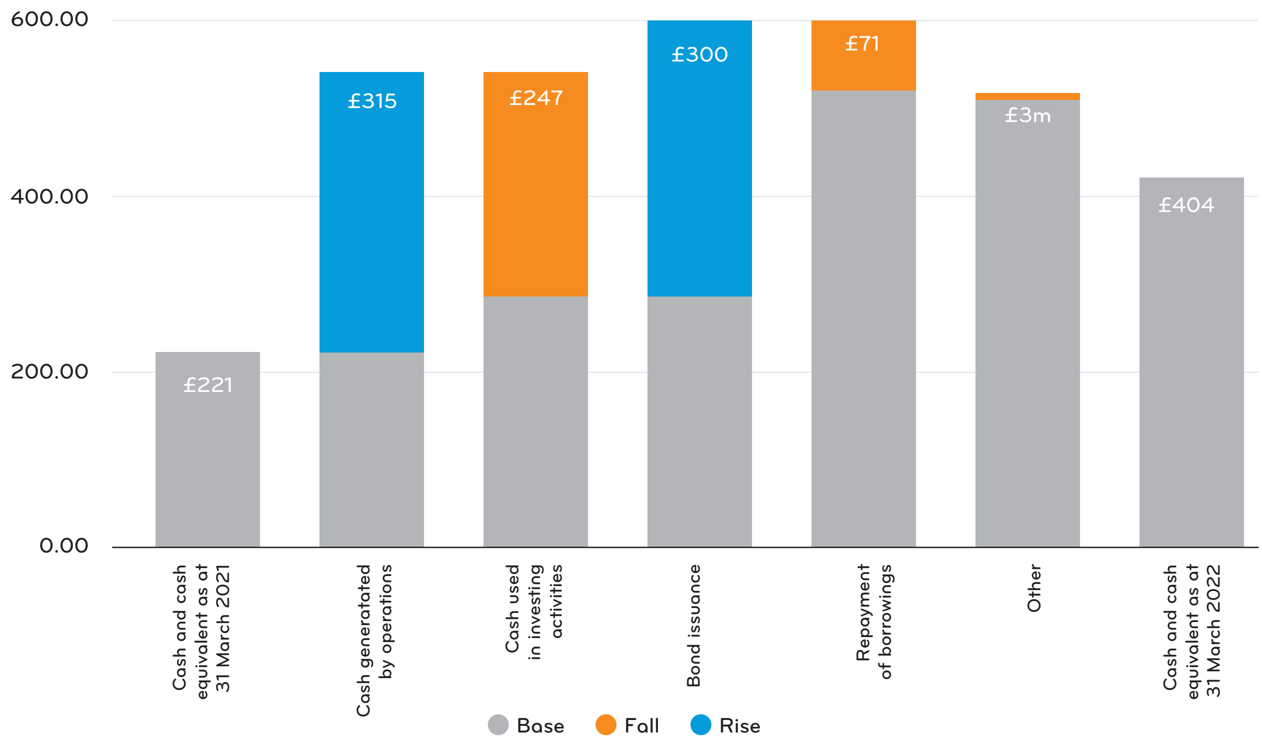
CASH FLOW

Net cash generated from operating activities for the year ended 31 March 2022 totalled £315 million, which increased from the £240 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: we drew down a new £300 million bond issue in April 2021 (2021: outflows of £388 million included a repayment of £325 million bonds which matured at the end of the year.)

A SUMMARY IN THE MOVEMENT IN OUR CASH FLOWS (£m)

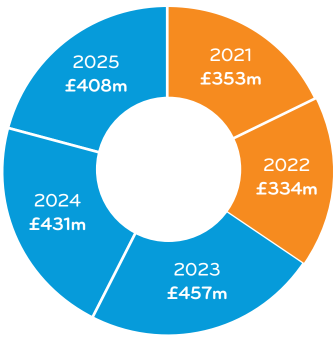


CAPITAL INVESTMENT

Our 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.

AMP7 CAPITAL PROGRAMME (£2.0b)



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.

NET ASSET POSITION

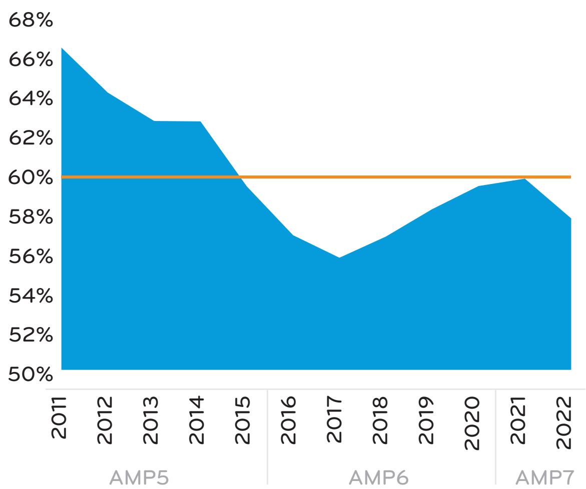
The consolidated balance sheet shows net assets of £1,113 million at 31 March 2022 (2021: £1,067 million):

- the net book value of property, plant and equipment has risen by £454 million (8%), a consequence of revaluing the Group's asset base to Dŵr Cymru's regulatory capital value;
- Cash balances are £294 million (133%) 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%; and
- Non-cash fair values of derivative financial instruments have risen 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, referred to under financial expenses above, the Group held net assets of £1,708 million (2021: assets of £1,549 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 £715 million (2021: £421 million), including cash balances of £515 million (2021: £221 million).

FINANCIAL REVIEW

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

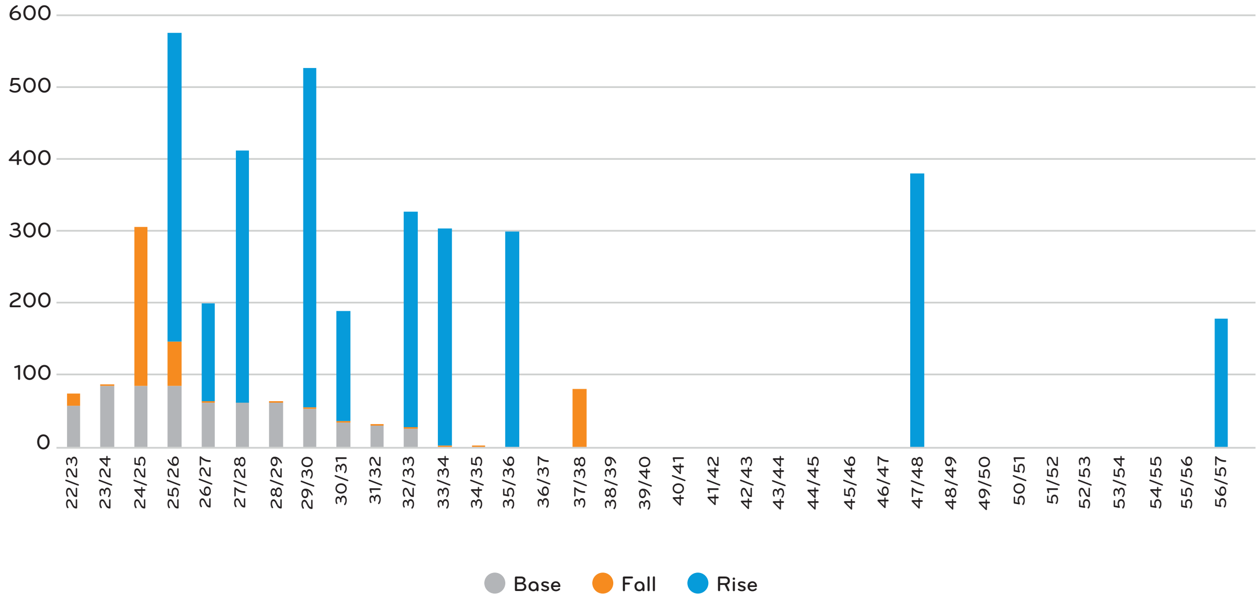
Glas Cymru credit ratings are among the highest in the UK water sector, reflecting our strong level of creditworthiness. Our rating agencies have issued rating updates, noting that the pandemic does not have a material impact.

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.

DEBT PROFILING



DIVIDEND POLICY

Glas Cymru Holdings Cyfyngedig is a company limited by guarantee and does not have share capital, therefore no dividends are paid outside the Group. Our not-for-shareholder constitution means that value created in the business is used for the benefit of customers to support social tariffs and to increase investment in assets to provide our essential services.

DŴR CYMRU CYFYNGEDIG – APPOINTED BUSINESS

In March 2016 the Glas Board approved a dividend policy to permit up to £100 million of funds to be distributed within the Group, but outside the regulatory ringfence, to facilitate the funding of commercial projects.

In line with this Policy, intra-Group dividends totalling £30.2 million were paid in 2016-2017.

No further intra-Group dividends have been paid since then and none are expected to be paid in the foreseeable future.

In the event that the Board considers such dividends in the future, it has confirmed that it will take into account the extent to which the appointed company is achieving its performance commitments for service delivery to customers and other regulatory obligations, and its other commitments at PR19 in respect of issues to be taken into account in making any decision to pay a dividend. A revised Dividend Policy was approved by the Board in February 2022 and by Ofwat in April 2022. See **dwrcymru.com/dividendpolicy**."

RETURN OF VALUE

Our corporate structure enables financial surpluses to be used for the benefit of customers. The Board seeks to return value to customers while maintaining gearing at around 60% and preserving strong credit ratings and financial resilience for the longer-term benefit of customers.

Since 2001, Glas Cymru has returned over £450 million to customers through additional investment, social tariffs and direct rebates. Where funds have been reinvested to enhance customer service, there is a direct link between these investments and improved service delivery.

Given the outcome of the PR19 regulatory price review, combined with the exceptional costs incurred during the pandemic and ongoing economic uncertainty, we have been limited during AMP7 in our ability to apply surplus for the benefit of customers, but will continue to support the social tariff programme with a contribution of £12 million in 2022-23.

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. Further information on the Directors' going concern assessment is provided in the basis of preparation section on page 186.

EVENTS AFTER THE FINANCIAL YEAR-END

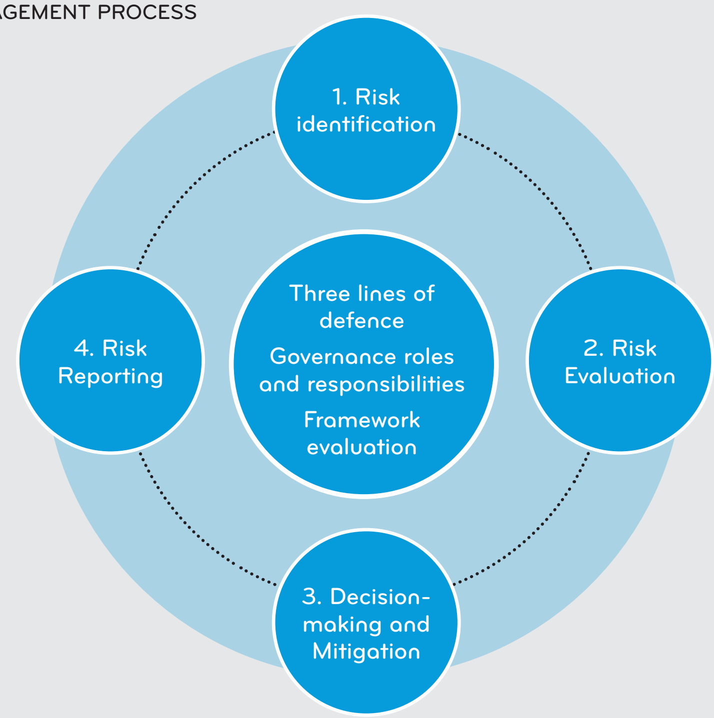
No material transactions or events have occurred post year-end which impact on the Group's financial statements for the year ended 31 March 2022. We have taken into account the estimated impact of the pandemic and other economic factors on the valuation of the Group's balance sheet as at 31 March 2022 and discuss the impact on our operations and performance on page 44. We have set out in our long-term viability statement on page 77 the estimated impact on our financial forecasts.

OUR APPROACH TO RISK MANAGEMENT

Welsh Water Enterprise Risk Management Process – how we manage and report risk across the business.

During the year, the Board approved an enhanced Enterprise Risk Management (ERM) Framework. The ERM process describes how risks are identified, evaluated, mitigated, monitored and governed across Welsh Water. We have introduced this within the business during the second half of 2021-22 and we are now monitoring its impact on the Company's risk management and reporting. This is illustrated below.

ENTERPRISE RISK MANAGEMENT PROCESS



THE THREE LINES OF DEFENCE

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

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

Second Line
Specialist control functions and internal governance bodies provide the frameworks for, and monitor and support effective risk management by the first line and ensure the flow of information on risk up and down the organisation, including risk escalation protocols.

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

First Line	Second Line	Third Line
All employees	Risk Team	Internal Audit
Business area and asset managers	Dŵr Cymru Executive	
Project managers	Governance Groups and Committees	

The Board and Audit Committee sit outside the Three Lines of Defence and receive reports and assurance from the three lines.

RISK MANAGEMENT OVERSIGHT

The role of the Board is to oversee the system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound Risk Management Framework which includes risk identification, assessment, mitigation, and monitoring throughout Welsh Water at an asset, project, function and strategic level. It is also responsible for ensuring that Group policies which address specific risk areas are aligned to the Group's risk appetite and clearly inform the business as to how it should conduct its activities to remain within the risk appetite.

LEADERSHIP AND COMMITMENT

Risk management is integrated into organisational activities and governance, with responsibilities and accountabilities assigned at appropriate levels within Welsh Water.

ROLE OF THE BOARD

- Define and agree a clear, documented risk appetite
- At each Board meeting, review the Executive team's overview of strategic and any emerging risks affecting the business
- Regularly review the Company's principal risks and ensure that they are mitigated and managed in line with risk appetite
- Review and place reliance on the work of the Audit Committee in its review of the effectiveness of the ERM framework and associated processes
- Carry out in-depth review of strategic risks twice a year (May and November Board meetings)

ROLE OF THE AUDIT COMMITTEE

On behalf of the Board:

- Review the effectiveness of the risk management processes and procedures and report to the Board on the reliability of these processes and frameworks
- Oversee risk management processes at the highest level, ensuring that all areas of risk are being overseen, mitigated, and reported on appropriately within the Company
- Receive assurance as to the effectiveness and reliability of management's oversight of the individual areas of the business/other committees that are performing risk oversight, and provide a recommendation to Board that it is satisfied with the governance and oversight being provided
- Receive assurance reports from the Internal Audit function that the risk management framework is effective and reliable including reports from both first and second lines of defence

ROLE OF THE GROUP CHIEF EXECUTIVE

- Under delegated authority from the Board, the Group Chief Executive Officer (CEO) has the role of proposing the strategic risk assessments, including risk appetite, to the Board and Audit Committee which the Board considers, modifies where appropriate, and then approves
- The CEO is responsible for ensuring that a system of risk management and risk governance is maintained at management level to ensure effective internal control of the operations of the business, to inform decisions on financial and operational planning, and to assist in achieving objectives and targets

ROLE OF THE WELSH WATER EXECUTIVE TEAM

To fulfil the role of an Executive Risk Committee by providing second line of defence oversight and challenge to enterprise risk management, including:

- To discuss strategic risks before each Board meeting and prepare reports to the Board that highlight key changes
- To review the Risk Register Quarterly Activity Report and consider whether any action is required, reassessing strategic risks in light of this report
- To highlight emerging risks for the attention of the Board
- To oversee the effective operation of the ERM Framework, and supporting risk management processes
- To recommend risk appetite for Board approval

ROLE OF EACH BUSINESS AREA

- Individual teams within the business are responsible for managing risks within their areas of responsibility
- All teams must record their ERM risks and update their Risk Register and escalate these through their team leader

ROLE OF INTERNAL AUDIT

- Ensure that the risk mitigants defined to reduce gross risk to the required risk appetite level are operating effectively.
- Satisfy itself that the system of risk management is operating effectively within business operations in order to identify and manage the risks to which the business is exposed

RISK OWNER

- Each risk should have a risk owner who is responsible for assessment, management, and reporting of that risk. Risk owners for ERM Risks will normally be Director or Head of Service, dependent upon the scope of the register. Risk owners for Project Risks will normally be the Project Manager and risk owners for Asset Risks will normally be the Head of Service or Asset Owner.

ACCOUNTABILITY FOR RISKS

- It is the responsibility of every colleague to identify the risks associated with their own area of operation and robustly to operate/comply with any controls designed to mitigate those risks. Risks which cannot be managed at an individual level should be escalated. Each risk should have a risk owner who will be accountable
- The risk management framework supports Welsh Water's commitment to earn the trust of our customers every day through delivering excellent customer service. The effectiveness of risk management depends on its integration into the governance of the organisation, including decision-making

DEVELOPMENTS DURING THE YEAR – CLIMATE CHANGE RELATED RISKS

As well as formally adopting the Enterprise Risk Management Framework during the year, and appointing a Chief Risk Officer with effect from April 2022 to oversee the sustainability of the ERM framework, the effectiveness of risk management and reporting, the Company has also increased its focus on the risks and opportunities emerging from the impacts of climate change. This has formed a key element of the development of its long-term planning and asset health review (see page 38 above) and has also been a key area of focus for the ESG Committee of the Board (see pages 82 and 144 below).

SUMMARY OF PRINCIPAL RISKS FACED BY THE GROUP

KEY RISKS	RISK INDICATORS AND EVENTS	2021-22	NEXT 12 MONTHS
Public concern about environmental issues	We recognise increased public concern about environmental issues has continued throughout 2021-22 and is likely to continue. There has been a corresponding increased focus by regulators on companies reducing their impact on the environment. Understanding and responding is a key company priority.	◀▶	◀▶
Business Continuity	The continued impacts of the Covid-19 pandemic placed some of our operational teams under pressure until early 2022. Supply chains came under severe strain as a result of EU Exit and Covid impacts, and may continue to be disturbed by recent geopolitical changes and energy market disruption.	▲	◀▶
Climate Change impacts and transition risks	We are seeing increased frequency of extreme weather events and our focus on climate change adaptation and asset resilience has increased as part of our long-term planning.	▲	◀▶
Health and safety major incident	We reviewed process safety of our anaerobic digester systems, following a tragic incident in December 2020 involving another UK water and sewerage company. Following this we implemented improvements.	◀▶	◀▶
Information Security, Cyber risk and risk of IT System Loss	In the context of global events, we have responded to the increased level of cyber threat which emerged during the year.	▲	◀▶
Performance and costs	Water quality performance deteriorated in 2021-22 and restoring a stronger level of performance is a priority for 2022-23.	▲	◀▶
Loss of Customer Trust	While we received our highest ever trust score of 8.3 (out of 10) from CCWater in June 2021 we recognise trust levels across the sector have been volatile over the past 12 months. We intend to continue to offer support to customers in light of the increasing cost of living, and respond to their environmental concerns.	▲	◀▶
Loss of key talent, capability, and competence	Attracting and retaining skilled and knowledgeable staff remains a key priority of the business, noting that whilst skills availability has reduced in the UK in the last year, our colleague turnover rate remains low.	◀▶	◀▶
Macroeconomic risk and access to funding	We continue to have good liquidity and a strong industry-leading credit rating. We have continued to support customers who struggle to pay their bills, particularly in light of the cost of living crisis. However, we recognise recent geopolitical events may have material impacts on the UK economy, and therefore we continue to monitor lead indicators and update our scenario planning accordingly.	◀▶	▲

Key: ▲ Upward trend: risk increasing ◀▶ Risk stable ▼ Downward trend: risk decreasing

PRINCIPAL RISKS FACED BY THE GROUP

We carefully manage principal risks in line with our primary purpose of providing essential services to 3.1 million people, minimising our impact on the environment while having sufficient customer funds to invest for the long term. Principal risks are reviewed with consideration given to customer, reputational and financial impacts.

The Group's strategic risk objectives are to:

i. Provide high quality and better value drinking water and environmental services
ii. Invest in our assets and people in the best interests of our customers
iii. Ensure stable/efficient access to funding and liquidity
iv. Maintain stakeholder confidence

PRINCIPAL RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	RISK TREND 2021-22	RISK TREND NEXT 12 MONTHS
Public concern about environmental Issues	The risk of failing to recognise and respond to the concerns expressed by stakeholders regarding environmental issues and climate change, leading to loss of trust and inadequate planning for the future.	We monitor local, national and global environmental concerns and industry responses. This helps us to ensure that ongoing activities minimise environmental impacts, that we optimise our investments to build resilience to climate change and that we meet other environmental aims (e.g. carbon targets and biodiversity). We publish data on CSO discharges to ensure transparency and we work closely with the Independent Environmental Advisory Panel (IEAP) members, including environment NGO representatives, together with regulators, governments, and organisations such as Surfers against Sewage. We have worked in partnership with government and regulators to identify and agree the priorities for current and future investment. Notably, we are implementing a £833 million investment programme in our wastewater assets in AMP7 and we are modelling climate change scenarios to 2050 and beyond, to support resilience planning.	There is heightened concern about the environment from customers and stakeholders, and also uncertainty following changes in environmental policy and regulation from both UK and Welsh Governments following EU Exit which may create new obligations for the Company.	◄►	◄►

PRINCIPAL RISKS FACED BY THE GROUP

PRINCIPAL RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	RISK TREND 2021-22	RISK TREND NEXT 12 MONTHS
Business continuity	The failure of strategic assets, workforce, corporate systems, supply chain provision or external events leading to the inability to deliver basic service provision for clean drinking water, environmental protection or cash collection.	We put in place detailed business continuity plans at the start of the pandemic in 2020 to respond to the possibility of up to 50% of the workforce being absent at any point, and these have been regularly reviewed since. We regularly test our business continuity plans against our SEMD requirements and carry out additional exercises. We have also seen considerable disruption to supply chains for essential chemicals over the last 12 months, and our Managing Director of Water Asset Planning and Capital Delivery led the sector response to this, ensuring adequacy of storage and alternative suppliers.	The continued impacts of the Covid-19 pandemic placed some of our operational teams under pressure until early 2022. Supply chains came under severe strain as a result of EU Exit and Covid impacts, and may continue to be disturbed by recent geopolitical changes and energy market disruption. We saw increased levels of absence during the end of Q3 and Q4 2021-22, affecting some of our specialist teams which tested business continuity plans, but service provision to our customers was not impacted.	▲	◀▶
Climate change impacts and transition risks	The risk of failing to mitigate/adapt to accelerated climate change, leading to our infrastructure being overwhelmed by significant weather events in a part of our operating area and significantly damaging multiple assets, impacting significantly on the environment, service provision, customers and our reputation.	Our business planning process takes into account the need to adapt our services and assets in order to ensure we invest appropriately to build resilience and to be able to respond appropriately to ensure service provision despite the impacts.	We are seeing increased frequency of extreme weather events and our focus on climate change adaptation and asset resilience has increased as part of our long-term planning. Our Regulatory, Finance and Asset Planning teams have worked with subject specialists from across the business in considering the threats and opportunities that climate change presents. We are also committed to climate change mitigation; during 2021 we launched our 'Journey to Net Zero' strategy to achieve net zero carbon by 2040 (for further information please see page 86).	▲	◀▶

Key: ▲ Upward trend: risk increasing ◀▶ Risk stable ▼ Downward trend: risk decreasing

PRINCIPAL RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	RISK TREND 2021-22	NEXT 12 MONTHS
Health and safety major incident	There is a risk of an employee, contractor, visitor or member of the public suffering a serious injury, ill health or fatality arising out of, or in connection with, our work activities leading to a risk of prosecution, potential for fines and criminal prosecutions against individual directors, and loss of reputation. This could occur as a result of failure to establish and/or implement safe assets, safe working practices or suitable contractor management arrangements in accordance with legal requirements and best practice.	The Chief Executive is the responsible Board Director and the Board regularly reviews monthly updates and quarterly reviews of Health, Safety and Wellbeing issues and performance. The HSE/Institute of Directors' 'Leading H&S' guidance is used as 'directing' framework. We use leading and lagging indicators in order closely to manage risk performance. There are also frequent and regular communications across the business – through team meetings, safety days, roadshows and an annual Health and Safety conference. We follow industry best practice (including horizon scanning for future change) and our operational procedures and policies are aligned with ISO45001. In 2021-22 we retained our RoSPA Gold Award for Health and Safety, and the Welsh Government Platinum Corporate Health Standard.	We have kept Health, Safety and Wellbeing issues under close review, with a weekly update to the Executive team's Crisis Management team, as working practices have changed again following a relaxation of the pandemic-related restrictions. We reviewed process safety of our anaerobic digester systems, following the December 2020 incident involving another UK water and sewerage company, and some improvements were implemented.	◀▶	◀▶
Information security, cyber risk and risk of consequent information technology (IT) and operational technology (OT) system loss	A major loss or disruption to an IT system, or significant breach of sensitive information, such as from a cyberattack, could lead to significant disruption to operational and customer services, significant reputational loss and potential regulatory censure and fines.	We liaise with the national sector response organisations to external cyber threats along with leading security industry organisations and experts to ensure we have an up-to-date view of cyber threats. The Information Security Steering Group, which comprises individuals drawn from across the business, as well as information technology, operational technology, and information security specialists, continues to discuss and monitor developments in and raise awareness of these issues in the business. The Board Technology Committee maintains oversight of digital risk in the business and provides focused scrutiny at Board level.	Our teams continue to ensure resilience of both IT and OT services, and we have increased our focus on cyber security detect, protect and respond capabilities, supported by investment in doubling the size of the Information Security team. However, in context of global events we recognise cyber risks have increased in the last year and we plan for a similar threat level in 2022-23.	▲	◀▶

PRINCIPAL RISKS FACED BY THE GROUP

PRINCIPAL RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	RISK TREND 2021-22	RISK TREND NEXT 12 MONTHS
Performance and costs	Performance below agreed AMP7 efficiency targets risks restricting delivery of customer outcomes and eroding customer trust and regulator confidence in the Company.	Operational strategies and improvement plans are approved by the Board to meet AMP7 performance commitments. Cost performance reporting and discussion is undertaken monthly by the Executive team and the financial plan for 2022-23 was approved by the Board in March 2022. The Executive team also track change projects throughout the Company to improve performance and meet cost efficiency targets, and these are reported to Executive meetings once per month. We continue to work with our Data Science team to use innovation to deliver our services more efficiently and to measure our performance.	Whilst we have achieved strong performance this year on important measures such as reducing leakage, pollution incidents and reducing internal flooding incidents, our performance on water quality measures and on C-MeX, Ofwat's key customer service measure, has been disappointing and we have a recovery plan in place for 2022 (for more detail, please see page 18 (Chief Executive's statement) and pages 46 to 53 for our Performance Table). Cost performance remained a focus in 2021-22 with ongoing delivery of programmes to optimise maintenance and construction costs. However, during 2021-22 we experienced higher than planned costs due to issues such as rising energy costs, weather events and increased costs to support service demand from increased staycations (see Financial Review, page 59). Ongoing global events are expected to continue to put pressure on supply costs over the next year.	▲	◀ ▶

Key: ▲ Upward trend: risk increasing ◀ ▶ Risk stable ▼ Downward trend: risk decreasing

PRINCIPAL RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	RISK TREND 2021-22	RISK TREND NEXT 12 MONTHS
Loss of stakeholder trust, particularly by our customers	Failing to earn the trust and confidence of our customers risks a loss in confidence of our customers in the services that we provide As a monopoly supplier of essential public services, we are subject to a high level of scrutiny by, and direction from, government and regulators. Our company vision is to 'earn the trust of our customers every day' and this focus on doing the right thing for our customers underpins our whole approach to providing our essential services.	We continue to focus on strengthening customer involvement and engagement in our activities and maintain good stakeholder relations. We regularly meet representatives of key stakeholder groups and seek to optimise the effectiveness of our communications activities.	According to the latest CCWater Water Matters Report (published June 2021) we received our highest ever trust score of 8.3 (out of 10). However, more broadly, customer research from the Edelman Trust Barometer suggests trust has been adversely affected across most sectors Similarly, more recent customer research suggests that customer trust has been far more volatile over the past 12 months and that trust in the company has deteriorated over the period. In light of increasing cost of living and environmental pressures, we recognise fully that we need to continue to work hard to maintain the confidence of our customers in our ability to balance affordability with the need for investment to reduce our environmental impact and maintain services for the future.	▲	◀▶

PRINCIPAL RISKS FACED BY THE GROUP

PRINCIPAL RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	RISK TREND 2021-22	RISK TREND NEXT 12 MONTHS
Loss of key talent, capability, and competence	The risk that we will fail to attract or retain talent to support all areas of our business appropriately, and/or that we fail to implement our Diversity and Inclusivity Strategy to ensure that we improve the diversity of our workforce in order to better represent the communities that we serve.	A newly launched five-year HR Strategy aims that we are acknowledged as the best employer in Wales. Central to that is supporting colleague development and ensuring our recruitment supports a diverse and inclusive workforce. We report on our Gender Pay Gap to the Remuneration Committee of the Board (see page 146). For information about our work to improve Diversity & Inclusion in our workforce please see page 41 (performance against our Wellbeing Commitments, for information about our Social Mobility Pledge) and page 93 (Social section of our ESG report).	There has been significant media coverage concerning trends such as changing attitudes to work following the global pandemic and increased home working. Like other businesses, we have undergone significant challenges with the move to a planned 'hybrid' model, and the Covid impacts of a significant focus on home working and restrictions affecting operational colleagues' working practices. We will continue to monitor carefully given the shifting external market, but our planned approach to support and manage a hybrid working model will, we believe, continue to make us attractive to external applicants and aid retention. The annual colleague turnover rate for Welsh Water remains stable and relatively low at 1.29% for March 2022. However, some specific recruitment challenges have been experienced (e.g. for roles in our contact centre and laboratories) and specific plans are in place to address these. We have also combined some technical operational competencies within a single role to address resource constraints, and we are providing support to individuals to undertake these additional skills.	◀▶	◀▶

Key: ▲ Upward trend: risk increasing ◀▶ Risk stable ▼ Downward trend: risk decreasing

PRINCIPAL RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	RISK TREND 2021-22	RISK TREND NEXT 12 MONTHS
Macroeconomic risk and customers' ability to pay	The risk that the wider economic situation deteriorates such that our ability to obtain finance from third parties is limited and/or our customers struggle to pay their water bills, leading to an increase in the bad debt charge. We continue to monitor closely the wider economic environment, particularly in light of wider economic uncertainty and the recent war in Ukraine.	We have committed to continuing to support up to 133,000 customers on social tariffs for the period 2020-25 and we are currently supporting over 144,000 customers with a combination of social tariffs and other forms of financial assistance. Inflation remains higher than central government targets with many commentators stating the UK is in a 'cost of living crisis'. To date, we have not seen a significant cash collection downside from customer affordability issues but have experienced cost increases including for energy and chemicals. The deterioration in the wider economic environment has been factored into the company's 2022-23 business plan, which demonstrates high levels of cash liquidity.	We are monitoring cash collection metrics closely to identify any significant increase in customers who are struggling to pay their water bills.	◀▶	▲

EMERGING RISKS FACED BY THE GROUP

Emerging Risks are discussed by the Board following Executive review of external risk themes, and are defined as threats or opportunities, that have a high degree of uncertainty but have the potential to materially impact the Group. The latest review noted two key emerging risks of micropollutants and post-Covid working practises, and several other threats were considered potentially less material such as Occupational Health risks and the impacts of automation.

EMERGING RISK	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	RISK TREND
Public health (micropollutants in drinking water and plastics in wastewater)	The risk of public concern around micropollutants – chemicals and microplastics – in drinking water, and concern around the presence of microplastics in treated wastewater.	We are following developments in environmental regulation, including the planned implementation of the Drinking Water Directive in England and Wales, and supporting research by UKWIR and others into the potential risks. Our focus on catchment management will over time help to reduce reliance on chemicals in the treatment of drinking water. Our existing wastewater treatment processes help to remove microplastic elements from water returned to the environment.	Media coverage concerning 'forever chemicals' and a requirement from our regulator, the Drinking Water Inspectorate, to analyse water for the presence of PFAS (Perfluoroalkyl and Polyfluoroalkyl substances). To date we have not identified the presence of these chemicals in our supply area.	▲
Post-Covid changes in working practices	This is both a risk and a potential opportunity, the latter because individuals may not be tied to a particular geographical location when considering moving roles which provides both a recruitment opportunity as well as a retention threat.	We are now planning our return to the office and to embrace 'hybrid' working practices for office-based colleagues, while able to relax some of the restrictions which were put in place during the pandemic to protect those working on site and in our communities.	Significant changes as a result of pandemic-related restrictions which affected both operational teams and office-based colleagues. Other companies have seen significant increases in staff turnover levels, although our turnover rates remain stable (see comment in Principal Risks table above).	▲

SIGNIFICANT DISPUTES WITH POTENTIAL TO IMPACT THE COMPANY

CLAIMS UNDER THE ENVIRONMENTAL INFORMATION REGULATIONS 2004 (EIR)

The Group 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, and for injunctive relief, on the basis that these charges were allegedly levied contrary to the European Information Regulations ('EIR'). 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.

LONG-TERM VIABILITY STATEMENT

OUR VISION: TO EARN THE TRUST OF OUR CUSTOMERS EVERY DAY

We are a long-term business: as a water and sewerage provider, our commitment to our customers is to provide continuous high quality and reliable services at the lowest possible cost, and our ongoing financial resilience is key to our ability to deliver on this commitment. The Company has a long-term commitment to the provision of resilient services for the communities it serves and plans on the basis of stewardship in perpetuity.

We have prepared this Annual Report as though we were a listed company (see page 117) and in preparing this statement we have complied with Provision 31 of the UK Corporate Governance Code. We have also followed Ofwat's guidance in relation to preparing a statement on long-term financial viability (IN 19/07).

We are a regulated long-term business characterised by multi-year investment programmes and stable revenues. The water industry in England and Wales is subject to economic regulation rather than market competition and while the primary aim of Ofwat, the economic regulator, is to protect customers from monopoly abuse, it also provides protections to ensure water companies have the financial resilience to continue to carry out their essential services. Ofwat meets this obligation by setting price controls for five-year Asset Management Periods ('AMPs'), including mechanisms that reduce the risk of variability in revenues from the regulated business in the medium term, by adjusting future revenues to balance over or under recovery compared to the original plan.

The nature of our business and our unique structure means that we are better placed than many other organisations to withstand financial shocks. Our corporate model means that we have no shareholders and our focus on financial resilience cannot, therefore, be compromised by shareholder demands for higher returns. However, this also means that we have no ability to approach shareholders for assistance in the case of financial distress in the way that a traditionally owned company could. We are, therefore, wholly debt-financed and raising debt at a low cost is a critical element of our financial strategy: it is essential that we retain access to financial markets which in turn implies a prudent financial model. Our Group Treasury team actively manages our debt maturity profile to spread the timing of refinancing requirements and to enable such requirements to be met under most market conditions.

Our strategy since Glas Cymru acquired the business of Welsh Water in 2001 has been to reduce our gearing to levels that allow us to access the most efficient level of debt funding. Over the past two decades we have steadily reduced gearing from 93% to 58%, and as a result we have a high level of financial reserves (£1,113 million) and robust credit quality.

BASIS OF OUR APPROACH

As custodians of a long-term business, enduring viability is ingrained in our risk management and planning processes. This is underpinned by a culture of open and honest challenge and mutual support, reinforced by clear direction from our leadership team. We recognise that risk is a necessary part of business. Our appetite is to maintain it at a low level, and we have an established process to assess the Group's prospects through monitoring inherent and existing risks and striving to capture emerging risks at the earliest opportunity. The Board challenges the identification and assessment of risks on a bi-annual basis, and the assumptions and the estimated impact of mitigating activities used in financial forecasting on an annual basis. Our assessment of risks is incorporated into our annual detailed budgeting and forecasting process for the current regulatory period, and at a broader level on a five-to-ten-year horizon.

Regulatory price reviews occur on a five-yearly basis, with the current AMP7 period running to 31 March 2025. Medium-term planning considers the current price control period, over which there is typically a high degree of certainty, and looks beyond this in order to facilitate smooth transitions between price control periods. The Board considers a number of factors in determining the period covered by the assessment with eight years the most appropriate forward-looking period over which to assess our ongoing financial viability. Eight years have been selected as it covers the remainder of the current AMP period to 2025, and the next AMP period to 2030.

When considering the Group's prospects beyond the period to 2025, it is necessary to make certain assumptions about the price review process for the period 2025-30 (PR24), which will be determined in 2024. This viability statement is based on the fundamental assumption that the current regulatory and statutory framework does not substantively change.

We have considered the context of our strategic planning document 'Welsh Water 2050' (as updated in 2022) in making this assessment and the potential effects of risks and the uncertainties that could have a significant financial impact under severe but plausible scenarios. Specifically, risks associated with the possible ongoing economic impact of the crisis in Ukraine, Covid-19 pandemic, the economic impact of Brexit and climate change have been incorporated into the baseline position and factored into the various scenarios modelled as part of the Group's assessment. We perform stress tests to assess the potential impact of combination scenarios aggregating multiple downside events within these risks. Our Strategic Report sets out our principal risks and uncertainties and how we intend to mitigate their potential impact on the delivery of our strategic objectives (see pages 68 to 75).

LONG-TERM VIABILITY STATEMENT

STRESS SCENARIOS

Our viability assessment is based on exposing our baseline forecasts to 2030 to several negative 'stress' scenarios, which include the Board's view of the likelihood and severity of each of our principal risks and uncertainties occurring, both individually and in aggregate. The key risks faced by the Group and mitigation measures can be found in the key risks' summary on pages 68 to 76. We have also adjusted our core inflation assumptions to run these scenarios in both high and low inflationary environments. The estimated financial impacts are based on a combination of our own experience and other publicly available data, both industry-specific and UK-wide. The impact of each of the principal risks occurring has been estimated based on the Board's assessment of the post-mitigation likelihood and severity.

We have identified what we consider to be a most severe, yet ultimately plausible, negative scenario as a means of gauging the overall level of headroom that exists in what we believe is a challenging yet deliverable plan: in turn this gives the Board confidence in the validity of its conclusions on long-term viability. We know that some of our combined scenarios are unlikely to occur in practice; however, they are useful in determining the overall level of resilience and to understand what would need to happen to threaten the Group's continued existence.

As part of the assessment, reverse stress testing of an extreme theoretical scenario focusing on totex overspend have been performed to understand the extent to which the Group could further absorb financial stress before it reaches a sub-investment grade credit rating. This reverse stress testing demonstrated that these extreme conditions would have to be significantly outside what would be considered 'severe but reasonable' scenarios before the Group's long-term viability would be at risk.

By conducting stress testing, the Board has considered the impact on the covenants attached to our existing funding position (interest cover and gearing), as well as on the principal financial metrics used by credit rating agencies in assessing our credit ratings (adjusted interest cover and the ratio of funds from operations to net debt) and liquidity (taking into account the dependency on existing financing arrangements and the availability of new debt).

The Board has reviewed the outputs of all stress scenarios overlaid on the 2022 plan and has noted that none of these presents a material threat to the long-term viability of the Group. The financial risks taken into consideration when preparing our stress scenarios can be found in the following table.

The scenarios detailed below are considered to be worst-case scenarios intended to stress test our financial plan. We have mitigation protocols in place reducing the likelihood and severity of the following incidents occurring.

SCENARIO	RISKS
1. UKRAINE CONFLICT Stagflation environment with sustained high inflation for two years, cost pressures and low GDP growth contributing to an affordability crisis, subsequently impacting on our bad debt charge. We have stress tested our financial plan with high inflation and cost pressures based on costs incurred in the second half of this financial year projected over the next two years or more. Failure to meet our performance and cost targets will incur additional costs and result in ODI penalties.	• Customer trust • Performance and cost targets • Information security, cyber and IT system loss • Operational technology • Resilience and business continuity • Finance (funding) • Supply chain
2. ECONOMIC DOWNTURN AND COVID-19 Prolonged recession and low GDP growth leading to low inflation and poor cash collection from customers impacting on our bad debt charge. We have stress tested our financial plan with low inflation and cost pressures based on the costs incurred in the recent recession and subsequent market pressures. Failure to meet our performance and cost targets will incur additional costs and result in ODI penalties.	• Performance and cost targets • Resilience and business continuity • Finance (funding) • Impact of severe recession
3. SEVERE CLIMATE EVENTS AND OPERATIONAL FAILURES Extreme weather events, such as prolonged heatwave, cold and wet weather resulting in unplanned costs and the failure of key assets impacting operations and delivery of service. Historically, we have incurred a severe climate event every other year. Failure to deliver services will reduce our C-MeX and D-MeX scores, as well as water quality performance.	• Customer trust • Water quality • Climate change impact
4. WATER QUALITY AND ENVIRONMENTAL FAILURES Experiencing a prolonged incident of water contamination resulting in significant supply interruptions and penalties. Potential publicity affecting other water companies impacting scrutiny of our operations. The main financial risk is incurring ODI and Regulatory penalties. A consequence of water quality failures would also result in a decline in our C-MeX and D-MeX scores.	• Customer trust • Water quality • Environmental regulation • Relationships and trust
5. CYBER SECURITY A severe breach of technology and systems impacting delivery of services, fraud or data loss. The possibility of fraud is unlikely on a large scale based on the recently increased strength of our IT services. The biggest possible financial risk would come from a breach of GDPR and rectification costs, along with the reduction in our C-MeX and D-MeX scores.	• Customer trust • Information security, cyber and IT system loss • Operational technology
6. FAILURES TO ACHIEVE PERFORMANCE COMMITMENTS AND NON-COMPLIANCE WITH REGULATIONS Penalties from failing to achieve our price review performance commitments set by Ofwat, Natural Resources Wales and Drinking Water Inspectorate resulting in fines from regulatory/legal bodies. Subsequent lower quartile performance in C-MeX, D-MeX and B-MeX and poor ODI performance.	• Customer trust • Performance and cost targets • Environmental regulation • Relationships and trust • Supply chain
7. FAILURE TO ACHIEVE PR24 BUSINESS PLAN Failure to achieve PR24 business plan including key business risks, more stretching efficiency targets, and limited progress towards Welsh Water 2050, including asset resilience and net zero carbon. Financial impacts represent items such as failure to achieve cost savings and failure to attract high-skill staff.	• People (key skills shortage) • Performance and cost targets • PR24 • Finance (funding)
8. HEALTH AND SAFETY MAJOR INCIDENT A fatality occurring because of corporate negligence. Indicative peer company maximum historical exposures and the Group's risk-averse appetite result in the risk being considered to be £3 million exposure occurring once in eight years.	• Health and safety (serious injury/fatality)

LONG-TERM VIABILITY STATEMENT

SEVERELY ADVERSE BUT PLAUSIBLE	
A severely adverse but plausible scenario reflects significant cost shocks which occur in a low-inflation environment. Cost shocks are based on a formulaic probability multiplier, combining all scenarios using their likelihood out of five to weight their financial impact (adjusted for overlap).	All risks using a formulaic possibility multiplier using likelihood of occurrence.

Event risk scenario	Financial impact on cash flows (£m)
Ukraine conflict	211
Economic downturn and Covid-19	91
Severe climate events and operational failures	73
Water quality and environmental failures	83
Cyber security	76
Failures to achieve performance commitments and non-compliance with regulations	182
Failure to achieve business plan	239
Health and safety major incident	3
Severely adverse but plausible (incl. low interest)	398
Reverse scenario testing	795

	AMP7				AMP8			
Risk category	Reserves £m	Gearing %	S&P %	Moody's X	Reserves £m	Gearing %	S&P %	Moody's X
Core scenario: 2022 financial plan	2,941	59.9%	6.0%	1.3x	3,222	61.4%	8.8%	2.0x
Principal risk scenarios								
1. Ukraine – Russia crisis	(70)	1.0%	(0.6%)	(0.2x)	(206)	2.5%	(0.8%)	(0.2x)
2. Economic downturn and Covid-19	(57)	(0.2%)	–	(0.2x)	(572)	4.4%	(1.0%)	(0.4x)
3. Severe climate events and operational failures	(21)	0.3%	(0.2%)	(0.1x)	(77)	0.9%	(0.3%)	(0.1x)
4. Water quality and environmental failures	(11)	0.1%	(0.1%)	–	(87)	1.0%	(0.3%)	(0.1x)
5. Cyber security	(14)	0.2%	(0.1%)	–	(80)	1.0%	(0.3%)	(0.1x)
6. Failure to achieve performance commitments and non-compliance with regulations	(40)	0.5%	(0.4%)	0.1x	(176)	2.1%	(0.7%)	(0.2x)
7. Failure to achieve business plan	(40)	0.5%	(0.4%)	0.1x	(232)	2.8%	(0.9%)	(0.3x)
8. Health and safety major incident	–	–	–	–	(3)	–	–	–
'Severely adverse but plausible' - low inflation + cost shocks	(66)	–	0.1%	(0.2x)	(871)	8.3%	(1.7%)	(0.6x)

KEY MITIGATION ACTIONS

In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the Group, the effectiveness of which are underpinned by the strength of the Group's liquidity position. As well as the protections that exist from the regulatory environment within which the Group operates, a number of actions are available to mitigate more severe scenarios, which include: deferral of capital expenditure; a reduction in other discretionary totex spend; early termination of expensive debt; and an extension of revolving credit facilities.

OUTLOOK

The level of stretch in the severely adverse but plausible scenario assumes £425 million of unplanned expenditure over the forecast period (equivalent to an average annual totex overspend of around 6%). In addition, we have modelled temporary sustained inflation (RPI of 12% in 2024-25) reducing gradually to 3% by 2026-27 for the remainder of the period.

We conducted a reverse stress test on our financial plan to identify the deterioration required to put pressure on our financial metrics. The likelihood of a trigger event would occur in AMP7 where current market shocks are placing pressures on operating costs. We identified operating cash flows would need to deteriorate by c16% in AMP7 from our core plan, which is an additional 164% on our severely adverse but plausible scenario in the same period.

The combination of low gearing and a high level of liquidity means that the Group is well placed to absorb even large cost shocks while retaining access to funding markets. We are sheltered from the full impact of inflation movements in the long term, as all our allowed revenues and around two-thirds of our debt is index-linked.

The Board's overall assessment of long-term viability takes into account its assessment of the financial risk management framework and the forecast impacts of all stress testing. The Board considers that these are appropriate and do not generate any sign of material threats to the Group's viability over the next eight years.

The Board also has regard to the Group's strong financial position when assessing viability, noting that liquidity is strong and also that gearing at 31 March 2022 is in line with the Board's target of 60%. The strength of our current liquidity position is very high with cash on deposit and undrawn loan facilities totalling £715 million. As at 31 March 2022 some £515 million of cash was held on short-term deposits (three months in practice) affording easy access to a high level of liquidity.

The strong credit quality of the business is reflected in credit ratings which remain among the highest in the UK water sector, providing considerable headroom to support access to medium-term liquidity where required. The ratings of the Company's bonds are shown in the table below:

BOND CLASS	MOODY'S	S&P	FITCH
A	A2	AA	A
B	A3	A-	A
C	Baa2	BBB	BBB+
Date of confirmation	5 November 2021	17 May 2022	11 November 2021

The water sector is historically stable with a supportive regulator (Ofwat has a statutory duty to secure that efficient water companies can finance the proper carrying out of their functions): five-year price reviews mean that our cash flows are generally predictable and investor confidence remains high. We expect that our low gearing would help us to retain access to funding if any of the stress scenarios were to arise. Our core plan forecasts that we are already fully funded for the remainder of the current regulatory period to 2025 and as bond markets remain active, we do not currently envisage any funding risk. We have reasonably assumed that any changes to the regulatory environment and our overall level of risk will have no material impact on our ability to access financial markets.

COMMERCIAL BUSINESS

We undertake a limited amount of commercial activity outside of our regulated water and sewerage business. This consists of organic energy and waste processing activities which are complementary to our core operations. These activities make up less than 1% of the Group's annual turnover and are peripheral to the core business, as such having no material impact on our overall long-term viability.

ASSURANCE

Assurance is a fundamental part of our business planning process, with peer reviews and Executive team approval forming key milestones prior to Board review. A key part of the peer review process ensures that our financial forecasts are aligned with our operational delivery plans. All plans must receive head of department and Executive team approval prior to Board sign-off. We have received external assurance on our financing model used to generate the 2022-23 plan and stress scenarios via an 'agreed-upon procedures' exercise, with no exceptions noted, and our plan itself has been subject to scrutiny and challenge by Ofwat (being a modified form of our PR19 final business plan submission).

Our independent External Auditors review this long-term viability statement and report by exception on any material inconsistencies with the financial statements set out on pages 179 to 222. None has been identified (see audit opinion on pages 172 to 178).

CONCLUSION

The Board considers that the risk management and forecasting controls in place are robust and that the 2022 plan and stress testing outputs provide an appropriate level of information from which to draw a conclusion on the Group's long-term viability. Having reviewed these outputs as summarised above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2030.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) ISSUES

The ESG Strategy was reviewed and approved by the ESG Committee in February 2022 and is available to view at **dwrcymru.com/esg**. It includes 10 key objectives to support the focus on Environmental, Social and Governance issues in the context of the Company's long-term strategy, Welsh Water 2050, and the 18 Strategic Responses in that document.

Below are the 10 objectives set out in our ESG Strategy:

1

LONG-TERM PLANNING AND SUSTAINABILITY

We are custodians of assets that will be relied upon to provide our essential services, and minimise impact on the environment, for many generations to come. Our corporate structure means we are not driven by shareholder dividends – we plan for the long term and take into account the needs of future generations of our customers. We will also work to ensure our procurement policy is sustainable and supports local businesses and the circular economy more generally.

2

ACHIEVING OUR NET ZERO CARBON STRATEGY

We are committed to achieving net zero carbon emissions of both operational and embedded carbon by 2040.
Visit: **dwrcymru.com/netzero**.

We will work to ensure continuous improvement of our processes to minimise our impact on the environment and we ask our key supply chain partners to help us design innovative 'green, nature-based' solutions that benefit the environment and society generally, within the fulfilment of our functions.

3

ADAPTING OUR ASSETS AND SERVICES TO MITIGATE CLIMATE CHANGE RISKS

We will continue to adapt our assets to ensure the services we provide are resilient to the impacts of climate change and can meet the challenges of economic development, population growth, and changes in customer expectations. We must also mitigate our carbon footprint (see 4 below) so as to reduce to zero our contribution to climate change by 2040. (See page 38 above for detail of how our long-term planning is ensuring adaptation of assets to meet the challenges of climate change.)

4

WORKING TO CREATE TANGIBLE BENEFITS IN THE COMMUNITIES WE SERVE.

We will establish a clear baseline for current environment, social and governance issues and will measure improvements against that, with a principle of 'net gains' for our operational activities and capital projects programme which deliver tangible benefits to our communities.

5

ENSURING AFFORDABILITY

During 2021-22 we provided financial assistance (via social tariffs and other forms of support) to a total of 144,000 customers and we assisted many more with water efficiency advice and metering, to help them manage their water bills. We are committed to continuing to provide this level of financial assistance to customers during the period 2020-25.

6

ENGAGING WITH OUR CUSTOMERS

We engage with our customers on a regular and long-term basis, through research and focus groups, our community fund grants, and Water Resilient Communities programmes. Customer expectations are changing and developing, and we need to ensure that we meet these expectations while also focusing on the path to achieving the long-term goals we have set in Welsh Water 2050. We are developing a Sustainable Procurement policy, which will deliver benefits to communities through a more localised supply chain. We are also introducing user-centred design for improvements to customer service, and working with a wide range of stakeholders and customers on projects such as the Brecon Beacons Megacatchment initiative.

7

ATTRACTING AND RETAINING A DIVERSE WORKFORCE TO REFLECT OUR COMMUNITIES

Our most important asset is our workforce, and attracting and retaining people with the right skills and diversity of experience, background, and personal characteristics to meet the future challenges that our business will face is a key priority. Our culture and values are embodied in our workplace policies such as our Health, Safety & Wellbeing policy, and support an inclusive workplace where colleagues can take pride in 'Earning the Trust of our Customers Every Day'.

8

ADAPTING TO FUTURE CHALLENGES

Our corporate structure and the absence of shareholder dividends allows us to focus on the long term, as well as deliver the needs of customers today. The ESG Committee will focus on monitoring progress against our goals and considering and responding to ESG risks to ensure that we adapt to these and build our responses into our Company strategy. The joint Boards of Glas Cymru Holdings Cyf. and Dŵr Cymru Cyf. also monitor strategic risks and consider with the Executive team the potential for emerging and 'black swan' risks to impact our business and the services we provide.

9

DEMONSTRATING ACCOUNTABILITY

We demonstrate accountability through our transparent corporate governance, focusing our business on sustaining and protecting the natural resources available to us, and engaging directly with the communities we serve. We are committed to transparent reporting of our performance and the challenges facing the business, both in our corporate reporting and through our publication scheme where we make information available on our website proactively.

See **dwrcymru.com/eir**

We ensure fair employment practices through our recruitment and HR policies, and we ask our suppliers to sign up to our Supplier Code of Conduct and to take steps to prevent unfair employment practices. Our operational strategies prioritise our environmental commitments – to minimise our environmental footprint and enhance our environment and communities wherever we can.

10

WORKING COLLABORATIVELY

In many areas we cannot achieve our objectives by simply working alone: we are already working in partnership with regulators, governments, customers and other stakeholders to achieve our environmental objectives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OBJECTIVE 1: LONG-TERM PLANNING AND SUSTAINABILITY

Our services of sustainably treating and distributing clean water and taking away and treating wastewater, by their very nature, have an impact on the environment. We are acutely aware of the need to minimise this impact and to enhance local natural environments for our customers and communities wherever possible. In this we work closely with our environmental regulators, Natural Resources Wales, the Environment Agency, and Natural England. We also engage with customers and other stakeholder groups on environmental issues to explain how we are working to reduce our environmental footprint and how our customers can support this through their own actions. This is increasingly important with future solutions directly involving the support and input of customers and local businesses.

ENVIRONMENTAL PERFORMANCE

OUR ENVIRONMENTAL PERFORMANCE 2021-22

As we acknowledge in the Summary of ESG outcomes section (page 28 above), our performance in key areas in 2021-22 has been variable - in some areas we have beaten our target (for example, internal flooding incidents, km of rivers improved) but in others we know we have more work to do (pollution incidents, external flooding incidents).

We are committed to reducing our overall environmental footprint, and to enhancing the natural environment in which we work wherever possible, in order to benefit nature and the communities we serve.

IMPROVING RIVER WATER QUALITY

The water quality of many of our rivers, as evidenced by Natural Resources Wales' Water Framework Directive (WFD) data, has improved over the years, in part as a result of Welsh Water investment. We are committed to continuing this work, and to addressing diffuse pollution issues.

During AMP6, at a cost of circa £9 million, we renewed our coastal modelling estate and made this data and models available for our regulators, academics, and NGO groups to use free of charge. We are now upgrading our catchment and river modelling to understand better the challenges facing our rivers, both from our operations, and from other sectors such as agriculture. These models will help to establish the measures needed to improve river water quality.

As part of this work, we are actively supporting the development of Nutrient Management Boards for five SAC (Special Area of Conservation) designated rivers. We are also supporting the development of frameworks needed to support 'paid for ecosystem services' (which refers to schemes such as 'nutrient trading' where those who have most to gain are involved in funding schemes to improve the environment), and the development and deployment of nature-based, catchment solutions rather than our traditional 'grey' carbon-hungry solutions to improve water quality. In the future, investments to improve water quality are likely to take the form of green developments such as wetlands or reedbeds, to polish final effluents and/or treat discharges from storm overflows.

Our long-term strategy for our combined storm overflow (CSO) assets, which has been reviewed by Welsh Water's Independent Environmental Advisory Panel and approved by the Board, is to 'reduce the reliance on overflows from the sewer network and secure a progressive reduction in the adverse impact caused by untreated sewage discharges into inland and coastal waters while ensuring flood resilience for our customers'.

The CSO strategy aims to:

- Protect our customers from sewer flooding
- Protect our environment through the safe, effective, and timely operation and maintenance of our sewerage and drainage assets
- Deliver targeted investment to meet environmental quality targets
- Comply with current and future statutory and regulatory requirements, including working with NRW to ensure that all our CSOs are appropriately permitted
- Meet the expectations of our customers and stakeholders within the boundaries of affordability
- Invest in the development of modelling resources, and the skills and competency of our people
- Remain open and transparent with our data and information
- Consider and exploit any opportunities to adopt innovative and nature-based solutions

Progress against our CSO strategy is regularly reported to the ESG Committee. We will also present our progress against the strategy to the Independent Environment Advisory Panel at least annually for external stakeholder challenge, as well as keeping Glas Members updated on CSO-related issues and performance.

We are agreeing priorities with our regulators to improve stretches of our rivers and coastline based on the measured impact of CSO discharges on the environment and, where possible, will seek to build on our previous work on improving water quality in the Loughor Estuary, through the use of our Rainscape sustainable urban drainage features. In 2011 we agreed that we would install over 2,000 Event Duration Monitors (EDMs) to monitor discharges from CSOs, and we are now reporting data from these EDMs, which cover 98.8% of our CSOs, to our environmental regulators on an annual basis. In February 2022 we published this data on our website.

We have a proactive publication scheme on information relevant to CSOs and water quality and this information can be found on our website at **dwrcymru.com/environmentsearch**. Given recent increased public concern about storm discharges, we have created a booklet to explain the history of CSOs as flood defence mechanisms and the challenges in reducing spills or removing CSOs, see **dwrcymru/riverquality**.

ENHANCING BIODIVERSITY

BIODIVERSITY

dwrcymru.com/environment

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.

SUSTAINABLE MANAGEMENT OF NATURAL RESOURCES (SMNR) AND CATCHMENT MANAGEMENT AS OUR FIRST LINE OF DEFENCE

Catchment management is our 'first line of defence' to ensure high quality drinking water and plays an integral role in ensuring the resilience of our water supply system from source to tap. The Brecon Beacons is a Mega Catchment for water: almost half of all the water we abstract as a company every day comes from the numerous reservoir, groundwater, and river sources within the area. The Brecon Beacons Mega Catchment programme is taking a collaborative and proactive approach to catchment management at the landscape scale and is the first of its kind in the UK.

The programme will have multiple deliverables:

- building trusted relationships and new ways of working with landowners and stakeholders
- delivering on-the-ground mitigations (e.g. peatland restoration, land stabilisation) to improve water quality and build catchment resilience, prioritising the catchments supplying the new Cwm Taf water treatment works
- developing 'smart catchments' through modelling and higher resolution data collection, to inform future investment.

The UK's exit from the EU has provided a timely opportunity to work closely with the Welsh Government in relation to the new Welsh land management policy to seek to ensure that this delivers for drinking water quality, and aligns future land management funding with our own ambitions for integrated catchment management.

The programme is a long-term approach that will need to evolve and adapt to emerging opportunity and threat, as well as ensuring previous investment is maintained. This work also links to the development of our Water Resource Management Plan which we develop and consult on every five years and which will also form a key input to the investment cases for our AMP8 investment plan.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case Study

ENHANCING BIODIVERSITY AT ELAN VALLEY

In partnership with RSPB Cymru and Snowdonia National Park, the Elan visitor centre rangers have been working to support biodiversity through The LIFE Celtic Rainforest project. New stock fencing and hedgerows have been installed to enable the introduction of sustainable grazing to some of our woodlands; invasive species (Rhododendron) having a detrimental impact on the natural ecology are being eradicated; and management interventions are helping the recovery of ancient woodland sites containing rare habitats for endangered lower plant species, such as lichens.

Significant progress has been made in restructuring our forestry plantations at Elan, which were planted in the 1950s and were a monoculture of conifer. Over 70% of the woodlands in the Elan Valley are now native broadleaf (predominately sessile oak). The woodlands are in close proximity to the reservoir edges, securing the land from erosion, maximising biodiversity gain and improving water quality. There are now only two main plantations on the estate being managed for commercial timber which we are managing in partnership with NRW to improve biodiversity, including nesting birds such as merlin and crossbill, and ultimately improve the condition of the Elenydd SSSI.

The Elan Valley Visitor Centre has been connected to the hydro power source at the base of Caban Coch dam so we are now using green electricity generated on site. More energy-efficient systems have also been achieved through upgrades to lighting and heating throughout the building.

OBJECTIVE 2: ACHIEVING OUR NET ZERO CARBON STRATEGY

In 2021 the Board approved the carbon reduction targets for Welsh Water and the roadmap to achieve these targets. This 'Journey to Net Zero' strategy aims to achieve a reduction in our total carbon footprint (operational and embedded carbon) of 90% by 2030, compared to the 2010-2011 estimated baseline of ~335kton (+/-15kton) and aims for carbon neutrality (or better) by 2040.

The road map builds on the extensive investments in renewable generation in the last 10 years, which is delivering a current level of 24% self-sufficiency, combined with investment to improve energy efficiency and 100% REGO-backed renewable electricity supply, for the remaining energy demand. The AMP7 (2020-25) investment programme is aiming to further improve our energy self-sufficiency to 35% by 2025. Our long-term target is 100% energy self-sufficiency by 2050, through a mix of self-generating and private wire energy purchases.

Our 'Journey to Net Zero' strategy sets a net total emission level for scopes 1-3 of 30-35kt by 2030, based on our current level of reported fugitive emissions (from the sewage treatment process). This target level represents a reduction of 90% from our current position. This target is beyond the level of ambition needed to curb the global temperature rise to 1.5 degrees, as this requires organisations to reduce their emissions by at least 4.2% per annum between 2020-30, which for us would result in a target equivalent to 70-75kt by 2030.

There is, however, uncertainty around the current level of fugitive emissions that arise from our wastewater treatment processes. It is now widely accepted that the conventional measurement processes adopted by the UK water sector understate these emissions by a factor of at least 2 based on current understanding, but possibly by a factor of 8 (based on the Intergovernmental Panel on Climate Change emission factor). Work is ongoing within Welsh Water and the wider UK water sector, as well as internationally, to improve the monitoring and reporting of such emissions, and from there to reduce the emissions themselves.

The Welsh Water Net Zero strategy will need to be an integral component of the 2024 National Environment Programme (NEP) to ensure that the funding necessary to implement the planned improvements is reflected in the plan for PR24. We are building a Carbon Price into our investment cases, to recognise the societal impact of our investments and to help inform our choice of solutions for operational challenges.

Incorporating the carbon emission targets into the NEP, and valuing carbon within the PR24 business case, allows the 'natural capital' associated with the net zero strategy to be valued, as part of the multi-capitals approach that we are planning to adopt from 2025, as supported by Ofwat in its draft PR24 guidance. We are working with the wider sector to develop a methodology for 'natural capital accounting' which we can then apply to individual investment cases which will form part of our investment plan for PR24 in order to compare competing investment cases and solution options.

Our Journey to Zero plan includes six strategic principles which underpin our work to achieve our goal of net zero carbon emissions by 2040:

- Continuing to reduce energy consumption, increase self-generation, and source remaining electricity from Welsh-based renewable generators
- Prioritising the use of sewage-derived biogas to decarbonise heat and transport (five times larger decarbonisation impact by 2030 than relying on renewable electricity)
- Gradually replacing our existing fleet with vehicles that utilise low carbon fuels (e.g. hydrogen, biomethane) and/or electricity
- Actively controlling and reducing the fugitive emissions from wastewater treatment processes by fully automating the control of all aeration plants
- Monitoring and reducing the carbon emissions associated with construction and refurbishment of assets by actively applying the carbon mitigation hierarchy and other tools, to select the right long-term solution
- Maximising the carbon sequestration and biodiversity potential of our land holdings to offset carbon emissions that are difficult and/or cost prohibitive to abate.

Case Study

LOW CARBON CONSTRUCTION MATERIALS

Welsh Water has revised its capital investment decision process to ensure that life cycle carbon impacts are fully considered and minimised. New processes have been based upon PAS2080, the best practice framework for reducing carbon in infrastructure. Early work has focused on ensuring that the lowest carbon option is selected, and the scope of construction minimised, while still meeting all other requirements.

When replacing the roof of Western District pumping station, a roofing material containing olivine was used – olivine absorbs carbon dioxide from the atmosphere when it rains and chemically binds it into a new harmless compound.

The carbon footprint of the concrete utilised in the new Pengarnddu service reservoir has been halved by replacing part of the Portland cement content with a low carbon cementitious material. This change had the additional benefit of making the concrete more resistant to the local ground conditions.

Construction delivery has also improved, our sites moving from using red diesel to hydrotreated vegetable oil (HVO) – a replacement fuel that has a circa.90% lower carbon footprint than red diesel plus other additional local air quality benefits. In order to reduce generator fuel use and run time, trials have also been undertaken running a battery alongside the generator – reducing generator run time and fuel use by up to 80% during the summer months and 40% during the winter across a number of trial sites.

Welsh Water was one of only a handful of companies that undertook voluntary reporting to Ofwat for emissions arising from their capital programme in the 2020-21 reporting year. This was created from a detailed analysis of materials consumed by the programme. Over time, this data will create a feedback loop to improve future carbon estimation in the design and delivery of projects.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OBJECTIVE 3: ADAPTING OUR ASSETS AND SERVICES TO MITIGATE CLIMATE CHANGE RISKS

See pages 44 and 46 for details of how we have responded to adverse weather events throughout the year and how we are preparing our assets to be more resilient to meet future challenges, and page 98 for details of our response to climate change risks in our TCFD disclosures.

Case Study

OUR PART IN THE CIRCULAR ECONOMY

The term 'circular economy' refers to '...a systems solution framework that tackles global challenges like climate change, biodiversity loss, waste and pollution'. (source: Ellen MacArthur Foundation)

The circular economy is based on three principles, driven by design:

- Eliminate waste and pollution
- Circulate products and materials (at their highest value)
- Regenerate nature

In March 2021, the Welsh Government published 'Beyond recycling: Our plan to make the circular economy in Wales a reality where we keep resources in use and avoid waste'.

This sets out eight headline actions for government:

1. We will support businesses in Wales to reduce their carbon footprint and become more resource efficient.
2. We will provide the tools to enable community action.
3. We will phase out unnecessary single-use items, especially plastic.
4. We will eradicate avoidable food waste.
5. We will procure on a basis which prioritises goods and products which are made from remanufactured, refurbished and recycled materials or come from low carbon and sustainable materials like wood.
6. We will strive to achieve the highest rates of recycling in the world.
7. We will reduce the environmental impact of the waste collection from our homes and businesses.
8. We will take full responsibility for our waste.

In response to this strategy:

- We are developing a sustainable procurement policy, which will measure, and enable us to reduce, the water and carbon footprints of the materials we procure going into AMP8. We are currently working with our regulators to solicit their support for such investments and specifically those which can help create a market place for more sustainable products such as steel made with hydrogen or another renewable energy source, which are currently generally more costly than those materials produced with a fossil fuel. Similarly, we hope to be able to support a market place for those products made with recycled materials such as plastic and/or building materials.
- We support the Biosolids Assurance Scheme which sets out the controls over the quality of the bioresources we recycle to agriculture. This ensures that the farmers who apply such recycled nutrients to their land can be confident that the product is suitable to meet optimum soil fertility standards, and that no regulatory standards are breached.
- During 2021 we successfully tendered for the contract to process all of Hafren Dyfrdwy's sludge at our existing sludge processing sites. Treated sludge will be recycled to agriculture.
- Our commercial subsidiary Welsh Water Organic Energy operates a plant which processes and generates electricity from food waste, operating a contract to process all domestic food waste from the Cardiff and Vale of Glamorgan Councils over a 25-year period, and also recycling domestic green waste at the same site.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.

OBJECTIVE 4: WORKING TO CREATE TANGIBLE BENEFITS IN THE COMMUNITIES WE SERVE

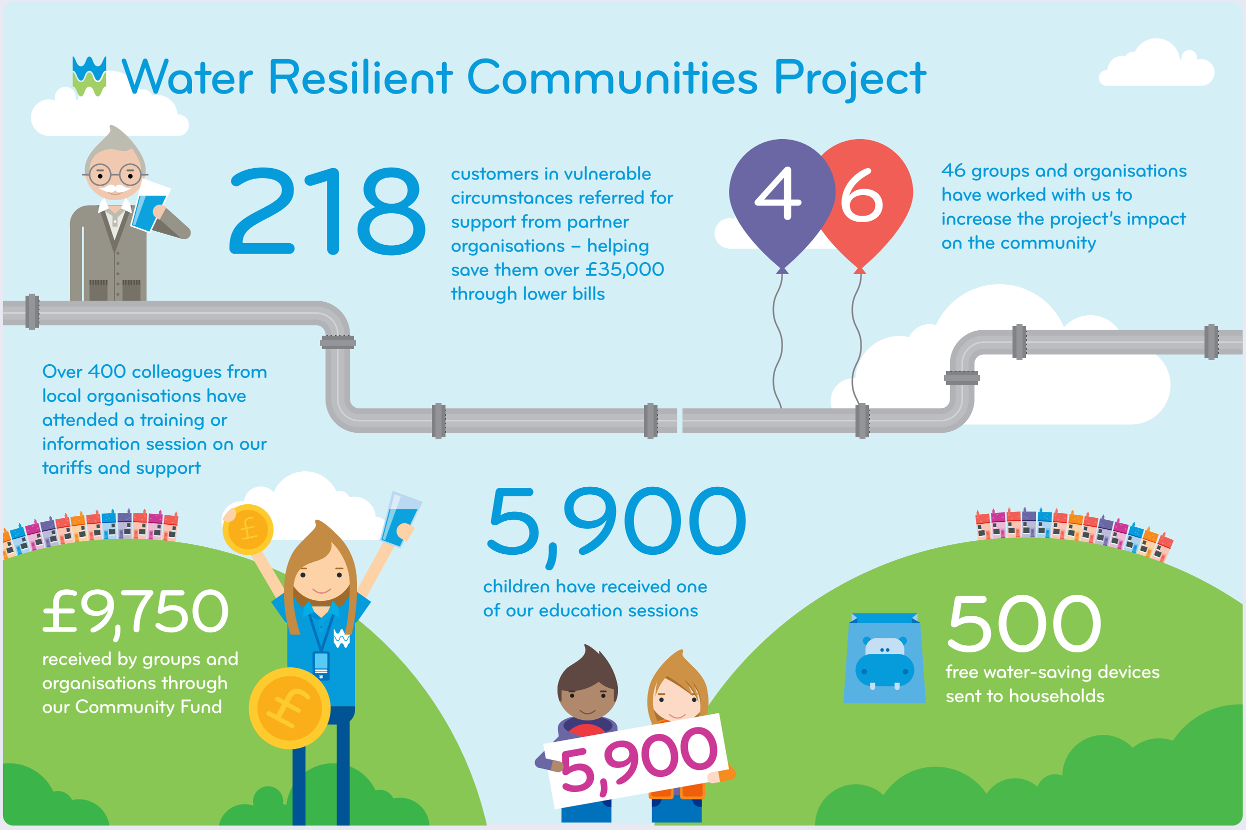
COMMUNITY INVESTMENT

At the start of the pandemic the business worked in partnership with the Trussell Trust and donated £100,000 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.

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. During 2021-22, 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-Frân, 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 CUSTOMERS

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 around 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 116,250 customers through our Priority Services Register.

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 held 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.

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 benefiting to make local improvements to the environment or support community benefits promoting health, well-being 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During 2021-22 over 150 charities were successful in securing funding.

Some examples are:

Tim Banks, Committee Member at Danescourt Football Club, said:

'We are massively grateful to Dŵr Cymru Welsh Water for their very generous grant. The grant has been vital in allowing us to upgrade and buy additional kit and equipment, and in ensuring that we can provide a safe, stimulating, and enjoyable environment as we continue to grow.'

Byron Young, Secretary at Côr Meibion Morlais, said:

'The money received from Dŵr Cymru's Community Fund will help with maintaining the hall and replacing chairs. With the new chairs, the choir will be able to provide seating for the community to enjoy regular concerts.'

Ian Chriswick, Assistant Headteacher at Ysgol Bro Dinefwr said:

'Thanks to the fund awarded by Dŵr Cymru Welsh Water and other organisations we have been able to undertake significant work to build an outdoor learning area to facilitate the new Curriculum for Wales. We'd like to thank Welsh Water for helping us get one step closer to our goal!'

OBJECTIVE 5: ENSURING AFFORDABILITY

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 estimated that only 2% of applications during 2021-22 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.

OBJECTIVE 6: ENGAGING WITH OUR CUSTOMERS

We engage with our customers in many different ways, from day-to-day customer enquiries relating to their accounts or an issue with their water supply or wastewater service through to commissioned customer research to help inform our work and business planning; from creating new content to engage with customers on social media to help inform and educate them, to using geo-targeted text messaging and social media advertising to target messages at affected customers during incidents.

During 2021-22 we introduced and trialled a number of new engagement methods, including:

- Customer Contact: Building on the success of our 'Track My Job' service that allows customers to be kept informed as to where their engineer is, we have rolled the service out to more of our business including some of our main contract partners. For example, we have started rolling out the ability for customers to video call and share videos with us in order for us to resolve problems quickly without the need to visit the property.
- Customer Research: Our customer research programme in 2021-22 looked at a variety of subject areas including a monthly 'Trust Tracker' that asks for customers' views relating to a number of issues including trust, overall customer satisfaction, and perception of value for money as well as other factors such as care for the environment. We have commissioned research to look at drainage and wastewater management plans, customer priorities for our PR24 Business Plan, and research to inform our behavioural change campaigns. As part of our PR24 research, and in response to a challenge from our Customer Challenge Group, we have created a Longitudinal Customer Panel, which will allow us to reconvene a group of customers over the course of the development of our business plan to test customers' views and opinions.
- Customer Engagement:. We work with communities of interested individuals and groups on projects such as the Brecon Beacons Mega-Catchment and PestSmart programmes where, by working together, we can achieve greater outcomes than we could individually. We also work with third party organisations on projects such as the Water Resilient Communities project and our vulnerable customer strategy community outreach work, where their networks can reach people that would not historically have engaged with us. Through our Capital Investment programme, we engage with customers to inform them of our work and to work with them on any issues that may occur. Again, over the past 12 months we've developed a number of virtual public consultation rooms and exhibitions allowing us to engage with a wider audience than a traditional public drop-in session.

OBJECTIVE 7: ATTRACTING AND RETAINING A DIVERSE WORKFORCE TO REFLECT OUR COMMUNITIES

EQUALITY, DIVERSITY AND INCLUSION INITIATIVES

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 under-represented 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 Company of generally under-represented

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

groups. As at March 2022, 66.5% 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 MEMBERSHIPS

- **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
  - 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 vacancies 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. We offer 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 front-line 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. We also use apprenticeships to upskill some of our existing employees with our programmes, using degree-level apprenticeships. We see apprenticeships as a key way in which we can support social mobility, and we have a track record of developing and promoting apprentices through the business.

WELSH LANGUAGE PROVISION FOR COLLEAGUES

We continue to support colleagues to improve welsh language skills. During the pandemic we moved to offering classes online, in order to continue to make these available.

HEALTH, SAFETY & WELLBEING

Please see our annual Health and Safety Report 2022 at **dwrcymru.com/handsreports** for details of our Health, Safety and Wellbeing performance and challenges during 2021-22.

GOVERNANCE

Good governance is at the heart of our decision-making and our transparent and accountable relationships with our stakeholders. Above all, it underpins our relationship with our customers, helping us to Earn the Trust of our Customers Every Day.

OBJECTIVE 8: ADAPTING TO FUTURE CHALLENGES

Long-term planning – see page 38 for details of our planning process for PR24 and beyond, including our consideration of asset planning and resilience, and the risks and opportunities identified through the Task Force on Climate-related Financial Disclosures review we have carried out.

Risk Management - see pages 68 to 76 for details of our Enterprise Risk Management Framework and strategic risk reporting.

INNOVATION

We have made good progress in the delivery of our innovation agenda as set out in our Innovation Strategy, see **dwrcymru.com/innovationchallenges**

In the last 12 months we have won or are part of collaborative Innovation projects worth £18.9 million, via the Ofwat £200 million fund. We have also resubmitted two projects which we are leading and nine which we are supporting to the Ofwat Breakthrough challenge in February 2022. All of these are based on collaborative partnerships with other companies and the supply chain. Our Research programme, and our biodiversity and other projects targeted at enabling regulatory change, have 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 – again, all of these are partnerships.

In 2021 we progressed 24 technology-related projects, from a total of 166 which have arrived at our Innovation web base portal.

Such projects are reviewed through our now well established iLab process and compared to both our AMP7 KPI targets and Welsh Water 2050 to ensure that our innovation investment remains appropriately targeted.

Of particular note this year has been our support of the development and launch of the new Sector Innovation Body – Spring. Our Director of Environment, Dr. Tony Harrington, was one of two founding directors of Spring, which will be the central coordinating body for the sector managing treatment process trials, new technology developments, and interfacing with UKWIR on research. We anticipate that Spring will enable a much more efficient delivery of technology development projects, and it may well become the principal route for sector-wide innovations going forward.

Our research work, including that at UKWIR, has been used to support policy change in the EU, and we hope will mean the new Directives being drafted, including the Urban Waste Water Treatment Directive, will establish the base for affordable, sustainable investments. It has also supported the development and implementation of Covid-19 and SARS2 monitoring at 20 of our Wastewater Treatment Works, informing the Welsh Government weekly of the presence of the virus in over 70% of our population. This is to be expanded to almost 50 sites by the end of the year.

OBJECTIVE 9: DEMONSTRATING ACCOUNTABILITY

Our approach to governance issues builds compliance with good governance and detailed risk management into our decision-making at all levels of the business. Good governance is everyone's responsibility and the projects undertaken this year reflect this – holding ourselves to the highest standards of compliance with governance across different teams and business areas.

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COMPLIANCE WITH CORPORATE GOVERNANCE REQUIREMENTS

We have made a commitment to conducting the business of Dŵr Cymru Welsh Water as if we were a premium listed company, complying with the UK Corporate Governance Code as far as possible. For information on our compliance with the Code, see the table on page 118. We are also bound by the Common Terms Agreement which governs our relationship with our bondholders.

EXTERNAL CHALLENGE AND ENGAGEMENT

Since Glas Cymru was established in 2001 our Board has comprised a majority of independent Non-Executive Directors (for further information on the backgrounds, skills and experience of our Board members and the work carried out by the Board, see pages 111 to 126).

Glas Members: Glas Members have no financial stake in the Company, but are drawn from across our supply area, and have a wide range of backgrounds, skills and experience. (For more information see pages 122 and 125).

Customer Challenge Group: Membership of this group is drawn from third sector organisations representing customer groups and individual business customer representatives, whilst observers include representatives from CCWater, our consumer interests regulator. The role of the Customer Challenge Group includes scrutinising customer strategy and relevant policies, and reviewing our performance and progress against the 2020 Wellbeing Commitments (see further on pages 39 and 55 and at **dwrcymru.com/wellbeing**).

Independent Environmental Advisory Panel (IEAP)

The IEAP has been established to support Dŵr Cymru to (i) maximise the value of its investment programme for customers and the environment, and (ii) to secure a safe and sustainable future for our environment (see page 55).

As well as environmental considerations, the IEAP takes into account the social and economic consequences of any advice they offer, including the impact on 'affordability' of proposed investments.

Member organisations of the IEAP include a number of front line environmental organisations in Wales and England, and members also include leading academics from England and Wales, who support the scientific capability of Dŵr Cymru and thus ensure every pound is invested to deliver best value for money in achieving our environmental objectives.

ANTI-SLAVERY INITIATIVES

Supply Chain Compliance Standards

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

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

During 2022-23, we intend to engage with our top 105 suppliers (with which we spend 80% of our annual expenditure) and 25 lower spend suppliers, which we have assessed as providing services with a greater risk of modern day slavery in their supply chains, to reinforce the requirements of our SCC, request confirmation of compliance, and also review such suppliers' Modern Day Slavery policies.

We held a week-long campaign in October 2021 on modern slavery awareness. Procurement, in conjunction with the Hope for Justice Alliance, engaged with and trained 57 operational front line managers, 29 colleagues from the Procurement and Compliance teams, 28 suppliers (which provide services with a higher risk of modern slavery occurring in their supply chain) and 96 colleagues from the wider business, on how to identify the signs that modern slavery may be occurring and to confirm our reporting procedures in the event that modern slavery is suspected to be taking place. We also highlighted the SCC and the requirement to comply with this during the training sessions. Our Anti-slavery statement can be found at **dwrcymru.com/antislavery**

Our Anti-Bribery and Corruption policy: No breaches of policy were notified to Internal Audit or the external whistleblowing hotline during the period 2021-22.

ACCREDITATIONS FOR FAIR TAX AND FAIR PAYMENTS

Fair Tax Mark: In July 2021, Welsh Water became the first company in Wales to secure Fair Tax Mark accreditation reflecting the company's responsible and transparent management of its taxes.

Prompt Payment Code accreditation: We signed up to the PPC in May 2019, committing to pay 95% of our suppliers within 60 days. From 1 July 2021 signatories were required to pay 95% of suppliers with fewer than 50 employees within 30 days. We have tried to identify all existing suppliers with under 50 employees by writing to all suppliers requesting confirmation of their employee numbers and by using the Credit Safe reporting tool.

In addition, we have included a mandatory step in our vendor set-up process to capture this data for all new suppliers.

As at end March 2022, we were achieving payment of all those small business we are aware of within 30 days, and 91% of total invoices for all suppliers within 30 days of receipt, with plans for further improvement.

OBJECTIVE 10: 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 (see further on page 95)).

In March 2022 Ofwat set out its proposals for a more collaborative approach in Wales to the next price review (PR24). Welsh Water and Hafren Dyfrdwy 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 at WWTWs 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 (see further page 84 above).

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 long-standing 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.

WaterAid

TCFD: CLIMATE RISK ASSESSMENT

INTRODUCTION AND OVERALL APPROACH

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 **dwrcymru.com/tcfd**.

SCENARIO ANALYSIS

Scenario analysis assesses the resilience of our organisation and its strategy to different futures. We defined two diverse and plausible scenarios (Figure 1) that encompass the material drivers of climate: (i) a rapid and orderly transition to a low carbon future, and (ii) a delayed and disorderly transition. Through these scenarios, we explored the transitional impacts to 2050 (i.e., societal response), which may be greater in a rapid orderly transition, and the physical impacts to 2050 (i.e., sea level and weather) which may be greater in a delayed and disorderly transition.

FINANCIAL QUANTIFICATION

Impacts that could lead to both risks and opportunities were considered in terms of how they may result in acute or one-off costs, long-term operational costs as well as capital investment. For example, flooding of the drainage and wastewater network could result in short-term costs of dealing with outages (such as tankering) as well as requiring longer-term investment to increase our sewer network capacity. The quantification captures the range of potential impacts of the future scenarios on our business as relatively 'high', 'medium' or 'low' and should not be interpreted as performance forecasts.

CLIMATE-RELATED RISKS AND OPPORTUNITIES

We framed our material climate-related risks in terms of their potential to lead to service failures. From there, we identified the potential costs and investment required to mitigate the risks. We framed the opportunities around their potential to help offset the costs of some of the risks, as well as allowing us to accomplish more and at a faster pace.

We analysed the material climate-related risks and opportunities using a severity/sensitivity model (Figure 2), where severity is an initial estimate of the scale of financial impact and sensitivity refers to how dependent the risk or opportunity is on the physical and transitional changes described in the future scenarios.

As a regulated organisation, our ultimate climate-related risk, that those in Figure 2 contribute to, is that we become unable to deliver our services or that we invest heavily to mitigate the risks but pay insufficient attention to those who struggle to pay. This could lead to significant increases in customer debt and an erosion of customer trust. Conversely, the opportunities in Figure 2 could all contribute to us achieving our mission set out in Welsh Water 2050 'to become a world-class, resilient, and sustainable water company water service for the benefit of future generations'. These opportunities could be more effectively realised under a rapid and orderly transition scenario, and we recognise that we must play our part as society moves toward a low carbon, green future.

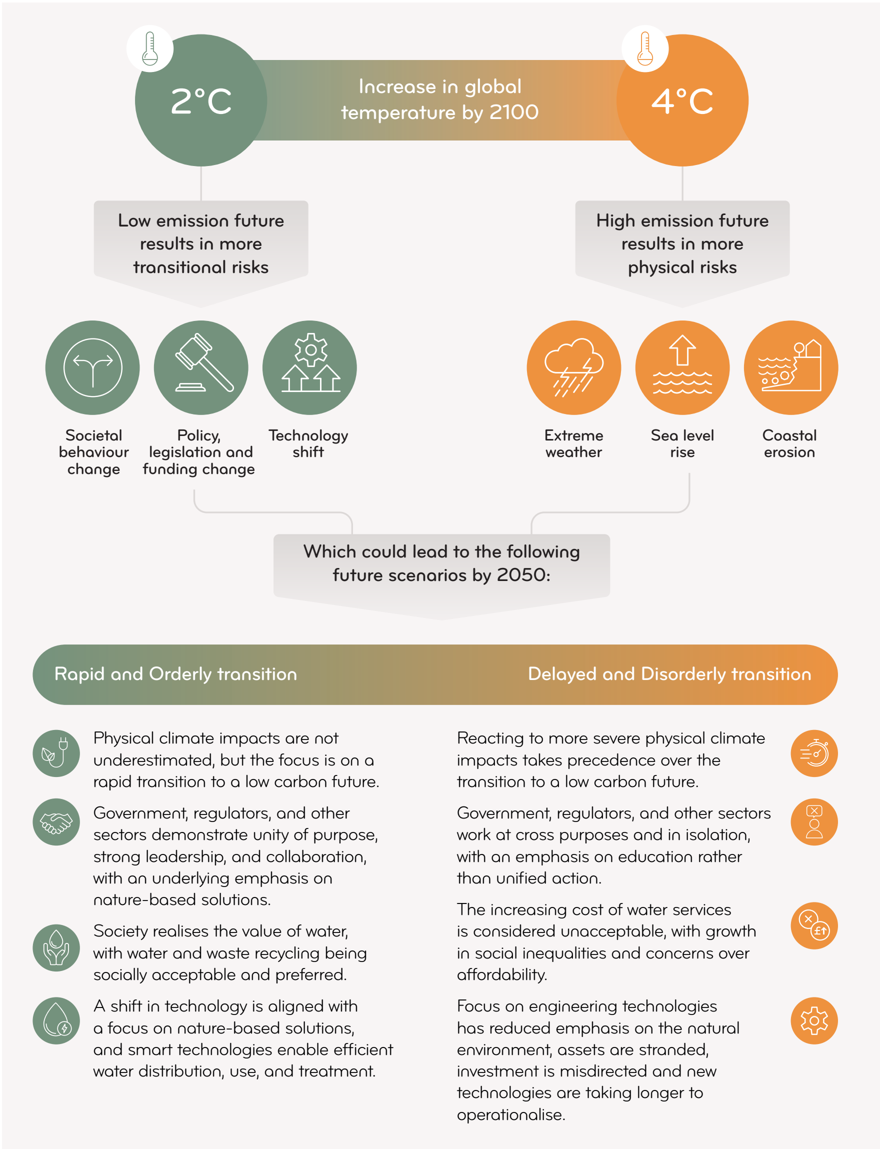


Figure 1. Infographic depicting the two future scenarios used to assess climate impacts

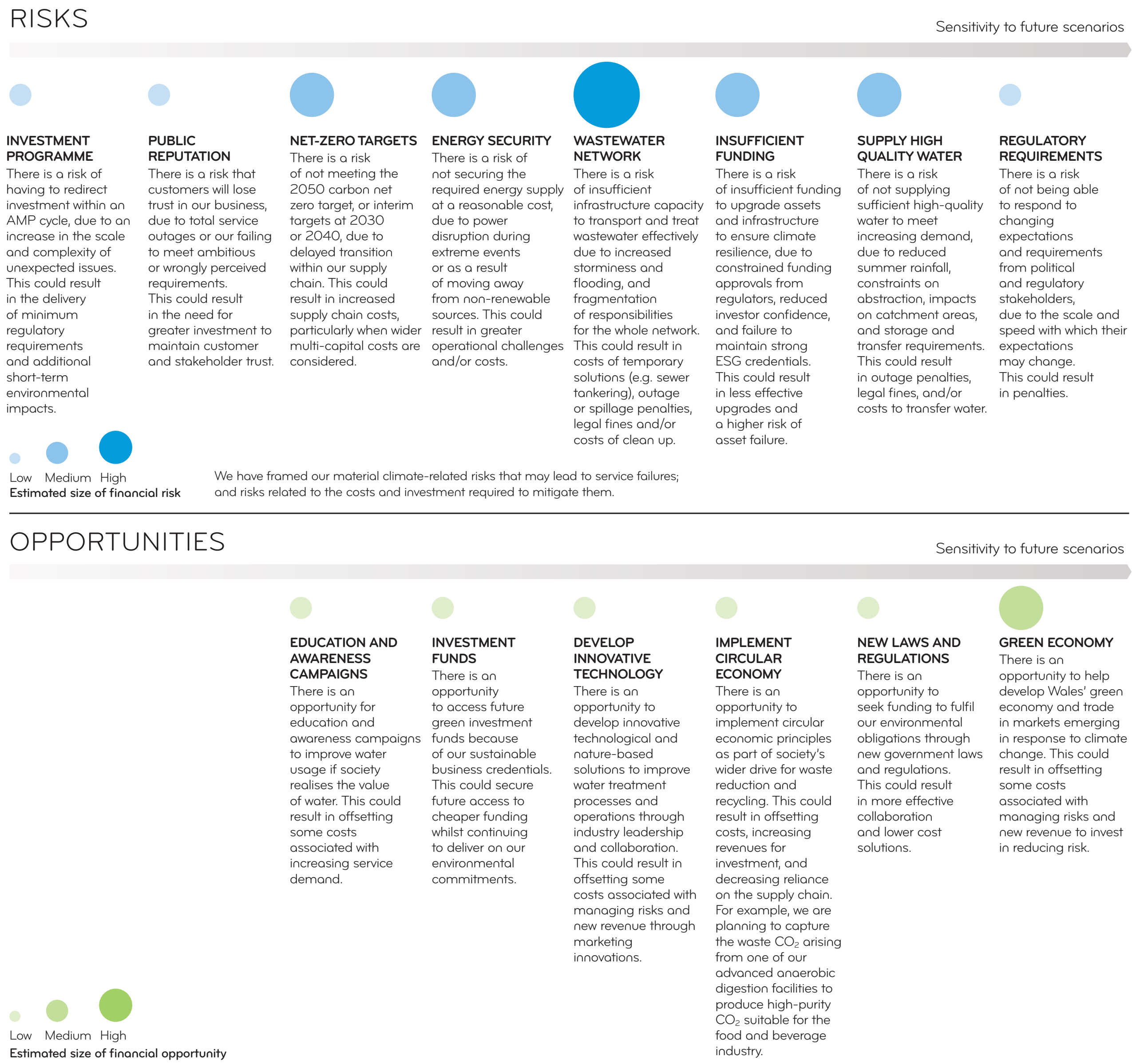


Figure 2. Summary illustration of material climate-related risks and opportunities

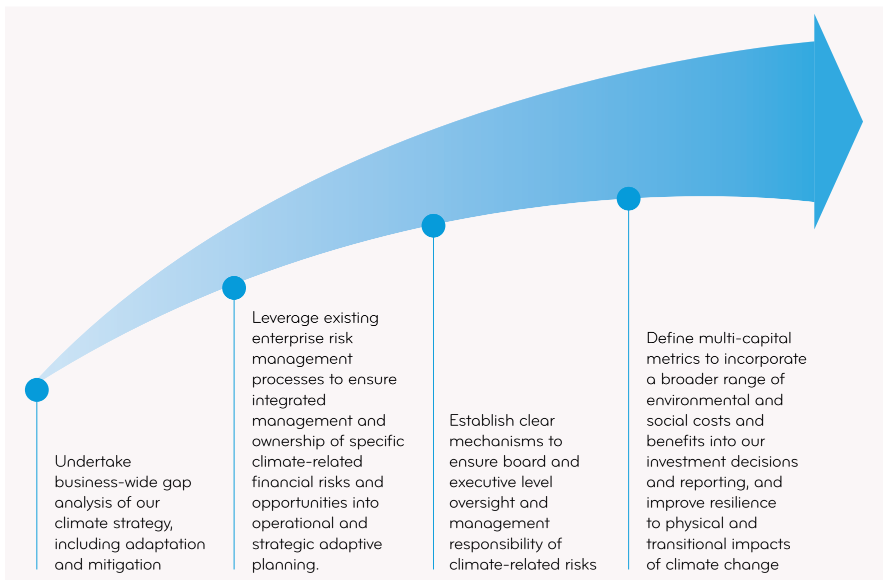


Figure 3. Agreed next steps

AGREED NEXT STEPS

The TCFD report enhanced our understanding of the risks and opportunities that Welsh Water faces. The additional insight has strengthened our commitment as a business to support wider society's orderly transition to a low carbon and environmentally focussed future which will benefit our business as well as our customers. Beyond our ongoing commitment to reduce carbon emissions and transparency in climate risk assessment, we have agreed the next steps set out in Figure 3.

CARBON NEUTRALITY

PROGRESS TO CARBON NEUTRALITY

Welsh Water has a made a commitment to become fully carbon neutral, or better, by 2040, and it targets a 90% reduction of its total footprint by 2030, compared to a 2010-11 baseline. The scope of this target includes all the operational and embedded emissions (i.e. all relevant scope 1, 2 and 3 emission sources) that are deemed to be in Welsh Water's operational control.

The current Ofwat Performance Commitment associated with our carbon footprint, is percentage 'Energy Self-Sufficiency', which indicates how much of the Company's energy demand (electricity and natural gas) is being met by its own renewable generation assets or by third party renewable energy generators supplying Welsh Water directly via a private wire connection.

Welsh Water's target is to increase its energy self-sufficiency to 35% by 2025, with the aim of reaching 50% by 2030 to enable it to meet its overall 2030 carbon footprint reduction target.

Our strategy targets a total emission level of 30-35kt by 2030. The latter is above and beyond the level of ambition needed to curb global temperature rise to 1.5 degrees, which requires organisations to reduce their emissions by at least 4.2% per annum between 2020-2030 (source: Science Based Target initiative (SBTi)). The latter is equivalent to a 35% reduction in absolute emissions over a 10-year period which would equate to an equivalent target emission level of 65-70kt by 2030.

Welsh Water joined the UN Race to Zero initiative in June 2021 and has submitted the following pledge to the Welsh Government:

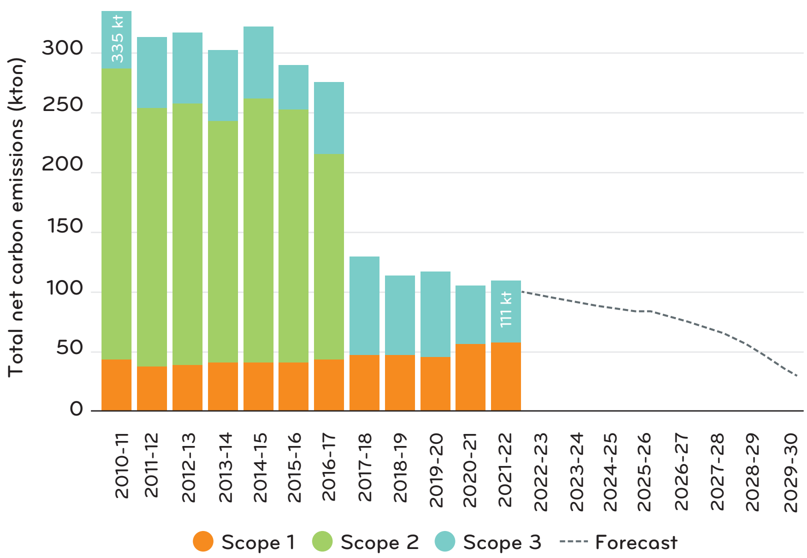
'It's our ambition to become a world-class, resilient and sustainable water service for the benefit of future generations. As part of this ambition, Dŵr Cymru Welsh Water is targeting full carbon neutrality by 2040 and to achieve a 90% reduction in its total carbon footprint (operational & embedded emissions) by 2030.

Welsh Water will build on the 65% reduction it has achieved since 2010-11 and commit to inspire our customers, regulators and other stakeholders to actively support us in delivering these ambitious targets, while pursuing their own carbon agendas'.

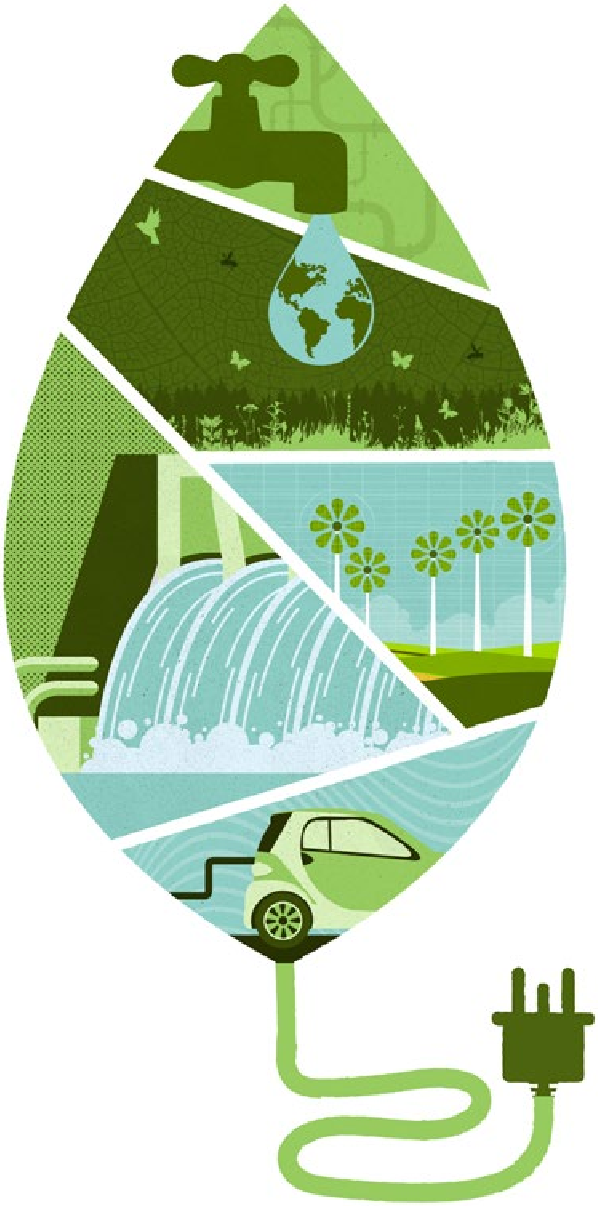
The targets that the Company has set go further than the one set by the English water companies (which targets net zero operational emissions by 2030) and is about targeting net zero total emissions, including all the relevant scope 3 emissions.

Our targets have been set, taking into account our unique asset portfolio and with the overall objective in mind to minimise the total carbon emissions emitted (direct, indirect and embedded) across the lifecycle of an asset (construction and operation), to ensure the assets are sustainable in the long term.

The 2040 target is set by appreciating the technological challenges, to fully decarbonise the wastewater treatment process (associated with nitrous-oxide and methane emission) and our capital (construction) programme; however, the ambition is to get there sooner. The graph below shows the estimated total carbon footprint of the Company, provides a breakdown of the main carbon emission sources (i.e. net emitters, and net carbon sinks), and illustrates the good progress we have made to date on reducing our total carbon footprint (both operational and embedded) over the last decade, resulting in a 67% reduction compared to an estimated baseline footprint of 335kton in 2010-11.



This improvement is mainly driven by the decarbonisation of our electricity consumption. The emissions associated with the gross electricity consumption has been offset by a combination of Company-owned renewable generation, private wire power supplies, and the purchase of Renewable Energy Guarantee of Origin (REGO) backed electricity from our supplier. The latter results in a net zero electricity supply (market based), excluding the transmission and distribution losses, which have been included in our scope 3 emissions.



OUR GOALS

2022
- We have reduced total carbon emissions by 67% (compared to 2010 levels)
- We and our partners (private wire supply) now generate 24% of our own energy needs

2025
- We plan to be 35% self-sufficient

2030
- We will reduce total carbon emissions by 90% (compared to 2010 levels)
- We plan to be >50% self-sufficient

2040
- We will become carbon neutral
- We plan to be 80% self-sufficient

2050
- We aim to become an energy neutral business

CARBON NEUTRALITY

To increase its energy self-sufficiency to 35% from its current level of 24%, Welsh Water continues to invest in renewable energy generation technologies and partnering with other organisations on increasing private wire supply of renewable energy, but the investment will be heavily focused on reducing energy consumption.

Historically, Welsh Water's gross energy consumption shows a trend of year-on-year increases in consumption, but 2021-22 energy consumption has shown a decrease in energy consumption for the first time in five years. This decrease was mainly driven by a significant reduction in observed rainfall levels in Wales. The latter also reduced the Company's hydro generation output, but in spite of that, its total renewable energy generation slightly increased compared to the previous year, to slightly over 122 GWh (electrical equivalent).

To support the delivery of the targeted 35% Welsh Water aims to spend £21 million on energy investment and renewable generation in AMP7, of which £13.4 million has been delivered in the first two years. This investment included the widespread deployment of energy efficiency lighting and smart heaters across our 4,000+ assets, the completion of two new hydro-generation stations and energy efficient pumps and blowers.

Following the roadmap development and associated detailed review of the Carbon Accounting Workbook by Water UK, it has been established that the UK water industry has been underreporting the fugitive greenhouse gas emissions (scope 1, mainly nitrous oxide (N_2O)) associated with wastewater treatment by at least a factor of two. This underreporting has been corrected and following the decarbonisation of electricity, the process and fugitive emissions are now the largest single operational emission source, with an estimated level of 37 $ktCO_2e$ per year. More sector research is required to understand the actual level of historical under-reporting of these emissions and what can be done to control and mitigate these emissions going forward. We will undertake research activities in this area in 2021-22, which will support the wider water sector research programme delivered by UKWIR.

To support the delivery of the 2030 and 2040 targets, the maturity of accounting for process, fugitive and embedded emissions will need to improve to a similar level to that of our energy consumption-related emissions.

METRICS AND METHODOLOGY – HOW WE MEASURE OUR CARBON FOOTPRINT AND ENERGY CONSUMPTION

Welsh Water, monitors and measures its carbon footprint by using the UK water industry carbon accounting tool (also known as the Carbon Accounting Workbook), which follows the 2013 UK Government Environmental Reporting Guidance and the GHG Protocol Corporate Accounting and Reporting Standard (2015). For Welsh Water Organic Energy, we monitor and measure its carbon footprint using the Protocol for the quantification of green house gas emissions from waste management activities, which also follows the GHG Protocol Corporate Accounting and Reporting Standard (2015). The net carbon emissions (market based) have been verified to ISO14064 Part 1 2018 and CEMARS.

The reported carbon footprint includes direct, indirect and other emissions (also known as scope 1, 2 and 3 emissions) that are deemed in our operational control. The sum of the three scopes are the total carbon emissions (net emissions, using the market-based accounting methodology). For completion the gross operational carbon emissions trend (location-based methodology) are also presented in the table opposite.

The reported carbon footprint includes the embedded carbon emissions associated with the capital investment programme, (also commonly referred to in the industry as 'capital carbon' (scope 3, capital goods). These emissions are calculated outside the Carbon Accounting Workbook and are a best estimate and are a voluntary reporting requirement by Ofwat.

The Group's total energy consumption and energy saving potential is reported every four years to comply with the Energy Savings Opportunity Scheme (ESOS) regulation. However, Dŵr Cymru's energy use is also reported annually as part of the Annual Performance Report and the energy consumption is calculated in line with Ofwat's Regulatory Accounting Guidelines.

The information in the table opposite meets the requirements of the Streamlined Energy and Carbon Reporting (SECR) regulations.

ENERGY USE AND GREENHOUSE GAS EMISSIONS YEAR ON YEAR

CARBON FOOTPRINT METRICS	UNITS	2020-21	2021-22	COMMENTS
Total Gross Operational Carbon Emisions	tCO_2e	208,845	211,233	Location-based gross total
Scope 1 emissions	tCO_2e	56,768	57,998	Fossil fuel use (heating and transport) and emissions associated with treatment processes
Scope 2 emissions	tCO_2e	103,588	91,264	Purchased electricity (import)
Scope 3 emissions (mandatory)	tCO_2e	16,419	16,427	Business travel, outsourced activities and transmission and distribution losses associated with electricity use
Scope 3 emissions (voluntary)	tCO_2e	32,070	35,544	Estimated emissions associated with capital goods and services delivered by Welsh Water's Capital Alliance
Emissions reductions				
Exported renewables	tCO_2e	-9,225	-9,619	Emissions reductions associated with renewable power that is exported to the grid and netted of against purchased electricity (at average UK grid emission factor)
Renewable electricity procured	tCO_2e	-94,364	-81,645	Renewable Energy Guarantee of Origin backed
Total Net Operational Carbon Emissions	tCO_2e	106,049	110,667	Market-based net total
Water Services	tCO_2e	6,111	6,992	Market-based net total
Wastewater Services	tCO_2e	64,494	64,745	Market-based net total
Retail	tCO_2e	2,582	2,690	Market-based net total
Capital Alliance	tCO_2e	31,989	35,544	
Welsh Water Organic Energy (non reg)	tCO_2e	793	696	Scope 1 and 2 gross emissions
Carbon intensity				
Water Services	$kgCO_2e/ML$	4	4	Net operational carbon emissions (market based) divided by the distribution input
Wastewater Services	$kgCO_2e/ML$	93	102	Net operational carbon emissions (market based) divided by the volume of wastewater receiving treatment at sewage treatment works
Energy Consumption metrics				
Total Energy Consumption	MWh	593,440	581,828	
Water Services	MWh	252,976	252,031	
Wastewater Services	MWh	340,464	329,797	
Energy Intensity				
Water Services	kWh/ML	818	785	Total energy consumption divided by the distribution input
Wastewater Services	kWh/ML	566	594	Total energy consumption divided by the volume of wastewater receiving treatment at sewage treatment works

"WE WILL EARN THE TRUST OF OUR CUSTOMERS EVERY DAY"

GOVERNANCE REPORT

THIS SECTION SETS OUT OUR CORPORATE GOVERNANCE ARRANGEMENTS AND THE WORK OF THE BOARD AND ITS COMMITTEES DURING THE YEAR 2021-22


OUR CULTURE OF 'DOING THE RIGHT THING' FOR OUR CUSTOMERS WILL ALWAYS PREVAIL.

CHAIR'S INTRODUCTION TO GOVERNANCE

KEY FOCUS AREAS IN 2021-22:

- Overseeing the Group's response to the ongoing Covid-19 pandemic and the consequent changes to working practices.
- Considering the issues highlighted through ongoing monitoring of operational performance and considering the appropriateness of resulting action plans.
- Reviewing the Company's strategy to improve the quality of river water, including considering proposals for additional investment to support wastewater services, and the proposals for a Wales CSO taskforce.
- Overseeing the Company's response to regulatory requests for information in relation to Pass Forward Flow compliance at Wastewater Treatment Works.
- Considering proposals to revise and enhance the Group's Enterprise Risk Management Framework and the approach to setting risk appetite.
- Preparing for PR24 and receiving updates from the Asset Planning team on the progress of investment cases for the Company's PR24 business plan.
- Overseeing the progress of the project to construct Cwm Taf, a substantial new water treatment works, and considering the requirements for Board approvals to provide assurances to Ofwat that the scheme meets the requirements of Ofwat's Direct Procurement for Customers (DPC) delivery model.
- Considering the Company's proposals to increase customer bills for 2022-23 in the light of the Company's strategy for vulnerable customers and the emerging cost of living crisis.
- Reviewing the Company's strategies on Leakage and Reduction of Per Capita Consumption.
- Monitoring supply chain risk in light of geo-political developments following EU Exit and recently with the war in Ukraine, including the potential for the latter to increase cyber risk.

FOCUS OF THE BOARD IN THE LAST 12 MONTHS

It won't be a surprise that the impact of the pandemic has been one of the key underlying themes of the discussions at the Board throughout 2021–22. However, whilst Covid-19 has had, and will likely continue to have, a significant impact, the Board has spent as much of 2021–22 focusing on the future, to ensure that Welsh Water can continue to deliver for its customers, local communities and the environment over both the current five-year business plan period and beyond. Our culture of 'doing the right thing' for our customers will always prevail.

The Board's strategy day was held in November 2021, enabling the Board to spend time debating a number of strategic and long-term business priorities, including reviewing our vision for Welsh Water 2050, published in 2018 - an update on this document has been published in spring 2022.

A particular focus for the day was our preparations for the next five-year price review, PR24, understanding the challenges and opportunities for Welsh Water, together with an update on achieving a more collaborative approach to PR24 in Wales through the PR24 Forum, which will bring us together with Welsh Government, Ofwat and other key stakeholders to agree the right plans for the future.

We recognise the crucial importance of working in partnership with our key stakeholders which plays a vital role in our decision-making. Examples of the decisions taken in relation to our stakeholders together with details of engagement with them are set out in the Board's S172 Statement on page 54.

GOVERNANCE CHANGES

During the year the Board has approved the implementation of the following enhancements to processes:

- Risk management – The Board approved an updated Enterprise Risk Management (ERM) Framework which describes how risks are identified, evaluated, treated, monitored and governed across Welsh Water. In addition, there has been an increased focus on the risks and opportunities emerging from the impacts of climate change and in relation to cyber threat (see further page 70).
- Task Force on Climate-related Financial Disclosures (TCFD) Recommendations – we have worked with Jacobs consultancy during 2021-22 to benchmark our reporting against TCFD requirements and we have used our work on reviewing our governance and analysis of climate-related risks and opportunities to ensure that our long-term planning properly takes into account these issues (see page 100 for more information). This activity is overseen by the Board's Environment, Social and Governance Committee, established in June 2021.
- A Committee of the Board, the Cwm Taf Project Committee, was established in December 2021 to monitor the progress of a major long-term project to construct a new Water Treatment Works at Merthyr Tydfil, to replace three smaller water treatment works and thereby build greater resilience for current and future supplies. The Committee will remain in place for the duration of the Project and will provide the necessary approvals and Board assurance required under Ofwat's Direct Procurement for Customers delivery methodology, involving competitively tendered services. For more information on this project, see page 45.

CHAIR'S INTRODUCTION TO GOVERNANCE

PEOPLE

As a Board, we consider it very important to have direct engagement with our colleagues at Welsh Water; even more so during the pandemic to get an understanding of the day-to-day challenges they faced, both from an operational and office-based perspective. The feedback during the past year has primarily focused on the different ways of working since the start of the pandemic and how colleagues are feeling, more generally, about moving to 'hybrid' working as the Covid restrictions are lifted, 'hybrid' here meaning two days working in the office per week for those full-time colleagues who are office-based, with the remaining three days working from home. For our operational colleagues who have continued working on site or in our communities while observing the pandemic restrictions, they have masterfully dealt with changes to their working practices, in particular, to maintain social distancing. As Non-Executive Directors we have undertaken some operational site visits which have enabled face-to-face meetings with colleagues which has provided us with the opportunity to discuss and appreciate some of the issues first hand. It has also allowed us to see the great work being done on the ground by our operational colleagues as well as those who are office-based.

We are pleased to oversee the progress that has been made in the area of diversity and inclusion across the business during the past year, and the introduction of a Culture Survey, in addition to the customary colleague Engagement Survey, as we welcomed our new People Director, Martin Driscoll, to the business during 2021. Members of the Board met with representatives of the Re:Think ED&I Group in July 2021, to hear about the progress that is being made in recruiting and retaining a diverse workforce and in encouraging specific initiatives such as the Company's schools outreach programme and our work with community groups.

MEMBERS

The Company's Annual General Meeting, held in July each year, which welcomes a large number of our Members, was again held virtually in 2021. Other engagement with our Members during the past 12 months has included a Welsh Water 2050 Workshop and visit to Plas Uchaf reservoir to understand the work involved in the spillway refurbishment, and to the Dinas depot in north Wales. We appreciate the valuable role our Members perform in relation to our not-for-shareholder governance model. Further detail on our engagement with Glas Cymru Members is on page 122.

BOARD EVALUATION AND SUCCESSION

Details of the internally facilitated evaluation of the Board's performance, which was led by myself with support from the Company Secretarial team, are set out on page 127 of this report. I am pleased to confirm that the output from that evaluation showed that the Board continues to operate effectively.

While there have been no new appointments to the Board since Jane Hanson's appointment in January 2021, this year being Jane's first year as Audit Chair, recruitment is underway to appoint a new Non-Executive Director to succeed Graham Edwards, Senior Independent Director and Chair of the Quality and Environment Committee, when he retires at the AGM in July 2023.

CONCLUSION

Overall, I am confident that the Board has ensured strong compliance with the key principles of good governance in all aspects of its decision-making.

GOVERNANCE FRAMEWORK

OUR MEMBERS

Individuals independently drawn from across our supply area (with no financial stake in the business) who hold the Board to account for the stewardship of our assets and for providing an essential public service.

THE BOARD

Responsible for the overall conduct of the Group's business, including our long-term success; setting our purpose, values, standards, and strategic objectives; reviewing our performance; maintaining oversight of our governance framework; and ensuring a positive dialogue with our stakeholders is maintained.

AUDIT COMMITTEE

Reviews the integrity, adequacy, and effectiveness of the Group's systems of internal control and risk management and related activities.

NOMINATION COMMITTEE

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

TECHNOLOGY COMMITTEE

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

FINANCE COMMITTEE

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

QUALITY AND ENVIRONMENT COMMITTEE

Reviews and monitors risks to the business arising from operational, environmental and health and safety related issues.

REMUNERATION COMMITTEE

Sets, reviews and recommends the policy on remuneration of the Chairman, the Executive Directors and the senior management team. Determines the remuneration of the Chairman and the Executive Directors in accordance with the Remuneration Policy. Maintains oversight of the remuneration policies and practices for the whole workforce, having regard to these when determining the remuneration of the Executive Directors.

ENVIRONMENT, SOCIAL AND GOVERNANCE COMMITTEE

Develops and oversees the Group's ESG Strategy. Monitors performance against the Company's ESG targets and key performance indicators. Approves how the ESG Strategy is communicated internally and externally. Considers how all elements of the ESG Strategy are reported, in particular which measures are adopted by the Company. Ensures that the Company maintains appropriate policies to effectively support its ESG Strategy, in particular its environmental impact.

CWM TAF PROJECT COMMITTEE

Oversees the progress of the Cwm Taf Project (see page 45) and makes recommendations to the Board in relation to the necessary approvals and Board assurances that are required under Ofwat's Direct Procurement delivery model.

EXECUTIVE COMMITTEE

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

KEY EXECUTIVE LEVEL FORUMS WHICH SUPPORT THE EXECUTIVE COMMITTEE

INFORMATION SECURITY STEERING GROUP

Ensures that the Group's information is protected and risks are mitigated

The ISSG is supported by a Data and Analytics Steering Group

CAPITAL PROGRAMME GROUP

Ensures the effective delivery of the Group's capital programme

POLICY APPROVAL COMMITTEE

Supports the review, approval, and communication of Group policies

WELSH WATER HOLDINGS BOARD

Oversees the Group's commercial entities which sit outside of the regulated business

REGULATION STEERING GROUP(S)

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

PERFORMANCE AND PROJECT GROUPS

Focused on customer strategy and service, business change, efficiency and delivery, and smarter ways of working.

GOVERNANCE FRAMEWORK

We pride ourselves on conducting our business in an open and transparent manner. Our governance framework remains flexible, allowing for fast, efficient, and effective decision-making and management oversight. The Board monitors the performance of our operations, our internal governance structure, and the management of risk and related controls, while maintaining oversight over the way the business is operated by the Executive team and its constituent management committees. The Executive team is responsible for implementing the strategy agreed by the Board to achieve the Company's medium and long-term objectives and to deliver the required operational performance targets in accordance with an established risk management framework, compliance policies, internal control systems and reporting requirements.

The Executive team appointed by the Chief Executive Officer comprises 17 individuals representing all the key functions of the business, and is closely supported by our risk management and internal audit functions.

Supporting the Executive team there is a clearly defined management structure and governance framework, consisting of sub-committees and project-specific steering groups, which operate within defined terms of reference and in accordance with our Group policies. All decisions made by individuals or by committee which involve financial spend or an associated risk are governed by the Group's established Delegations of Authority. This is structured to ensure that day-to-day operational decisions can be taken efficiently, while ensuring higher-risk and high-value commitments go through the appropriate channels for approval.

By maintaining this structure of management control, Welsh Water's operations are run effectively and decisions are made in line with our commitment to our values to always do the right thing. This structure also ensures that all decision-making is adequately informed and is supportive of the Directors' duties under Section 172 of the Companies Act 2006 to act in a way that reflects:

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

Details of how we engage with our key stakeholders and examples of how the Board has taken their interests into consideration during the year are described in the Section 172 Statement on pages 54 to 57.

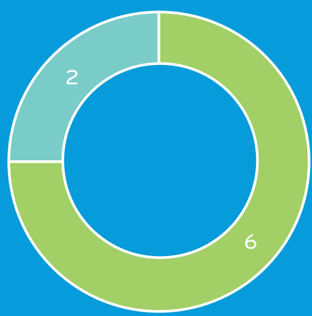
GOVERNANCE AT A GLANCE

BOARD COMPOSITION STATISTICS

GENDER DIVERSITY

Female
Male

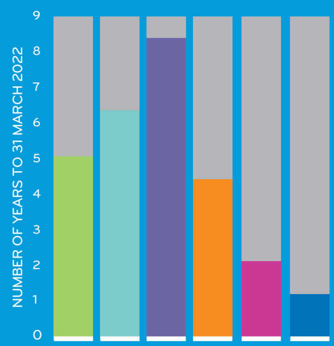
INDEPENDENCE



Non-Executive
Executive Directors

BOARD TENURE OF NON-EXECUTIVE DIRECTORS

shown in years and months since date of appointment to 31 March 2022



A Lyons
J Kenrick
G Edwards
T Crick
D Bowen Rees
J Hanson

SKILLS AND EXPERIENCE OF NON-EXECUTIVE DIRECTORS

Skills and Experience matrix	Alastair Lyons	Graham Edwards	Joanne Kenrick	Tom Crick	Debra Bowen Rees	Jane Hanson
Financial reporting	💧💧	💧	💧			💧💧
Risk	💧💧	💧💧	💧	💧	💧	💧💧
Technology	💧	💧	💧	💧💧	💧	💧
Information security	💧	💧	💧	💧💧		💧
Customer strategy	💧	💧💧	💧💧	💧	💧	💧
People management	💧	💧💧	💧💧	💧	💧	
Remuneration structuring and workforce engagement	💧💧	💧💧	💧💧	💧	💧	💧
Operational – Complex business		💧💧	💧💧		💧💧	💧💧
Operational – Utilities		💧💧				
Marketing		💧	💧💧			
Stakeholder relationships	💧💧	💧💧	💧	💧💧	💧💧	💧💧
Regulatory relationships	💧💧	💧💧	💧	💧	💧💧	💧💧
Public affairs	💧	💧	💧	💧💧	💧💧	💧
ESG reporting	💧	💧	💧	💧	💧	💧
Compliance management	💧	💧			💧	💧💧
Water sector	💧	💧		💧		
External communications	💧💧	💧	💧💧	💧	💧	💧
Audit	💧💧	💧	💧	💧		💧💧
Supplier management		💧💧	💧		💧	💧
Logistics		💧			💧	
Strategy and planning	💧💧	💧💧	💧💧	💧	💧💧	💧💧
Health and safety		💧💧		💧	💧	💧
Treasury	💧💧					💧

Key: 💧 Knowledge and experience on working basis. 💧💧 Deep knowledge and experience, key skill area.

GOVERNANCE AT A GLANCE

MEETING ATTENDANCE

Fourteen Board meetings took place during the year (comprising eleven scheduled meetings and three additional meetings which were held to discuss our responses to Ofwat on Pass Forward Flow). The table below shows the actual number of meetings attended and the maximum number of Board and Committee meetings which the Directors could have attended. Every effort is made by Board members to attend all meetings.

Director	Board	QEC	Audit	Remuneration	Nomination	Finance	Technology	ESG	Cwm Taf Project
Peter Perry	14/14	7/7	5/5	6/6	2/2	0/0	3/4	3/4	1/2
Mike Davis	13/14	–	5/5	–	–	0/0	–	3/4	2/2
Alastair Lyons	14/14	7/7	–	6/6	2/2	0/0	4/4	4/4	2/2
Graham Edwards[1]	13/14	7/7	2/3	–	2/2	–	–	–	2/2
Deb Bowen-Rees	14/14	7/7	5/5	6/6	–	–	–	4/4	–
Tom Crick[2]	14/14	7/7	–	3/3	–	–	4/4	–	–
Jane Hanson[3]	13/14	7/7	5/5	–	–	–	4/4	4/4	2/2
Joanne Kenrick	14/14	–	5/5	6/6	2/2	–	3/4	–	–
John Warren[4]	3/3	–	2/2	2/2	–	–	0/1	–	–

1. Stepped down from Audit Committee in October 2021
2. Joined Remuneration Committee in November 2021
3. Attends Technology Committee at the invitation of the Chair
4. Retired at AGM July 2021

BOARD ACTIVITY HIGHLIGHTS

BOARD COMPOSITION AND SUCCESSION

PROGRESS MADE
The Board reviewed Board and Committee size and memberships following the retirement/appointment of Non-Executive Directors in 2021 and the establishment of the ESG Committee and new Cwm Taf Project Committee (see below).

ACTION TAKEN
See page 128 (Nomination Committee Report) for changes made to Committee memberships and decision to recruit a new Non-Executive Director.

ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG)

PROGRESS MADE
The Committee, established in June 2021, agreed the ESG Strategy and KPIs, and approved the approach to TCFD disclosures for the year.

ACTION TAKEN
A full report of the Committee's activities is set out on page 144.

EXTERNAL AUDIT RE-TENDER

PROGRESS MADE
The Audit Committee agreed to commence the external audit re-tender process.

ACTION TAKEN
See page 137 for information on the tender which commenced in December 2021.

CWM TAF PROJECT COMMITTEE

ACTION TAKEN
The Committee is overseeing the development of the new Cwm Taf Water Treatment Works which is being undertaken under Ofwat's Direct Procurement for Customers (DPC) delivery model for competitively tendering services, to ensure best value for customers (see page 45 for more details on the project). The Committee will ensure that the Board is able to provide appropriate assurance to Ofwat that the process has been followed at various stages of the project.

BOARD DIVERSITY

PROGRESS MADE
The Nomination Committee reviewed and recommended the Board approve its Diversity Policy, including a target to appoint one Board Member from a BAME background by the end of 2025.

ACTION TAKEN
See page 128 (Nomination Committee Report) for further details.

BOARD OF DIRECTORS

ALASTAIR LYONS CBE

CHAIR OF THE BOARD

C N CHAIR
T E F R Q

Appointed: May 2016

RESPONSIBILITIES
Alastair was appointed Non-Executive Director in May 2016 and was deemed independent on his appointment as Chair of the Board in July 2016. He is also Chair of the Nomination Committee and Cwm Taf Project Committee.

SKILLS AND EXPERIENCE
A chartered accountant by training, Alastair has 20 years' experience as non-executive chair of both listed and private companies. During an extensive executive career in financial services, he was Chief Executive Officer of both the National Provident Institution and the National & Provincial Building Society, Managing Director of the Insurance Division of Abbey National plc, and Director of Corporate Projects at National Westminster Bank plc. He was awarded the CBE in 2001 for services to social security, having served as a Non-Executive Director of both the Department for Work & Pensions and the Department of Transport.

OTHER PAST EXPERIENCE
Chair of the Admiral Group, the direct motor insurer, from 2000 to 2017, and subsequently of AECS, Admiral's European holding company, until 2021. Chairman of Towergate Insurance, Chairman of Serco, the international services group, Deputy Chairman of Bovis Homes, and Senior Independent Director at Phoenix, the life assurance consolidator.

EXTERNAL APPOINTMENTS
Chairman of Harworth Group plc and Vitality UK.

GRAHAM EDWARDS OBE

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

C N Q CHAIR

Appointed: October 2013

RESPONSIBILITIES
See summary on page 138. Graham was appointed Senior Independent Director in July 2020. He is also Chair of the Quality and Environment Committee.

SKILLS AND EXPERIENCE
Graham is Chief Executive Officer of Wales & West Utilities. He has significant senior management experience in the utility sector running electricity distribution and water businesses with South Wales Electricity, Hyder and Thames Water. Prior to working in utilities he held senior positions in various functions across a wide range of manufacturing businesses including engineering, production and human resources. Graham has an MBA from Cardiff Business School and is a Fellow of the Chartered Institute of Personnel and Development.

OTHER PAST EXPERIENCE
Chair of CBI Wales and Business in the Community Cymru. Non-Executive Director of the Royal College of Music and Drama. Governor of the University of South Wales.

CURRENT EXTERNAL APPOINTMENTS
Board member of the Energy Networks Association.

PETER PERRY

CHIEF EXECUTIVE OFFICER

C E F N Q T

Appointed: October 2017

RESPONSIBILITIES
Within the strategies set by the Board, to manage the Group's business effectively.

SKILLS AND EXPERIENCE
Peter was appointed Chief Executive Officer in April 2020. He was the Managing Director of Dŵr Cymru Welsh Water from October 2017 after four years as Chief Operating Officer. Appointed Operations Director of Welsh Water in July 2006, Peter has a civil engineering background and was formerly the Chief Operating Officer for United Utilities Operational Services (UUOS), having previously been the Operations Director with responsibility for the operational contract with Welsh Water and UUOS's water interests in Scotland and Ireland. Prior to that he worked for Welsh Water for over 20 years.

OTHER PAST EXPERIENCE
Director (representing Wales) at The Water Regulations Advisory Scheme, the national body specifying standards for materials and workmanship used in potable water supply.

EXTERNAL APPOINTMENTS
Chair of the Wales Leadership Board, and Member of the Community Leadership Board, of Business in the Community Cymru; Member of the Water UK Board and adviser on the UK Resilience Forum.

KEY

- A Audit Committee
- C Cwm Taf Project Committee
- E ESG Committee
- F Finance Committee
- N Nominations Committee
- R Remuneration Committee
- Q Quality and Environment Committee
- T Technology Committee
- CHAIR Chair of Committee

MIKE DAVIS

CHIEF FINANCIAL OFFICER

C E F

Appointed: January 2020

RESPONSIBILITIES
Primary responsibility for the Group's financial operations.

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

OTHER PAST EXPERIENCE
During 2010-2014, Mike was a Non-Executive Director at RCT Homes, a registered social landlord, chairing its Asset Management Committee and Treasury Committee. He was previously also a Director of UK Water Industry Research.

EXTERNAL APPOINTMENTS
None.

DEBRA BOWEN REES

NON-EXECUTIVE DIRECTOR

A E CHAIR Q R

Appointed: January 2020

RESPONSIBILITIES
See summary on page 144.

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

SKILLS AND EXPERIENCE
Debra has a wealth of experience in leadership and management, including managing safety-critical, regulated infrastructure. After a successful career and a number of senior positions in the Royal Air Force, Debra joined Cardiff Airport in 2012 as Operations Director, before being appointed Managing Director in 2014. She became the Chief Executive of the Welsh Government-owned airport in 2017 and was responsible for leading the airport through a period of transformational change. In August 2020, Debra stepped down as Chief Executive of Cardiff Airport and from the Board of Directors in September 2020.

EXTERNAL APPOINTMENTS
Chair of the South-West Wales Branch of the Institute of Directors. Non-Executive Director of the Port of Milford Haven. Trustee and Board Member at Hijinx Theatre Company.

PROF. TOM CRICK MBE

NON-EXECUTIVE DIRECTOR

Q R T CHAIR

Appointed: October 2017

RESPONSIBILITIES
See summary on page 141.

Tom also Chairs the Technology Committee.

SKILLS AND EXPERIENCE
Tom is Professor of Digital & Policy and Deputy Vice-Chancellor at Swansea University, with his academic interests sitting at the research/policy interface — from data science, cyber security, and technology regulation, through to digital public services and national infrastructure. He has provided expert advice to both the Welsh and UK Governments across a number of policy areas. He sits on the Ofcom Advisory Committee for Wales and is a member of the DCMS College of Experts. Tom is a Chartered Engineer and Chartered Scientist and Fellow of the Learned Society of Wales. He was appointed MBE in the 2017 Queen's Birthday Honours for services to computer science.

OTHER PAST EXPERIENCE
Commissioner of the National Infrastructure Commission for Wales. Vice-President of BCS, The Chartered Institute for IT.

EXTERNAL APPOINTMENTS
Non-Executive Director of Sector Development Wales Partnership Ltd. (a Welsh Government body known as Industry Wales) and Swansea Bay University Health Board, Member of the Ofcom Advisory Committee for Wales.

BOARD OF DIRECTORS

JANE HANSON

NON-EXECUTIVE DIRECTOR

A F CHAIR C E Q

Appointed: January 2021

RESPONSIBILITIES
See summary on page 132.

Jane also Chairs the Audit Committee and Finance Committee.

SKILLS AND EXPERIENCE
Jane is a qualified Chartered Accountant and has extensive experience of Enterprise Risk Management, Corporate Governance and Internal Control frameworks in heavily regulated, FTSE, Not for Profit and private sector organisations. She also has wide experience of developing and monitoring customer and conduct risk frameworks and overseeing large and complex IT and transformation programmes. Jane is also a magistrate.

OTHER PAST EXPERIENCE
Non-Executive Director at Direct Line Group plc (Chair of Group Board's Risk Committee), William Hill plc, Old Mutual Wealth plc (Chair of Board Risk Committee) and Aviva Ireland (Chair of Audit Committee), and Independent Member of the Customer Fairness Committee at ReAssure Ltd.

EXTERNAL APPOINTMENTS
Chair of The Reclaim Fund Ltd and the Dormant Asset Expansion Board, Non-Executive Director of Rothesay Life plc, Non-Executive Member of the Board and Chair of the Audit Committee of the Civil Aviation Authority, Honorary Treasurer at the Disasters Emergency Committee

JOANNE KENRICK

NON-EXECUTIVE DIRECTOR

A N R CHAIR Q

Appointed: November 2015

RESPONSIBILITIES
See summary on page 146.

Joanne is also Chair of the Remuneration Committee

SKILLS AND EXPERIENCE

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

OTHER PAST EXPERIENCE
Non-Executive Director at Safestore Holdings plc, Principality Building Society and BACS Payment Services Limited.

EXTERNAL APPOINTMENTS
Senior Independent Director, Deputy Chair and Chair of the Remuneration Committee at Coventry Building Society, a Non-Executive Director of Sirius Real Estate, Independent Chair of the Current Account Switch, Cash ISA Switch, and PayM Mobile Payments Services for Pay.UK, Chair of Trustees of the children's charity, Make Some Noise.

KEY

A	Audit Committee
C	Cwm Taf Project Committee
E	ESG Committee
F	Finance Committee
N	Nominations Committee
R	Remuneration Committee
Q	Quality and Environment Committee
T	Technology Committee
CHAIR	Chair of Committee

CORPORATE GOVERNANCE REPORT

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

Our governance processes are in pursuit of the Company Purpose and are based on transparency and fairness, underpinned by the values of the Group.

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

HOW WE MEET THE PROVISIONS OF OFWAT'S GUIDANCE ON BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

GUIDANCE PROVISIONS	HOW WE HAVE COMPLIED WITH THE PROVISIONS	FURTHER INFORMATION
Purpose, Values and Culture	The Board of the Appointee (or otherwise referred to as Dŵr Cymru Cyf., our regulated company or the Company) has established the Company's purpose, strategy, and values, and is satisfied that these and its culture reflects the needs of all those it serves. Our vision and culture underpin our decision-making and are monitored by the Board (see definition of the Board below). The Company Direction and Performance Statement sets out how the Company has set its aspirations and has performed for all those it serves. During 2021-22 we considered the continued appropriateness of our purpose as part of preliminary customer engagement for PR24, and with our Customer Challenge Group and Glas Members as part of our review of Welsh Water 2050. We carried out a Culture Survey to consider how we can strengthen our company culture and embed our values further across the organisation.	See pages 2 to 7. The Company Direction and Performance Statement can be found in our Annual Performance Report which is available from mid-July 2022 on our website **dwrcymru.com/annualperformancereport**
Standalone Regulated Company	Dŵr Cymru Cyf. has an effective Board with full responsibility for all aspects of the business of the Appointee for the long term. We have an identical Board of Directors for our holding company, Glas Cymru Holdings Cyf, ('the Board') as our sole focus is on providing essential services to our customers at the lowest possible costs. Our Corporate Governance Report sets out in detail the role of the Board and those matters which are delegated to Committees, all of which report into the Board.	See pages 118 to 126. Despite the fact we have a unified Board for the Group and Dŵr Cymru Cyf., we regularly review potential conflicts with Board members and consider any conflicts with reference to the agenda for each meeting.
Board Leadership and Transparency	The Board's leadership and approach to transparency and governance engenders trust in Dŵr Cymru Cyf. and ensures accountability for its actions. As required, information on the following is published in this Annual Report: our Group Structure; dividend policy; principal risks and uncertainties; details of Board and Committee memberships; meeting attendance; and executive pay policy.	Group structure, see **dwrcymru.com/companystructure** Dividend Policy (page 65) Principal Risks and Uncertainties (pages 70 to 76) Board and Committee membership and meeting attendance (page 112) Executive pay policy (pages 146 to 166)
Board Structure and Effectiveness	A review of the effectiveness of the Board and its Committees is undertaken each year – in every third year, this is conducted by an independent external evaluation. Based on this year's evaluation, the Board and its Committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs. The balance of skills, experience and independence of the Board and its key Committees, is kept under review. There is a majority of Non-Executive Directors on the Board and on its committees.	See pages 126 for the conclusions of our 2021-22 internally facilitated Board Effectiveness review. Biographical details of our Board members, including Committee memberships (pages 114 to 116) Skills and experience of the Board (page 111). Information about the independence and objectiveness of our Directors (page 118).

CORPORATE GOVERNANCE REPORT

The following sections of this report set out how we have complied with the provisions of the UK Corporate Governance Code, the main principles of which cover the following areas:

HOW WE MEET THE PROVISIONS OF THE UK CORPORATE GOVERNANCE CODE

SECTION OF THE CODE

Reporting on the application of principles against the provisions of the 2018 UK Corporate Governance Code

1 BOARD LEADERSHIP AND COMPANY PURPOSE

THE BOARD

The Board is responsible for promoting the long-term, sustainable success of the Group for the benefit of its stakeholders and is the principal decision-making forum for the Group, intent on providing inspirational leadership, both directly and through its Committees, and delegating authority, as appropriate, to the Executive team. The Board has determined the Group's Purpose which is consistent with its values and supported by its strategy, and is satisfied that the Group's culture is aligned with the achievement of that Purpose.

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

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

The Board sets the strategy of the Group based on proposals formulated by the Executive team and it reviews the progress achieved by the management of the business in meeting the agreed strategic objectives. The Board's long-term goals for the Company, in the context of future challenges and changing customer expectations, are set out in our published strategy document, Welsh Water 2050. In November 2021, the Board reviewed and subsequently published an update to Welsh Water 2050, developed over the last 18 months, focusing on what has changed since 2017.

Details of the review of Welsh Water 2050 and a link to Welsh Water 2050 strategy and the Review document, as published, are set out in the Strategic Report on page 34.

In June 2021, the Company announced its plans to achieve net zero carbon emissions by 2040. The Company plans to be 35% energy self-sufficient by 2025 and will invest a further £21 million to achieve this over the current regulatory investment period to 2025, ultimately becoming 100% energy self-sufficient – through a mix of self-generated energy and private wire arrangements – by 2050. As well as committing to becoming carbon neutral by 2040, the Company aims to reduce total carbon emissions by 90% by 2030. For more information, see page 86 or visit our website **dwrcymru.com/netzero**

TOPIC	KEY ACTIVITIES AND DISCUSSIONS IN 2021-2022	KEY ACHIEVEMENT	KEY PRIORITIES FOR 2022-2023
Strategy and management	• Approach to PR24 planning and involvement in PR24 Wales Forum	• Agreement to align PR24 Planning with Welsh Government priorities and objectives for water and to work collaboratively with Government and regulators within a PR24 Wales Forum	In 2022 the Company plans to consult with stakeholders and engage with Welsh Government and regulators via the PR24 Wales Forum to develop PR24 Plans
	• Welsh Water 2050 Review	• Update to Welsh Water 2050 Strategy as part of detailed PR24 planning approved and published	Monitoring of strategic responses to Welsh Water 2050 to ensure these are addressed within PR24 planning
	• Review of Asset Planning and decision to adopt 'multi-capitals' accounting	• Review of progress of the new Asset Planning team in assessing the impact of the external environment on our assets and integrating this with our ESG agenda and the use of 'multi-capitals' accounting methodology	Monitoring of impact of climate change on our assets, adapting of processes and optimising asset investment to sustain and improve performance while minimising risk. Developing investment plans for PR24 based on a multi-capitals approach
	• Carbon reduction strategy considered	• Net zero carbon strategy approved and 'Journey to zero' by 2040 launched on website and social media	Progress of the strategy being monitored by the Environment, Social and Governance Committee
	• Environmental performance reviewed	• Our River Water Quality Plan developed and the CSO Strategy and Pass Forward flow compliance reviewed	Monitoring compliance with legal requirements, performance commitments and implementation of plans for additional investment
	• Board established a new Committee - Cwm Taf Project Committee	• The Committee has overseen the governance of the project to construct a new water treatment works, and has recommended to the Board the provision of required assurances to Ofwat in respect of the project (see page 45)	The Committee will continue to monitor the progress of the project through key procurement and funding stages and will make recommendations for approvals and for provision of required assurances to the Board
	• Charges for 2022-23	• Board approved a structure of charges for 2022-23 that sought to minimise the level of charge increases resulting from the high level of general inflation. The Board also reviewed the provision of financial support for customers struggling to pay their bills	Monitor impact on customer ability to pay following increased charges and the wider cost of living context, and focus on continuing to strike the right balance between required investment and affordability

CORPORATE GOVERNANCE REPORT

1 BOARD LEADERSHIP AND COMPANY PURPOSE

TOPIC	KEY ACTIVITIES AND DISCUSSIONS IN 2021-2022	KEY ACHIEVEMENT	KEY PRIORITIES FOR 2022-2023
Risk management and internal controls	• Reviewed Enterprise Risk Management Framework • Reviewed Strategic and Emerging risks on a six-monthly basis	• New Enterprise Risk Management Framework approved • Board constructively challenged Executive team assessment of strategic and emerging risks	• Board monitoring of the implementation of the Risk Management Framework across the business, including the further development of risk appetite definition • Risk reporting will be kept under review; from 1 April 2022 the new Chief Risk Officer will report to the Board on these issues
Financial reporting and controls	• Accounting policies reviewed at the Audit Committee • Systems of internal control reviewed at the Audit Committee and approved by the Board as part of our year- end reporting to Ofwat (see Annual Performance Report available from mid-July at **dwrcymru.com/annualperformancereport**)	• Accounting policies reviewed with input from the Auditors • Enhancements to year-end process reviewed at the Audit Committee	• Accounting policies will be regularly reviewed with input from the Auditors on current issues/best practice • Further enhancements to year-end processes to be implemented for the 2021-22 year-end reporting to Ofwat (Annual Performance Report)
Environmental, Social and Governance	• Board established an Environmental, Social and Governance Committee	• ESG Strategy agreed and published • Committee has established a Forward Schedule to ensure that key performance indicators of progress towards ESG objectives and risks and opportunities relating to ESG related matters can be regularly reviewed	• Agree the plans and timescales to deliver, and further define, the agreed ESG objectives
Board composition And effectiveness	• Nomination Committee reviewed Board composition, succession planning and Committee membership • Internal Board effectiveness process comprising a detailed questionnaire and interviews of Directors and Board attendees with the Chair	• Changes to Committee membership made, recruitment process for Non-Executive Director initiated (see page 129) • Outcomes of 2022-21 Board Effectiveness review (see page 126) reviewed and action plan agreed with implementation monitored at each Board meeting	• Board effectiveness review will be externally facilitated process in 2022-23 • Complete recruitment process for new Non-Executive director • Progress actioning what was agreed in the 2021-22 internal Board effectiveness review

For details of decisions made by the Board in relation to our stakeholders, see the S172 Statement on page 54.

BOARD ENGAGEMENT WITH EMPLOYEES

EMPLOYEE ENGAGEMENT CHAMPIONS AND REPRESENTATIVES OF TEAMS ACROSS THE BUSINESS (VIA VIDEO CONFERENCING)

During 2021-22, three Employee Engagement Sessions were held with Non-Executive Directors to discuss a range of topics, including the Company's response to Covid-19; hybrid working; inclusivity and diversity; sustainability; risk management; the role of the Remuneration Committee and senior colleague pay. The Executive team also held three engagement sessions with colleagues which covered discussion on a variety of topics, with a focus on the impact of ongoing restrictions in working practices, and in some cases remote working challenges, as a result of Covid-19.

INFORMAL MEETINGS WITH MANAGERS (VIA VIDEO CONFERENCING)

During the year, five informal meetings took place by video conference of Non-Executive Directors with managers drawn from across the business to discuss a range of topics, including the Company's response to Covid-19, hybrid working and the Welsh Water 2050 strategy. The Chair and Non-Executive Directors also attended dinner with colleagues around site visits (see over).

OPERATIONAL SITE VISITS

April 2021 – Deb Bowen Rees and Jane Hanson
Usk Reservoir
Llandegfedd Reservoir
Sluvad Water Treatment Works

June 2021 – Jane Hanson
Retail Services, Linea (St Mellons)

June 2021 – Alastair Lyons, Deb Bowen Rees and Jane Hanson
Cardiff Food Recycling Plant
Cardiff East Waste Water Treatment Works (Deb Bowen Rees and Jane Hanson only)
Cog Moors Advanced Anaerobic Digestion (AAD) Capital Project (Alastair Lyons only)
Prioress Mill Raw Water Pumping Station

August 2021 – Alastair Lyons and Tom Crick
Tŷ Tywi, New Office in Carmarthen
Pendine Water Treatment Works
Hook & Johnston Waste Water Treatment Works
Llys-y-Frân Visitor and Water Sports Centre

October 2021 – Alastair Lyons and Jane Hanson
Dinas Depot
Cwellyn Water Treatment Works
Kinmel Park Depot

February 2022 – Alastair Lyons
Monmouth Waste Water Treatment Works
Upper Carno Dam

March 2022 – Alastair Lyons and Deb Bowen Rees
Cog Moors Advanced Anaerobic Digestion (AAD) – new digester safety upgrade
Llanishen/Lisvane Reservoir – new Visitor Centre construction
Pengarnddu new service reservoir construction site

BOARD DEVELOPMENT AND EDUCATION

Despite the intermittent requirements to meet remotely as a result of the ongoing pandemic restrictions, the Board undertook several development sessions during 2021-22. These included a 'teach-in' on Ofwat's delivery model for large infrastructure projects, Direct Procurement for Customers (July 2021), a Technology dinner attended by Microsoft's Chief Security Advisor, Sarah Armstrong-Smith (November 2021), presentations from sector experts with experience of the price review process for other companies (November 2021), a presentation on innovation projects across the Company (November 2021) and consideration of a natural capital approach to building investment plans (February 2022). The Audit Committee also received 'teach-ins' including the BEIS Consultation: Restoring Trust in Audit and Corporate Governance (November 2021), and the Environment, Social and Governance Committee on TCFD reporting recommendations (February 2022).

CORPORATE GOVERNANCE REPORT

1 BOARD LEADERSHIP AND COMPANY PURPOSE

MEMBERS AND INVESTORS IN 2021-22

In the same way a listed company would have a dialogue with its shareholders, we maintain a regular dialogue with both our Members and bond Investors. We currently have 71 Members, including our eight Board Members who also serve as Glas Cymru Members. Other than those serving members of the Board, Glas Members are selected by an independent Member Selection Panel. Through an annual recruitment process, the aim of the Panel is to maintain a balanced and diverse group of individuals, that broadly reflects the range of our customers and key stakeholders' interests.

OUR MEMBER SELECTION PANEL:

Sir Paul Silk (independent Chair) is joined by Menna Richards, a former Non-Executive Director, Chris Jones, former CEO, and Debra Bowen Rees, current Non-Executive Director. The Company Secretary seeks feedback from the Panel on the format and content of Members' meetings and in relation to the Member recruitment process. The Panel recommends the final list of candidates to the Board for approval.

OUR MEMBERSHIP:

During the year, one Member retired, three Members stepped down and seven new Members were appointed following an advertised (via social media) and open recruitment process. Following appointment, new Members are invited to a full day's induction, usually held at one of our operational sites.

MEMBERS' MEETINGS HELD DURING 2021-22:

2021

- Vulnerable Customers Conference
- Combined Storm Overflow Workshop
- Annual General Meeting (July)
- Opening of Llys-y-Frân, Pembrokeshire*
- Regional meeting held at Plas Uchaf & Kinmel Park, North Wales*
- New Members' Induction
- Half-yearly Meeting (December)

2022

- Welsh Water 2050 Workshop

All meetings were held via Teams except for *

Further information on how we engage with our other key stakeholders is set on pages 54 to 57 in the Strategic Report.

MEETINGS AND DIALOGUE WITH MEMBERS:

The AGM, half-yearly meetings and quarterly workshops are used by the Board to communicate with our Members, including updates on the Group's performance.

Debra Bowen Rees and the Company Secretary are also available to meet with any Member outside of scheduled Member Meetings.

Fortnightly press coverage is sent from the Secretariat to Members via email. Email is used to provide additional information to Members between meetings, including frequent progress updates on responses to operational events affecting the business, including extreme weather events, as they arise.

OUR INVESTORS

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

MEETINGS AND DIALOGUE WITH BOND INVESTORS

The Treasury team ensures our investors are well informed through six-monthly Investor Reports, approved by the Board. The Board receives a report following meetings with Investors and, where appropriate, takes into account in its decision-making the views expressed by Investors on issues affecting the Company. The senior management team arranges an annual Investor Day each July and the Group Treasurer arranges to meet with Investors as required or when requested. This year's Annual Investor Day is planned to be held on 20 July 2022, and further details of this event will be sent out by email to Investors registered on the Group's stakeholder database.

During 2021-22 the topics on which the team has engaged with our Investors have included the transition to SONIA from LIBOR (the industry standard interest benchmark for sterling debt instruments and other financial products), our external audit tender plans, the project to construct a new water treatment works following Ofwat's Direct Procurement for Customers delivery model (page 45) which will require the consent of our bondholders, due diligence calls from managers of sustainable funds, and preparation for seeking an ESG rating.

2 DIVISION OF RESPONSIBILITIES

ROLES AND RESPONSIBILITIES

THE BOARD MEMBERS

All Board members are Directors of both the holding company Glas Cymru and the regulated operational company, Dŵr Cymru Cyfyngedig. The identical Board membership ensures a unified approach where the interests of the operational company are promoted as if Dŵr Cymru Cyfyngedig were a separate public listed company, in line with Ofwat's guidance on Board Leadership, Transparency and Governance.

The Board has collective responsibility for:

- setting the strategy, and ensuring the long-term success of the Group for the benefit of its customers and stakeholders;
- challenging, encouraging and monitoring performance of the Executive team against the strategic objectives;
- ensuring adequate financial and human resources to achieve the Group's objectives;
- overseeing and ensuring the Group's compliance with statutory and regulatory requirements;
- overseeing major capital investment projects; and
- setting the risk appetite for the business and ensuring the adequacy and efficacy of the Group's systems of internal controls and risk management.

DECISIONS AND MATTERS RESERVED FOR THE BOARD

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

The Board has delegated detailed consideration of certain responsibilities to Board Committees, while retaining overall responsibility for decision-making in these areas. The Committees then report back to the Board on the matters discussed, decisions taken, and, where appropriate, make recommendations to the Board on matters requiring its approval. There are regular meetings of the Audit, ESG, Nomination, Quality and Environment, Remuneration, and Technology Committees. The Finance Committee meets or conducts business via email communications or by telephone as required. A description of the work of these Committees is set out on pages 128 to 166.

Minutes of the Board and its Committees are available to all Non-Executive Directors, and the Chairs of each Committee report either in writing or verbally to the Board on their activities, subject to the relative timing of the meetings of the Committees and the Board. All Committees are chaired by an independent Non-Executive Director, and comprise a majority of independent Non-Executive Directors, except the Nomination Committee, the Project Committee for the Cwm Taf Water Treatment Works Project, and the now disbanded Project Committee supporting the decision whether to tender for Hafren Dyfrdwy's sludge processing contract, each of which was chaired by the Chair of the Board.

Appointments to the Committees are made on the recommendation of the Nomination Committee which reviews Committee membership annually and are for a period of up to three years, which may be extended for two further three-year periods, provided the Director remains independent. The Committees are constituted with written Terms of Reference that are reviewed annually to ensure that they remain appropriate and reflect any changes in best practice and governance.

These Terms of Reference and Matters Reserved for the Board are available on request from the Company Secretary and can also be found on the Company's website. See **dwrcymru.com/boardterms**

THE EXECUTIVE TEAM

The Executive team is led by the Chief Executive Officer, and its members are senior managers from across the business. The Executive Team meets three times per month: it is responsible for the day-to-day running of the business and other operational matters to implement the strategies that the Board has agreed. The Governance Framework diagram on page 109 shows the Board Committees and Management Committees supporting the Executive team. The Board receives reports from the CEO, CFO and members of the Executive team at every scheduled meeting, providing an update on the business' financial and operational performance and any current or emerging issues.

BOARD EFFECTIVENESS

The performance of the Board and its Committees is reviewed annually (see page 126). The composition of the Board is reviewed, also annually, by the Nomination Committee to confirm an appropriate diversity of background, skills expertise and experience, and as part of Director succession planning (this process is set out on page 130). The composition of the Board Committees was reviewed during the year and changes to current Membership proposed and approved. The Forward Schedule for future Board Meeting agendas is reviewed by the Board at each Board Meeting so that Board Members can suggest items for inclusion.

CORPORATE GOVERNANCE REPORT

2 DIVISION OF RESPONSIBILITIES

DIRECTORS' APPOINTMENT, INDUCTION AND DEVELOPMENT

We follow a rigorous and transparent procedure for the appointment of new Directors to the Board (see page 130).

The induction process includes access to Board and Committee papers as appropriate, site visits and one-to-one meetings with other Non-Executive Directors, principal advisers to the Company, members of the Executive team and senior managers across the business. Where appropriate, new Non-Executive Directors also attend the Institute of Directors' course for new directors. Directors receive a tailored programme of induction on joining and ongoing educative and information programmes on topics relevant to the operation and governance of the business. All new Non-Executive Directors join the Quality and Environment Committee for 12 months in order to build their understanding of the operations of the business and its key challenges.

As part of the ongoing development of our Directors, the Company Secretary ensures that updates to legislation, corporate governance and reporting are brought to the attention of the Board and its Committees as appropriate. Regular attendance from our Auditors, KPMG, at meetings of the Audit Committee also supports the Directors being kept up to date on current developments in governance.

Details of the operational site visits made by our Non-Executive Directors and educational development opportunities for the Board during the year are set out on page 121. Non-Executive Directors are invited to identify topics on which they would benefit from specific training in order to be more effective in their roles.

TERM AND RE-ELECTION

Non-Executive Directors are appointed for a three-year term which can be renewed for up to two further periods of three years. In any event, no Non-Executive Director can serve more than 10 years under the terms of our Articles. In addition, all Directors formally seek re-election every year by Glas Members at the AGM and any Director appointed during the year will seek election at the next AGM following his/her appointment.

Graham Edwards, Senior Independent Non-Executive Director and Quality and Environment Committee Chair, is the next of our Non-Executive Directors to retire, in 2023, when he will have completed nine years as a Director. A recruitment plan is in place to appoint a new Non-Executive Director, to ensure an orderly handover.

No other resignations from or appointments to the Board have taken place during 2021-22.

INDEPENDENCE

We consider the independence of our Non-Executive Directors on an ongoing basis and formally on an annual basis. With the exception of the Chair of the Board, who was deemed to be independent at the time of his appointment, all of our Non-Executive Directors are deemed to be independent in accordance with the UK Corporate Governance Code and free from any relationship which would compromise their independent judgement. Potential conflicts of interest are considered at the start of each Board and Committee meeting: Directors would recuse themselves from any matter where such a conflict was considered to exist.

Our constitutional documents do not specify a particular allocation of time required by Non-Executive Directors to be effective in their roles. However, the Nomination Committee reviews the extent to which Non-Executive Directors have the appropriate time to fulfil their role effectively and considers any new commitments that Non-Executive Directors propose to take on, alongside their existing roles.

EXTERNAL APPOINTMENTS OF THE EXECUTIVE DIRECTORS

Peter Perry's external appointments are included in his biography on page 114. Mike Davis does not currently hold any external appointments.

MEMBERSHIP AND ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Board is scheduled to meet 11 times a year. Additional Board meetings are held, as required, during the year. The table on page 112 shows the actual number of Board and Committee meetings held during 2021-22 and the attendance of the Directors at those meetings. Every effort is made by Board members to attend all meetings.

CONFLICTS OF INTEREST

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

CHAIR OF THE BOARD

- is responsible for the leadership of the Board
- sets the agenda for Board Meetings
- ensures the effectiveness of the Board and its Committees and good governance

SENIOR INDEPENDENT DIRECTOR

- meets with other Non-Executive Directors and the Executive Directors on an annual basis to review the performance of the Chair
- stands in as Chair of a meeting in the event the Chair of the Board was not able to attend
- acts as an informal sounding board for all members of the Board

NON-EXECUTIVE DIRECTORS

- challenge the Executive Directors constructively and monitor delivery of the Board's agreed strategy within the risk and control framework approved by the Board; they are also involved in mentoring and supporting members of the Executive team and senior managers across the business
- take an active interest in operational issues affecting the business (see site visits on page 121)

CHIEF EXECUTIVE

- beyond matters reserved to the Board, the Chief Executive has primary responsibility for leading the management of the Company, with support from the Executive team

EXECUTIVE TEAM

- has responsibility for implementing the strategy agreed by the Board and for the day-to-day management of the business

MEMBERS

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

COMPANY SECRETARY

- supports the Chair of the Board in ensuring the Group demonstrates good governance
- prepares agendas for Board meetings which are agreed in consultation with the Chair of the Board and Chief Executive, although any member of the Board may request that an item should be added to the agenda
- the Company Secretarial team is available to support all Non-Executive Directors and the Executive team and works to promote good information flows between the Board, Executive team and internal committees and management teams within the Group

CORPORATE GOVERNANCE REPORT

3 COMPOSITION, SUCCESSION AND EVALUATION

BOARD EVALUATION

The Board and its Committees have the appropriate balance of skills, experience, independence, and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively. The Board regularly reviews this in discussions with the Company Secretary, Nomination Committee and through its annual effectiveness review.

During 2021-22 we conducted an internal review. In 2022-23, in accordance with the Code requirement that companies should carry out an externally facilitated evaluation of the Board at least every three years, the review will be undertaken by an independent consultant.

BOARD EVALUATION

The evaluation process involved all Board members and other regular Board and Committee attendees completing an online questionnaire. Areas considered included: diversity; behaviours; interaction with stakeholders; ensuring the right skills and expertise; decision-making; strategic approach; oversight of risk; the Board's understanding of the Company's culture; the process for Board succession; content and format of Board papers; and matters covered by the main Board and each Committee, together with feedback to the Chair and Committee Chairs.

The response to the questionnaire was discussed in one-to-one meetings with the Chair of the Board. The Board met in May 2022 to discuss the results of the review and the specific recommendations that had been proposed to enhance the Board's effectiveness, together with an assessment of progress since the previous review. The Board agreed that good progress had been made in implementing the recommendations from the 2021 evaluation, as set out in last year's Annual Report. Progress against the current year agreed action is reviewed at each Board meeting.

KEY RECOMMENDATIONS IN THE 2021-22 BOARD EVALUATION

RECOMMENDATION	AGREED ACTIONS 2022-23
Workload for Non-Executive directors has increased	Consideration to be given to appointing an additional Non-Executive Director.
Board training and development - suggestions for further opportunities to be identified	Directors discussed potential topics for in-depth teach-in sessions, and agreed to keep this under review.
Board members were keen to see more opportunities for involvement in customer engagement	Proposals for customer engagement and potential for Board participation to be discussed.
Board agendas are heavy and papers are detailed	Agendas to be reviewed in detail in advance and forward schedule to be closely managed.

Overall the review concluded that the Board continues to operate effectively. The dynamics of the Board are of a collegiate Board with a good balance of experience, who work well together and are keen to promote the success of the Company. The Board operates as an open and transparent forum for discussion and debate. Everyone has an opportunity to be heard and is encouraged to participate, which contributes to a positive and supportive culture. In addition, the Board has a good understanding of the matters on which it should focus and is in touch with its key stakeholders.

The Chair of the Board (Chair), taking into account the views of the other Directors, reviews the performance of the Chief Executive Officer. The performance of the Chair was reviewed by the Board led by the Senior Independent Director (SID) in March 2022. The SID considered and discussed with the Chair the comments and feedback that had been received from the Directors as part of the Chair's evaluation questionnaire and was able to confirm that the performance of the Chair continues to be very effective and that he demonstrates appropriate commitment to his role and duties, providing excellent support to the Executive Directors and being available to Non-Executive Directors.

CORPORATE GOVERNANCE REPORT

3 COMPOSITION, SUCCESSION AND EVALUATION

NOMINATION COMMITTEE REPORT

ALASTAIR LYONS

CHAIR OF THE NOMINATION COMMITTEE

OTHER MEMBERS

- Graham Edwards
- Peter Perry
- Joanne Kenrick

In the absence of the Chair, or when the Committee is dealing with the matter of succession to the role of Chair of the Board, the Senior Independent Director would chair the meeting. The Company Secretary acts as Secretary of the Committee.

Meetings held: 2

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

PRINCIPAL RESPONSIBILITIES

The responsibilities of the Committee are to:

- Ensure the Board has the necessary skills, background, and experience to enable the Group to meet its current and future strategic objectives;
- Ensure the composition of the Board and its committees is regularly reviewed in the context of director rotation, the Company's strategy and activities, its diversity objectives, and the Board's terms of reference;
- Establish plans for orderly succession to positions on the Board and Committees;
- Ensure that there is a formal, rigorous and transparent procedure for appointments to the Board;
- Maintain oversight over the succession plans developed by the Chief Executive for the Executive team; and
- Work and liaise with other Board Committees, as appropriate, including the Remuneration Committee in respect of a remuneration package to be offered to any new appointee to the Board, and on issues relating to gender and race pay equality.

The Committee meets the Corporate Governance Code requirement for a majority of members of the Committee to be independent Non-Executive Directors.

FOCUS AREAS LOOKING AHEAD TO 2022-23

- Completing recruitment process for a new Non-Executive Director to succeed Graham Edwards
- Overseeing the induction process
- Reviewing the current makeup of Committees and considering succession issues
- Board succession planning

PRIORITIES	ACTIVITY OF COMMITTEE	OUTCOME OF COMMITTEE ACTIVITY
Board Composition and Balance	Ensuring a balanced range of skills, knowledge and experience on the Board	The Committee considered and commented on a 'skills matrix'.
Ensuring diversity of thinking and approach from Board members	Considering the Group's Diversity and Inclusivity objectives and agreeing proposed amendments to the Board Diversity Policy	A new Board Diversity Policy was approved and published on our corporate website, including a commitment to maintaining at least 33% female representation on the Board, in accordance with the outputs of the Hampton-Alexander Review, and having considered the conclusions of the Parker Review, to aim to appoint at least one Non-Executive Director from an ethnic minority background by the end of 2025. The Committee recognised this date is later than the recommendation of the Parker review but took into account the current Board membership and likely timing of future recruitment to the Board.
Board Committee Membership	Reviewing the current membership of Committees	On joining the Board, Non-Executive Directors generally spend at least 12 months as a Member of the Quality and Environment Committee in order to ensure they have a good understanding of operational issues and challenges. The Committee made some adjustments to Committee membership in light of the retirement of John Warren from the Board and the setting up of the ESG Committee and Cwm Taf Project Committee Tom Crick joined the Remuneration Committee from September 2021. Members of the ESG Committee were appointed from June 2021 as follows: Debra Bowen Rees (Chair), Jane Hanson, Alastair Lyons, Peter Perry, Mike Davis. Members of the Cwm Taf Project Committee were appointed from December 2021: Alastair Lyons (Chair), Graham Edwards, Jane Hanson, Peter Perry, Mike Davis.
Succession Planning	Reviewing succession plans for the Board and Dŵr Cymru Executive team	The Committee discussed succession plans for the Dŵr Cymru Executive team and for the Non-Executive Directors, and also discussed the optimum number of Non-Executive Directors for the Board: the Committee subsequently updated other Non-Executive Directors at a private dinner with the Chair. A decision was taken to recruit a Non-Executive Director to join the Board during 2022 to provide an appropriate handover period before Graham Edwards is due to step down from the Board in July 2023.
Governance and Committee Effectiveness	The Committee reviewed the agreed outcomes of the 2020-21 Board Effectiveness review as pertinent to the Committee. The Committee conducted its annual review of: • the Committee's Terms of Reference • the appropriateness of membership for the Boards of all Group companies. The Committee conducted an annual review of its effectiveness against its own Terms of Reference.	The Committee determined that no amendments were required to its Terms of Reference. In line with the agreed outputs from the Board Effectiveness review for 2020-21, the Committee ensured that the role of advisers to the Quality and Environment Committee was reviewed, and following this review, new advisers were appointed from March 2022. An appraisal of the current skills, backgrounds and experience of Non-Executive Directors was undertaken and Director commitments were reviewed at the May and November 2021 Nomination Committee meetings. Having reviewed its own effectiveness against the Terms of Reference the Committee concluded that it continues to operate effectively and within its Terms of Reference.

CORPORATE GOVERNANCE REPORT

3 COMPOSITION, SUCCESSION AND EVALUATION

BOARD APPOINTMENT PROCESS

The Committee leads the process for making appointments. The Committee is satisfied that the process set out below constitutes a formal, rigorous and transparent process for the appointment of new Directors to the Board which meets the Group's diversity and inclusion objectives, as well as supporting an orderly succession

STAGE 1

The Committee develops a specification identifying the required skills and experience for the role. Generally, external recruitment consultants are engaged to lead the recruitment process and identify suitable candidates.

STAGE 2

Creation of a diverse long list of potential candidates by the consultants from which the committee selects a short list for interview.

STAGE 3

Interviews with the shortlisted candidates are held with the members of the Committee.

STAGE 4

After consideration by the Committee, and the opportunity for other Board members to meet the preferred candidate, a recommendation is made to the Board to appoint the preferred candidate.

SUCCESSION PLANNING

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

EQUALITY, DIVERSITY AND INCLUSIVITY

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

In the opinion of the Committee, the Board currently benefits from an appropriately diverse range of skills, knowledge and experience although the Committee seeks to appoint a director from a BAME background at the latest by the end of 2025 or earlier if Board succession plans permit. The Directors' biographies on pages 114 to 116 set out details of their backgrounds, skills and experience, which, for the Board taken as a whole, are diverse and wide-ranging.

At the end of the financial year 2021-22, 33% of our Board (2021: 33%) and 37.5% of the Executive team (2021: 31%) identify as female, while in the wider workforce, of those senior managers reporting directly to a member of the Executive team, 23.4 % (2021: 39%) are female.

We continue to support the recommendations of the Hampton-Alexander Review which encouraged companies to increase the percentage of women on boards and in leadership teams (comprising the Executive team and direct reports of the executive team) to 33% by 2020, which we have achieved. We are encouraged that we have been able to continue to meet this target and we will continue our focus to maintain this.

We support the recommendations of the Parker Review which encourages companies to increase the ethnicity on boards and, during the year, the Committee approved the Diversity Policy including the target of appointing one Board member from a BAME background by the end of 2025.

We also note the changes to the Listing Rules for reporting periods starting on or after 1 April 2022 to meet specific diversity targets on a 'comply or explain' basis and we will address these requirements over the next year and in next year's Annual Report and Accounts. We know that we can further improve diversity and inclusion across the Company and neither the Committee nor the Board is complacent about these issues. The Group is committed to eliminating discrimination and encouraging diversity and inclusivity to enable us to recruit and retain a diverse workforce.

Our Board diversity statement can be accessed via **dwrcymru.com/boarddiversitystatement** on our website.

DIVERSITY POLICY OBJECTIVES	ACTIONS	PROGRESS
The Committee to consider true diversity of thought taking into account the full range of skills, knowledge, experience, backgrounds and characteristics of Board members - the Committee will regularly review Board composition, succession planning, talent development and the broader aspects of diversity.	A diverse Board will include and make use of differences in skills, regional and industry experience, background and race, gender and personal attributes, such as intellect, critical assessment and judgement, courage, openness, honesty and tact; and the ability to listen, forge relationships and develop trust.	The Committee is balancing the consideration of these characteristics, bearing in mind also that all Board appointments are made on merit, in the context of the skills and experience the Board requires to be effective. These factors were taken into account in progressing the recruitment of the Non-Executive Director to succeed Graham Edwards.
The Committee will work with recruitment consultancy firms who understand the Group's values and approach to diversity and will identify and propose suitable candidates.	During 2021-22, the Committee worked with Goodson Thomas, following a best value selection process. The firm is a signatory to the Standard Voluntary Code of Conduct for executive search firms and has committed to adhering to those standards.	The recruitment process is ongoing as at the date of publication of this report.
The Committee will report annually, in the corporate governance section of the Annual Report, on the process it has used in relation to Board appointments, its progress in maintaining or improving the diversity of the Board and on gender diversity ratios.	See pages 129 and 130.	This report evidences the work of the Committee on the process for appointments, progress in maintaining or improving the diversity of the Board and on gender diversity and inclusivity. By reviewing progress year on year, the Committee maintains oversight of the implementation of policies to improve diversity and inclusivity across the business. The review of the Gender Pay Gap report also includes a discussion about the actions planned to further reduce the gap. At its meeting in March 2022, the Remuneration Committee also considered the barriers to ethnicity pay gap reporting.
The Committee will also report on its oversight of plans to promote diversity within our workforce to ensure that the individuals working for us are truly representative of the communities that we serve.	This was reviewed at the March 2022 Board Meeting as part of the development of an action plan to respond to the recent Culture and Engagement surveys (see page 56).	Members of the Board met with representatives of the Re:Think ED&I Group in July 2021, to hear about the progress in recruiting and retaining a diverse workforce and encouraging specific initiatives such as the Company's schools outreach programme, work with community groups, and encouraging colleagues to record ethnicity data to enable future reporting of ethnicity pay gap information.
Review its Diversity Policy annually and recommend any amendments to the Board.	Reviewed in November 2021 and changes recommended to the Board, and duly approved, in February 2022.	The Committee considered the scope and ambition of the Diversity Policy at its November meeting.

ALASTAIR LYONS
Chair of the Nomination Committee
1 June 2022

CORPORATE GOVERNANCE REPORT

4 AUDIT, RISK AND INTERNAL CONTROL

AUDIT COMMITTEE

JANE HANSON
CHAIR OF THE AUDIT COMMITTEE

OTHER MEMBERS
- Debra Bowen Rees
- Graham Edwards (until 29 October 2021)
- Joanne Kenrick

Meetings Held: 5

>SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

The Audit Committee is chaired by Jane Hanson who has a strong background in finance, corporate governance, audit and risk management and has recent and relevant financial experience. All Members of the Committee are independent Non-Executive Directors and the Board is satisfied that the Committee as a whole has sufficient sectoral experience and experience of financial matters.

Other regular attendees at meetings of the Audit Committee include the Chief Executive Officer, the Chief Financial Officer, the Finance Director, the Head of Business Assurance (from 1 April 2022, the Chief Risk Officer and Head of Internal Audit), the Company Secretary and representatives from the Group's External Auditors, KPMG LLP.

The Committee has unrestricted access to management and external advisers to help discharge its duties.

During the year, the Committee held regular private sessions with the Head of Business Assurance and KPMG without management present.

PRINCIPAL RESPONSIBILITIES

On behalf of the Board the Committee oversees:

- the integrity of the Group's financial statements, including ensuring that we provide clear, complete, fair, balanced and understandable financial reports to all our stakeholders;
- the appropriateness and effectiveness of our internal control systems, including those concerning public interest disclosures (whistleblowing);
- the effectiveness and reliability of our risk management framework;
- the integrity and sustainability of the systems of internal control as reviewed by the Internal Audit and Business Assurance functions; and
- the effectiveness, performance, objectivity and independence of the internal and External Auditors.

FOCUS AREAS LOOKING AHEAD TO 2022-23

- Conclude the external audit re-tender process so that the appointed firm is in place from 1 April 2023
- Oversee the developments following the publication of the results from the BEIS Consultation: Restoring Trust in Audit and Corporate Governance being implemented into our corporate governance frameworks
- Oversee the embedding of the Enterprise Risk Management (ERM) Framework adopted in 2021-22

PRIORITIES	ACTIVITY OF THE COMMITTEE	OUTCOME OF THE COMMITTEE ACTIVITY
Financial Performance	The Committee reviewed financial performance in detail at the half year and year end (financial statements) and received regular reports from the Group's External Auditors, KPMG LLP and the Company's Group Financial Controller in relation to accounting treatments.	The Committee recommended that the financial statements be approved by the Board. The Committee reviewed a draft of the 2021 Annual Report and Accounts in order to ensure that it presented a fair, balanced and understandable assessment of the Company's financial status, in accordance with the UK Corporate Governance Code. The Committee gave recommendations to the Board to approve the six-monthly Investor Reports.
Going Concern and Viability Statement	The Committee reviewed updates from External Auditors in relation to increased going concern considerations as a consequence of Covid-19 at the end of the half year and full year end.	The Committee has assessed the prospects of the Company over a period of at least 12 months as required by the 'Going Concern' statement on page 186. The Committee also considered the financial viability of the Group over the next eight years, which it has deemed to be the most appropriate period over which to make this assessment, taking into account our current and next five-yearly regulatory price review period to 31 March 2030. The Group's 2022 Long-Term Viability Statement is set out on page 77.
	The Committee reviewed and commented on the Long Term Viability (LTV) Assessment approach at its meeting in February 2022. At the end of the full year the Committee reviewed the Company's LTV assessment for inclusion in the Annual Report and Accounts.	The Committee agreed the LTV Assessment approach, and the first draft of the 2022-23 LTV Statement incorporating the Committee's comments was presented to the Committee at its next meeting in May.
Internal Audit	Management responses to unsatisfactory and limited-satisfaction audits were discussed by the Committee and subsequently kept under review to ensure progress is made to remedy control weaknesses. Where there are unsatisfactory audit outcomes, the business area is reviewed again by Business Assurance once the remedial action has been completed. The Head of Business Assurance also regularly presents a Whistleblowing Report to the Committee in a private meeting. The effectiveness of the internal audit function is monitored regularly using a variety of inputs, including the Committee's review of the audit reports produced, the Committee's interaction with the Head of Business Assurance, and updates at each Committee meeting on progress against the internal audit plan. Quality audits undertaken during the year are reported on as part of the internal audit report presented to the Quality and Environment Committee.	The Head of Business Assurance (internal audit) reported regularly on progress against the 2021-22 Internal Audit plan and, in detail, on any audit reports with a less than 'satisfactory' outcome. He also presented his proposed internal audit plan for financial year 2022–23 at the February 2022 meeting of the Committee. The Whistleblowing Reports include details of public interest disclosures made or referred to the internal audit function, and the outcomes, and lessons learned' from the investigation of such allegations. The Audit Committee Chair has monthly one-to-one meetings with the Head of Internal Audit (formerly the Head of Business Assurance).

CORPORATE GOVERNANCE REPORT

4 AUDIT, RISK AND INTERNAL CONTROL

PRIORITIES	ACTIVITY OF THE COMMITTEE	OUTCOME OF THE COMMITTEE ACTIVITY
Internal Control and Risk Management Systems	The Committee maintained oversight of the operation of the Company's systems of internal controls and assurance. The Committee received reports from the Head of Business Assurance on the outcomes of internal audits conducted as well as special investigations as a result of whistleblowing incidents. The Committee received and reviewed Risk Reports made available to the Committee and Board and in particular those financial, data, and information systems risks pertinent to the remit of the Committee. The Committee reviewed progress of the rollout of the Enterprise Risk Management (ERM) Framework prior to this being presented to the Board. The Committee reviewed the Internal Audit Charter which sets out the scope of work for the internal audit function and confirms its independence.	In addition to reviewing the findings of internal audits conducted during the year, the Committee received a detailed assurance report from the Executive on the internal controls and risk management process in place and any recommended changes thereto. The Committee critically reviewed the responses from management on internal audit investigations and closely monitored the status of overdue management actions. Where appropriate, management attended Audit Committee Meetings to present their response to an internal audit and, if deemed necessary, subsequent updates were agreed. An example of this is the six-month update of the fraud controls under our Capital Delivery Programme due to the nature and size of the Programme. Whistleblowing incidents were reviewed during private meetings held immediately after each Committee meeting. The Committee requested a thematic view of whistleblowing activity which reviewed 51 whistleblowing and special investigations conducted in the period since April 2018 and discussed the observations and themes. It was agreed to provide an update of this style of report on an annual basis. The Committee critically reviewed the strategic risks related to financial risk, recession risk and supply chain pressures. It was agreed to ensure that the new ERM Framework reflected the appropriate allocation of risk oversight across Board Committees to avoid any duplication. The Committee approved the Internal Audit Charter and was satisfied that the internal audit function continued to operate on an independent basis. The Audit Committee Chair has monthly one-to-one meetings with the Chief Risk Officer (appointed from 1 April 2022).

PRIORITIES	ACTIVITY OF THE COMMITTEE	OUTCOME OF THE COMMITTEE ACTIVITY
Governance	The Committee received and reviewed the Company's regulatory submissions and assurance processes relating to: • the Annual Performance Report (APR), and draft Assurance Reports from Jacobs and KPMG. At the same time the Committee received the Company's annual Risk and Compliance Statement (and associated Ring-Fencing Certificate), and draft Assurance Report from Jacobs, together with the Internal Controls paper from the Executive team; and • the publication of our Charging Schemes for 2022-23.	The Committee provided feedback to the Board on the assurance processes followed for the 2020-21 APR, together with the updates from Jacobs and KPMG, in advance of the Board's formal approval of the APR prior to publication in July 2021. The Committee also received reports on systems of internal control and risk management and on the progress of programmes to improve compliance and internal controls across the business. The Committee applied a similar process in reviewing the assurance process that underpinned the Board's approval of the Company's Charging Schemes for 2022-23 in December 2021.
	The Committee considered and approved certain policies and procedures. These included Treasury and Taxation policies, Supplier Payment Terms.	The Committee gave its recommendation to the Board to approve these policies as set out in the Board's terms of reference. This included approval to provide updated security confirmations to European Investment Bank and to HSBC bank in respect of the LIBOR reform transition.
	The Committee received an update from the Company Secretary on the Company's compliance with the 2018 UK Corporate Governance Code (the 'Code') and Ofwat's Board Leadership, Transparency and Governance Principles in its 2021 Annual Report and Accounts. It also reviewed a draft of the proposed structure and timetabling for the 2022 Annual Report and Accounts.	The Committee noted compliance with the Code and with Ofwat's Principles, following assurances over the 2021 Annual Report and Accounts from KPMG.
	The Committee reviewed its Terms of Reference and effectiveness as part of the external Board evaluation conducted during the year.	The Committee agreed some amendments to its Terms of Reference for approval by the Board. The Committee's review of its performance concluded that the Committee was working well and continued to perform effectively.
	The Committee received regular updates on key compliance areas, including our vehicle operator licence, data protection, information and security, business continuity planning, taxation and insurance arrangements.	An example of such an update was an introduction from the Chief Information Security Officer who joined the business in August 2021 following his initial review of the Company's information security and resilience against a cyber attack posture. For more details in this area, refer to the Report of the Technology Committee on page 141.
	The Committee received a presentation from KPMG following a review of the key responses to the BEIS White Paper - Restoring Trust in Audit and Corporate Governance.	The Committee will be provided with a further update on the developments arising from this consultation once the Government publishes the results of its analysis.

CORPORATE GOVERNANCE REPORT

4 AUDIT, RISK AND INTERNAL CONTROL

PRIORITIES	ACTIVITY OF THE COMMITTEE	OUTCOME OF THE COMMITTEE ACTIVITY
External Auditors	The Committee is supported by the External Auditors, KPMG LLP. The Committee assesses the effectiveness of the external audit process, the scope of the Group audit and the quality of the audit work throughout the year. It reviews the External Auditors' confirmation of independence, which is included in its half-year and end-of-year reports to the Committee. These reports set out the policy procedures by which the Committee satisfies itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the external audit process, particularly the level of fees relating to non-audit work.	KPMG presented their audit plan for the 2021–22 financial year to the Committee in November 2021 and have reported on progress against it at subsequent meetings of the Committee. This set out specific areas which continued to impact the audit as a result of the Covid-19 pandemic, including a change in scope in response to new and increased risks of material misstatement, and anticipated challenges in conducting certain aspects of the audit, and in the assessment of going concern, given the rapidly changing environment and uncertainty about future economic conditions. The audit plan also highlighted changes in governance and accounting and tax regulation that will impact on financial reporting. The Committee approved the Audit Re-tender process in November 2021, to appoint an external audit firm from 1 April 2023.
	The Committee received reports from KPMG on the Audit Plan KPMG and Strategy for the year ending 31 March 2022 at the half year, in November 2021 and in May 2022, containing the results of the end of year audit. Each report included a confirmation of independence from KPMG and representation letter to be provided by management to KPMG.	The Committee reviewed and approved the KPMG reports at the half year and full year, including the confirmations of independence, being satisfied that the objectivity of the External Audit Partner and audit staff was not impaired, including in relation to the provision of non-audit services (see page 137 for details of fees). The Committee approved the management representation letters which were then signed by the Chief Financial Officer on behalf of the Company and provided to KPMG.
	The Committee reviewed and approved the internal questionnaire to be completed by internal stakeholders to review the effectiveness of KPMG as external auditor following the statutory audit for the year ended 31 March 2022.	The output from this review, together with suggested areas for improvement for the ensuing financial year, will be presented to the Committee at its meeting in September 2022.
	The Committee invited KPMG to discuss the firm's Audit Quality Review published by the Financial Reporting Council (FRC), published in July 2021.	James Ledward, KPMG external audit partner, provided context to the FRC review which monitors the quality of audit work, to the Committee, and highlighted some areas of improvement. The Committee noted that improvement plans are being implemented including tools, processes and technologies that further enhance high quality, consistent and efficient audit delivery.

FINANCIAL REPORT AND SIGNIFICANT ESTIMATES AND JUDGEMENTS

During 2021-22 the Committee considered the following specific issues in relation to financial reporting of the interim and year-end results.

KEY JUDGEMENT AND ESTIMATES	AUDIT COMMITTEE REVIEW	CONCLUSIONS
Provision of impairment and receivables	The approach to setting the bad debt charge was reviewed in detail.	Having assessed current cash collections performance, the Committee concluded that the current bad debt provision was appropriate, although this will be closely monitored in light of current economic conditions.
Classification of costs	Classification between operating expenditure and capital expenditure was reviewed.	Classification of costs between operating expenditure and capital expenditure was considered to be appropriate.
Reasonableness of the defined benefit pension liabilities assumptions	The assumptions that are applied to the pension valuation that include discount and inflation rates.	The Committee's review of the assumptions in relation to the discount and inflation rates that applied to the pension valuation, concluded that, overall, these were within the range of acceptable assumptions.
Parent company investment valuation	The valuation of the parent company's investment in subsidiaries stated at fair value using a discounted cash flow model.	Use of future cash flow forecasts and Regulatory Capital Value as terminal value noted as appropriate.

> THE ABOVE MATTERS ARE DISCUSSED IN MORE DETAIL IN THE AUDITOR'S REPORT ON PAGE 172.

AUDIT TENDER/AUDIT PARTNER ROTATION

As set out in the Committee's last report in the 2020-21 Annual Report, in light of the ongoing pandemic and the change in the Audit Committee Chair in July 2021, the Committee agreed to defer the Group's external audit tender plan for a further year until the end of the 31 March 2022 statutory audit (and subsequently until 31 March 2023) and for James Ledward to continue as Audit Partner for the same period. The Committee discussed the plan at its meetings in September and November 2021 and agreed to commence the external audit tender in December 2021.

KPMG LLP was appointed as the Group's external auditor following the completion of a transparent and independent audit tender process in 2015 for the 2015–16 financial year end. At the time of appointment, the term of the contract with KPMG was for a period of up to five years which was due to come to an end in autumn 2020. While the Group is not required to tender existing external audit services until 2025, when KPMG will have been the Group's auditor for 10 years, the Committee felt it prudent to re-tender these services and to enter into a contract term more aligned with standard practice relating to the provision of external audit services.

The Committee is following the FRC's guidance notes on best practice for audit tenders during the external audit tender process.

The procurement plan for the audit tender, approved by the Committee in November 2021, commenced in December 2021. A period post Pre-Qualification Stage of the process was allowed for the participating firms to engage with Welsh Water, prior to the submission of tenders in August 2022. The Committee will put forward its recommendation of at least two of the firms, providing a clear preference for one of the two firms to be the Company's auditor, to the Board, for the Board's formal approval. A period of handover will precede the successful firm commencing the statutory audit for the year commencing 1 April 2023.

NON-AUDIT SERVICES AND FEES

The Group's policy is that the External Auditors will not generally be used for non-audit services, and that all non-audit matters are subject to the Group's Procurement Policy. All non-audit fees paid to External Auditors must be approved by the Committee in advance (or in the event this is not possible, approved by the Committee Chair and Chief Executive Officer then reported to the Committee at the next meeting). To comply with the FRC's revisions to the Code, there is a a cap on fees for non-audit work across the Group of 70% of the three-year average statutory external audit fee for the Group in any financial year, applicable from the financial year starting 1 April 2020. During the period 2021–22, audit fees for the Group's financial statements totalled £340,000 (2021: £302,000), fees for other audit-related assurance services were £84,000(2021: £82,000) and fees for other non-audit related services amounted to £68,000 (2021: £38,000). As a result, non-audit fees accounted for 13.8% (2021: 15.9%) of the average of the last three years' audit fees, which is well within the limit. For further details on the non-audit services provided by KPMG, see note 3 to the Financial Statements on page 198.

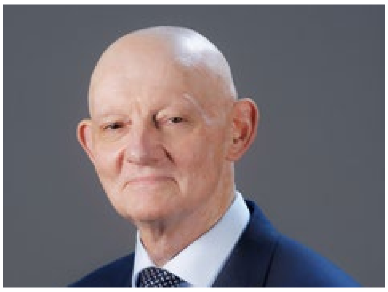
Jane C Hanson

JANE HANSON
Chair of the Audit Committee
1 June 2022

CORPORATE GOVERNANCE REPORT

4 AUDIT, RISK AND INTERNAL CONTROL

QUALITY AND ENVIRONMENT COMMITTEE REPORT



Graham Edwards

CHAIR OF THE QUALITY AND ENVIRONMENT COMMITTEE

OTHER MEMBERS
- Debra Bowen Rees
- Tom Crick
- Jane Hanson
- Alastair Lyons
- Peter Perry

INDEPENDENT CONSULTANTS
- Steve Brown (until 4 May 2022) (Expertise in the Environment and Wastewater performance)
- Julian Dennis (until 2 March 2022) (Expertise in Water and Public Health)
- David Elliott (Expertise in the Environment and Wastewater performance). Appointed 2 March 2022 to replace Steve Brown.
- Milo Purcell (Expertise in Water and Public Health). Appointed 2 March 2022 to replace Julian Dennis.

Meetings held: 7

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

The Assistant Company Secretary acts as Secretary to the Committee.

PRINCIPAL RESPONSIBILITIES

On behalf of the Board, the Committee monitors the operational performance of the Company on a quarterly basis and provides oversight of the management and mitigation of risks to the business arising from operational, environmental and health and safety-related issues.

The Committee also:
- reviews Dŵr Cymru's water and wastewater operational performance and assesses the appropriateness of improvement strategies;
- assesses annual reports, including, but not limited to, the Annual Dam Safety Report and the Annual Health and Safety Report, and recommends these to the Board for approval;
- reviews and influences the health and safety management plan and monitors its delivery;
- ensures that Welsh Water fulfils its public health responsibilities and that the provision of safe, clean drinking water and wastewater sanitation is in line with all relevant standards;
- ensures the Company has adequate emergency and security arrangements in place in line with relevant statutory guidance such as Critical National Infrastructure (CNI), Protective Security Strategy and Security and Emergency Measures Directive (SEMD) requirements;
- reviews and agrees the Company's operational systems and quality assurance audit programme and receives the findings of audit reports relating to water and wastewater service provision;
- reviews the findings of investigations into any water quality, environmental, safety or customer service failure. Serious Incident Reviews are led by the Chief Executive Officer of Welsh Water, who meets with the relevant Managing Director of Water/ Wastewater or the Director of Capital Delivery, as appropriate, to conduct the review and then provides detailed reports on the identified root cause(s), any wider implications of the incident and the action plans to address any ongoing issues; and
- constructively challenges the Executive team to ensure continuous improvement in operational performance.

ACTIVITIES DURING THE YEAR

During 2021-22 the Committee's activities have included reviewing:

- quarterly and annual Health and Safety reports;
- performance reports for Water and Wastewater Services, with reports submitted on quality standard failures, and compliance with internal processes, together with improvement plans for these areas;
- relevant strategic risk reports and mitigation plans;
- strategies for key areas of business focus such as the Pollution Prevention Strategy, Waste Water Treatment Works Compliance Strategy (including flow and EDM), Sustainable Management of Natural Resources, Leakage Strategy, Regulation 26 Strategy (water treatment and disinfection), Brecon Beacons Mega Catchment Strategy, Flooding Strategy, Storm Overflow Assessment Framework, Protective Security Strategy and Cryptosporidium Prevention Strategy;
- the Annual Dam Safety Report and review of Portfolio Risk Assessment outcomes for reservoir dams and ongoing maintenance work being undertaken by the Capital Projects team;
- updates on the work of the Company's Independent Environmental Advisory Panel; and
- its terms of reference and effectiveness as part of the internal Board evaluation conducted during the year. That review concluded that the Committee was working well and continued to perform effectively.

PRIORITIES	ACTIVITY OF COMMITTEE	OUTCOME OF COMMITTEE ACTIVITY
Closely monitoring Health and Safety, especially with the impact of the pandemic and changes to our work practices	Annual and quarterly Health and Safety Reports were presented by the Director of Health and Safety, and the Committee also reviewed reports of Health and Safety incidents, near misses or potential risks. During the year, the Committee followed the investigation of the catastrophic explosion at another water company's anaerobic digester site and considered the recommended general process safety enhancements and the timing of these being implemented.	Reviewed and constructively challenged the reports, including actions taken to ensure continued safety of the workforce during the pandemic restrictions. The Committee considered the actions put in place by the Company in responding to expert advice on general enhancements that might be effected in response to the issues experienced on another company with regard to an incident on an anaerobic site and approved the proposals for change.
Hearing directly from our key regulators on their priority areas for the Company	The Committee received presentations on our performance from the Chief Inspector of the Drinking Water Inspectorate and Directors from Natural Resources Wales.	These are positive opportunities to engage with key regulators. We received feedback on our performance and areas for improvement. The Committee reviewed the plan put forward to reverse the decline experienced in the year in the Company's clean water performance as measured by the Drinking Water Inspectorate.
Reviewing in detail the Company's response to severe weather events	The Committee reviewed root causes of the flooding to customer properties which occurred during storm events across our supply area in January/ February 2022 (Storms Dudley, Eunice and Franklin), and considered the appropriateness of the short-term mitigation plan and lessons learned.	The Committee noted the improvements in responses to the later storms as a result of lessons learned and changes implemented earlier in the winter.
Monitoring operational performance against key performance indicators for drinking water and environmental standards	At every meeting the Committee receives management reports from the: • Managing Director of Water Services, Asset Planning and Capital Delivery; • Managing Director of Wastewater Services, Business Customers and Energy; and • Regulatory correspondence updates from the Director of Quality Policy & Compliance.	The Committee reviewed and constructively challenged the reports and agreed the format for 'dashboards' setting out areas of improvement in relation to KPIs identified by the Committee.
Reviewing updates of progress against key operational strategies	The Committee routinely received progress updates in respect of operational strategies, including: • Water treatment and disinfection • Iron and Customer Acceptability • Lead • Leakage • Pollution • Sewer flooding	The rate of progress of implementing the operational strategies was considered and short and medium-term priorities were agreed.

CORPORATE GOVERNANCE REPORT

4 AUDIT, RISK AND INTERNAL CONTROL

PRIORITIES	ACTIVITY OF COMMITTEE	OUTCOME OF COMMITTEE ACTIVITY
'Teach in' sessions on technical issues	The Committee occasionally spends additional time on a 'deep dive' session on issues that benefit from a detailed review, such as: • Nutrient pollution issues • Flow compliance for wastewater.	The Committee considered the level of investment proposed in relation to these operational issues and the focus of the investment, and how guidance on planning issues from Natural Resources Wales is impacting development in the vicinity of the SAC (Special Areas of Conservation) rivers. The Committee noted the implementation of the strategy of focused operational monitoring, effective planned maintenance and rapid response to escalating issues, given limited options for additional discretionary investment available during the current investment period, AMP7.
Continued oversight of the 'pipes in dams' capital projects at a number of our reservoir locations	Annual report on Dam Safety, including a review of the 'pipes in dams' project.	The annual report noted that 36 'Measures in the interests of safety' (MITIOS) had been due during the year and that all had been delivered; good progress had also been made on the 'Pipes in Dams' capital programme and work had now been completed at 14 out of 26 priority dams. The Committee recommended the annual report on Dam Safety to the Board for approval.
Governance	The Committee reviewed: • Its terms of reference • Forward Schedule of agenda items for 2021-22 The Committee also reviewed its effectiveness as part of the detailed Board evaluation conducted during the year.	The Committee's review of its performance concluded that the Terms of Reference remained appropriate and that the Committee had continued to make good progress during 2021-22.

GRAHAM EDWARDS
Chair of the Quality and Environment Committee
1 June 2022

4 AUDIT, RISK AND INTERNAL CONTROL

TECHNOLOGY COMMITTEE REPORT

TOM CRICK

CHAIR OF THE TECHNOLOGY COMMITTEE

OTHER MEMBERS
- Joanne Kenrick
- Alastair Lyons
- Rob Norris, Chief Technology Officer (CTO)
- Peter Perry

Meetings held: 4

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

The Technology Committee is chaired by Prof. Tom Crick, who has an extensive background in computer and data science. The Managing Director of Water, Asset Planning and Capital Delivery attends all meetings of the Committee.

PRINCIPAL RESPONSIBILITIES

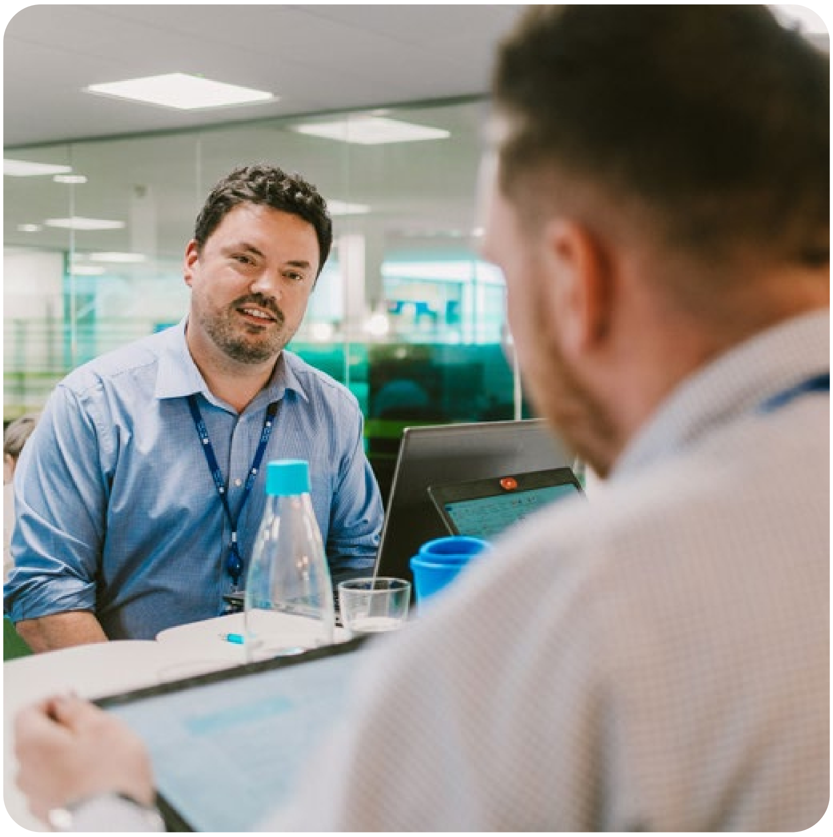
To approve the strategies developed for the Group's information technology (IT), operational technology (OT), and information security provision to support the achievement of the Group's medium-term business objectives in the most efficient manner and in accordance with the Group's identified risk appetite.

To review the implementation plans to deliver the Group's technology strategies and to oversee the progress being achieved, including reviewing and tracking progress of the Group's obligations under the Network and Infrastructure Systems (NIS) Regulations 2018.

FOCUS AREAS LOOKING AHEAD TO 2022-23

Review and monitor progress with the:

- IT Service team transformation and ongoing development
- Security programme, including focus on cyber threat due to geopolitical situation (Ukraine), increasing our CMMI security maturity level to a target maturity level of 3 in 2023 and improving cyber risk awareness across the business
- Cloud migration
- Implementing the AMP7 Investment Plan and planning investment for PR24 (AMP8)
- The Company's readiness for the discontinuation of Public Switched Telephone Network (PSTN) in 2025.



CORPORATE GOVERNANCE REPORT

4 AUDIT, RISK AND INTERNAL CONTROL

PRINCIPAL ACTIVITIES	ACTIVITY OF COMMITTEE	OUTCOME OF COMMITTEE ACTIVITY
IT Strategy	The Committee received strategic updates at each meeting which focused on: • The AMP7 Investment Plan and its alignment to the Technology Strategy; • Progress with the new delivery model, including the roles of our key partners and in-house team; and • The Company's journey to Cloud. The Committee received a strategic overview from the new functional Head of Enterprise Applications. The Committee received updates on the Company's SMART (water and wastewater network) Strategy and its Alarm Management Strategy.	The Committee considered the current strategy, the technology landscape, and team/partner capability, in the context of the AMP7 delivery plan and the Group's longer-term plans as set out in Welsh Water 2050. The Committee monitored progress with the contract renewal with a key Cloud support partner for a further five years. The Committee noted the Cloud programme's progress and governance arrangements which included senior representation from Welsh Water and our key partners. The Committee noted progress towards: addressing the enabling capabilities gap; adopting a more agile methodology; and re-establishing appropriate governance arrangements. The Committee noted the progress on both strategies since their early development and agreed that these updates should become annual updates to the Committee.
Information and Cyber Security	The Committee received updates from the Chief Information Security Officer (CISO) at each meeting on progress with the AMP7 Information Security Plan, including: • remediation plans, Security Target Operating Model and revised funding to support our information security programme; and • Key information security risks, including a KPI dashboard. Members of the Board received a 'teach in' from the Chief Security Adviser in Microsoft's Cybersecurity Solutions Area, on the cyber security and compliance landscape. The Committee received an update on the current threat landscape, including the recent NCSC Guidance on the Ukraine threat.	The Committee closely monitored progress with the delivery of the Information Security Programme, including security risk and governance and activities to develop further the security culture at Welsh Water. The Board and senior Security Operations colleagues reviewed the Company's plans for cyber resilience in the context of this input. This will remain the priority for the CISO and Cyber Security Team with updates provided to the Committee as appropriate.

PRINCIPAL ACTIVITIES	ACTIVITY OF COMMITTEE	OUTCOME OF COMMITTEE ACTIVITY
Operational Technology	The Committee received updates on OT performance and security measures. The Committee also received progress updates on our compliance with the Drinking Water Inspectorate's (DWI) NIS Regulations 2018 following the DWI's assessment of our Cyber Assessment Framework (CAF) responses.	The Committee noted the wider use of technology to protect the Company's operational assets. This is supported by combining the existing ITS and OT Cyber Security programmes to ensure consistent delivery and deployment approach across both environments. The Committee noted good progress under the NIS Regulations and that half-yearly updates would be brought to the Committee.
	The Committee reviewed the impact on the Company of the discontinuation in 2025 of the Public Switched Telephone Network (PSTN), which provides infrastructure and services for public telecommunication.	The Committee will continue to monitor the management of this transition, which is through both a Company and industry response via the Water UK Operations Strategy Group, considering different technology solutions appropriate to our affected assets. Updates will be brought to the Committee at each meeting.
Governance	The Committee reviewed, with input from the CTO and CISO: • Its terms of reference; and • Forward Schedule of agenda items for 2021-22. The Committee also reviewed its effectiveness as part of the detailed Board evaluation conducted during the year.	The Committee approved minor amendments to it terms of reference. The 2021-22 Forward Schedule was approved by the Committee. The Committee's review of its performance concluded that the Committee had made good progress during 2021-22 in its oversight of the Group's IT, OT and information security provision.

The Committee noted a positive step change in the progress made during the past year, acknowledging the impact of the Company's first CTO who joined during 2020, and the recruitment of a permanent CISO, who joined in August 2021. This has been further reinforced with other senior appointments in the key areas of Enterprise Applications, Security Risk and Governance, and Security Operations that have been made during the year as part of the ITS Transformation Programme. The Committee will continue to keep a clear focus on the emerging threat landscape and the Company's commitment to further developing its cyber resilience.

TOM CRICK
Chair of the Technology Committee
1 June 2022

CORPORATE GOVERNANCE REPORT

4 AUDIT, RISK AND INTERNAL CONTROL

ENVIRONMENT, SOCIAL AND GOVERNANCE COMMITTEE REPORT

DEBRA BOWEN REES

CHAIR OF THE ESG COMMITTEE

OTHER MEMBERS

- Jane Hanson
- Alastair Lyons
- Peter Perry
- Mike Davis

Meetings held: 4

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

In the absence of the Committee Chair, and/or their nominated alternate, who will also be a Non-Executive Director, the remaining members present shall elect one of themselves to chair the meeting.

PRINCIPAL RESPONSIBILITIES

The responsibilities of the Committee are:

- Developing and overseeing the Group's ESG Strategy, including the definition of key objectives within the strategy;
- Monitoring performance against the Group's ESG targets and key performance indicators;
- Reviewing the Group's progress towards the achievement of its Carbon Reduction Target;
- Considering third-party partnerships entered into in relation to the ESG Strategy;
- Considering the reporting conventions and the range of ESG metrics that should be adopted by the Company;
- Approving how the ESG Strategy is communicated internally and externally;
- Considering the Company's reporting to ESG Rating Agencies, and the selection of rating agencies by which to be assessed;
- Reviewing upcoming ESG reporting requirements and the Company's assessment of their implications, both strategically and operationally, for the Company's business and its reputation; and
- Ensuring that the Company maintains appropriate policies to effectively support the Company's ESG framework, in particular its environmental impact.

FOCUS AREAS LOOKING AHEAD TO 2022-23

- Further developing specific objectives in the context of the ESG Framework Document which was finalised and agreed by the Committee in September 2021 and reporting progress against these objectives through agreed KPIs;
- Overseeing the Group's application for its initial ESG rating based on 2021-22 reporting;
- Reviewing progress against key policies relevant to the Group's ESG Strategy;
- Reviewing the Company's progress towards the achievement of its Carbon Reduction Targets; and
- Reviewing the effective stakeholder communication of the Group's ESG Strategy and progress.

PRIORITIES	ACTIVITY OF COMMITTEE	OUTCOME OF COMMITTEE ACTIVITY
ESG Framework	The Committee considered the draft ESG Framework and suggested amendments to the document as a working document for the Executive team to use in planning content to bring to the Committee.	ESG Framework Document and draft KPI metrics table approved by the Committee in November 2021.
ESG Strategy	Key elements of the Strategy Document were discussed at the September and November 2021 meetings of the Committee and approved at the February meeting.	ESG strategy published on the Group's website **dwrcymru.com/esg**
Key Stakeholder Relationships	The Committee reviewed key stakeholder relationships and actions arising.	Understanding of the interaction of the Company with key stakeholders on ESG issues.
ESG Rating	The Committee considered the options for obtaining an ESG-related rating that the Group could seek to evidence the Group's ESG credentials.	The Committee agreed that it would seek a rating from Fitch based on 2021-22 reporting.
Wellbeing Commitments and ESG Strategy Objectives	The Committee reviewed performance against the Company's Wellbeing Commitments with deep dives into: • Net Zero Carbon Strategy • Community Fund investments • Biodiversity Strategy.	The Committee considered and challenged the Company's performance against key objectives.
Presentation from the Chair of the Customer Challenge Group	Peter Davies, Chair of the Customer Challenge Group (CCG), presented to the Committee on the CCG's review of the Company's performance against its Wellbeing Commitments.	The Committee noted the CCG's feedback and considered its relevance to the Company's plans for delivering against the Wellbeing Commitments in the context of delivering against its ESG Strategy objectives for future reporting periods.
Commitment to the UN Global Compact	The Committee considered the proposal to commit to meeting the objectives of the UN Global Compact.	The Committee recommended to the Board that a commitment to the UN Global Compact should be made by the Group and the Board duly endorsed that recommendation in March 2022.
Governance and Committee Effectiveness	The Committee considered and approved Terms of Reference for this new Committee of the Board.	The Committee recommended to the Board for its approval the Terms of Reference for this new Committee and these were adopted in June 2021.

DEBRA BOWEN REES
Chair of Environment, Social and Governance Committee
1 June 2022

CORPORATE GOVERNANCE REPORT

5 REMUNERATION

REMUNERATION COMMITTEE REPORT

JOANNE KENRICK

CHAIR OF THE REMUNERATION COMMITTEE

OTHER MEMBERS

- Debra Bowen Rees
- Alastair Lyons
- John Warren (to 2 July 2021)
- Tom Crick (from November 2021)

Meetings held: 6

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

The Company Secretary acts as Secretary of the Committee.

The Committee Chair had been a member of the Committee for nine months prior to being appointed Committee Chair and has relevant experience as Chair of a Remuneration Committee for another company since 2018.

PRINCIPAL RESPONSIBILITIES

The Committee is responsible for recommending to the Board and Glas Members for approval the Executive Directors' Remuneration Policy. The Committee also sets the remuneration for the Chair of the Board, the Executive Directors and Executive team consistent with this Policy. Although the Chair of the Board is a member of the Committee, he does not participate in any decision-making in respect of his own remuneration. In exercising its responsibilities, the Remuneration Committee has oversight of workforce remuneration policy and other related policies, and of the alignment of incentives and rewards with the Company's culture and purpose, taking these points into account when setting the Executive Remuneration Policy. The Policy is put to Glas Members for approval at least every three years, or earlier if changes are proposed.

The Committee's remit is set out in detail in its terms of reference which are available at dwrcymru.com/termsofreference

During 2021-22, the Committee received independent advice from Deloitte LLP which is a signatory to the Remuneration Consultants Group Code of Conduct, and any advice given is governed by the Code. The Committee is satisfied that the advice received was independent and objective. The fees payable to Deloitte LLP for the period 2021-22 totalled £36,950 (plus VAT).

SECTION 1: REMUNERATION COMMITTEE CHAIR'S STATEMENT

DEAR GLAS MEMBERS

On behalf of the Board, I am pleased to present our 2021-22 Remuneration Report.

STRUCTURE OF THIS REPORT

For this year we have retained the simplified structure of our remuneration disclosure that we introduced last year.

This Report is split into six sections:

SECTION 1

Remuneration Committee Chair's statement (pages 147 to 148)

SECTION 2

The Alignment of Pay and Performance, Remuneration Principles and Ofwat guidance (pages 149 to 151)

SECTION 3

Summary of Directors' Remuneration Policy for AMP7 (2020-2025) which was approved by Glas Members at the 2020 AGM (pages 152 to 155)

SECTION 4

Pay outcomes for 2021-22 (pages 156 to 161)

SECTION 5

Pay decisions made in relation to 2022-23 (pages 161 to 163)

SECTION 6

Other Important Information which is disclosed in line with best practice guidance (page 164)

This structure has been adopted with the aim of making our remuneration arrangements and the decisions made by the Committee clear and understandable.

BUSINESS AND EMPLOYEE CONTEXT

This year, the Company has continued to deliver its services in very challenging circumstances given: the continuing Covid-19 pandemic and managing the resulting workforce absences while adapting working conditions; the supply chain disruption caused in part by EU Exit and in part by Covid-19 and, more recently, the disruption caused by the war in Ukraine; and the intensified external focus on the Company's environmental performance. The Committee has also continued to take into consideration the impact of these factors on the Company's customers and communities when making decisions on executive pay.

Despite the challenges of the last year and in particular the burden that Covid-19 has placed on many of our employees, the Committee has recognised the sustained high quality of service provided to our customers. To reflect this a payment of £1,000 was made under our Colleague Reward scheme to over 2,200 employees (2021: £1,100).

The Company has also continued to review our progress in establishing a diverse workforce that reflects the communities we serve. We are committed to ensuring the Company is an inclusive environment where everyone can be themselves at work, and there are no barriers to undertaking any role. For further information on our people and policies and the progress we have made during 2021-22 see page 86. Fair workforce and Executive pay policies remain an important element in promoting an engaged, diverse and inclusive workforce.

The Committee sought feedback from employees on remuneration at a dedicated employee engagement session attended by the Chair of the Committee and the Chair of the Board, which was held by video conference in July 2021.

The Committee also received feedback from Glas Members at the 2021 Annual General Meeting and the December Members' meeting and the Chair of the Committee met with those Members who wished to discuss remuneration issues individually during summer 2021. The Committee was grateful for the feedback received from all stakeholders and will continue to consider these comments and views in relation to future decision-making.

REMUNERATION COMMITTEE FOCUS AREAS IN 2021-22

As we have adopted public listed governance, although we are not a listed company, we put our Remuneration Policy to Glas Members for approval every three years. Our Directors' Remuneration Policy for AMP7 was last approved by Glas Members at the Annual General Meeting on 3 July 2020.

This year, the Committee has continued to focus on implementing this Policy. This has included reviewing how targets are set for AVPS (Annual Variable Pay Scheme) awards consistent with incentivising the delivery of the principal performance commitments set by Ofwat in the Final Determination of the PR19 regulatory price review. Having reviewed the outcomes for the first year of the scheme, it became clear that the approach of using the cumulative ODI performance for customer, strategic and operational performance meant that over or under-performance in relation to a single metric would have a disproportionate impact on the AVPS outcome in a way that had not been anticipated and was not intended when the scheme was introduced. Accordingly, the Committee considered proposals for amending how AVPS targets are set for 2021-22 and future awards to simplify them and to make it more likely to produce a balanced outcome which reflected performance across all relevant measures.

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For 2021-22 AVPS awards, as the measures and approach had already been communicated to employees and Members, the Committee agreed to retain the overall framework but to limit the impact of any single measure within a range of threshold to maximum ODI performance for that measure. This outcome would then be subject to a discretionary assessment by the Committee to make sure that the 2021-22 outcomes are consistent with the overall performance delivered to customers in the period, including consideration of environmental measures. Based on this approach, the initial formulaic AVPS outcome was higher than expected. However, the Committee noted that this outcome would be an increase compared to the 2020-21 AVPS despite performance in a number of key metrics being at threshold level. The Committee therefore applied its discretion to reduce the outcome for the operational element from 24% to 12% of maximum, and to reduce the customer element to produce an overall outcome of 40% of maximum. The Committee agreed that this reduced outcome was more closely aligned to performance in the period and the experience of customers. See page 158 and 159 for details of targets set and performance achieved.

For 2022-23 AVPS awards, it was agreed to reduce the number of measures under the customer, operational and strategic elements to focus on the most important and impactful measures, and to set weightings for each of these measures rather than pooling total ODI performance. The new targets and weighting are explained on page 162 below. These changes in targets are not a formal amendment to the Policy which would require approval from Glas Members, and have been scrutinised by the Committee to ensure that the resulting outcome still represents appropriate delivery of challenging targets in order to earn variable pay. For LTVPS (Long Term Variable Pay Scheme) awards, the Committee also reviewed the approach to target setting and whether the cumulative ODI approach should be retained or whether instead the approach used for AVPS awards should be applied. Overall, the Committee determined that, as the targets have been set for the full AMP7, and the structure allows for overall outcomes to be adjusted at the end of period, it would be reasonable to take a prudent approach to the interim targets and not make any adjustment at this stage. However, consistent with the plan structure, the Committee can consider applying discretion to adjust awards upwards or downwards and the LTVPS could potentially be adjusted upwards to better align the award with the performance achieved under the plan over the full AMP7 period.

The LTVPS outcome for 2021-22 was 31.9% of maximum with the totex element being met just above target level, and the performance development threshold targets not being met. In accordance with the LTVPS rules the award is capped at 30%. See page 159 to 161 for details of targets set and performance achieved.

In line with the normal annual cycle, the Committee reviewed salary levels for the Executive Directors and the Executive team. During this review the Committee considered the proposed increases for the wider workforce, business and individual performance in 2021-22, and National Living Wage and Real Living Wage rates. The Committee decided to increase Executive Director salaries by 2.8% from 1 April 2022, which was 2% lower than the increase of 4.8% for the wider workforce under the terms of the AMP7 Working Together Agreement.

The Committee also reviewed the fee for the Chair of the Board. A benchmarking exercise took place looking at fees paid by other water companies and UK listed companies of comparable size and complexity. As part of this exercise the Committee also took into account previous practice of discounting the benchmark to reflect the Company's not for dividend structure, current rates of inflation, and the time commitment for the role, given the nature of the Company's regulated activity. Taking all these factors into account a 2.8% increase was agreed effective 1 April 2022. This is the first increase to the Chair's fee since 2018.

REMUNERATION COMMITTEE FOCUS AREAS IN 2022-23

During 2022-23 the Committee will continue to implement the Policy approved by Glas Members in accordance with our agreed Remuneration Principles.

As part of this, the Committee will monitor wider remuneration trends and best practice developments, including guidance from the Financial Reporting Council on the requirements of the UK Corporate Governance Code and from Ofwat on Board Leadership, Transparency and Governance.

The Committee also recognises the importance of setting and implementing appropriate remuneration policies in attracting and retaining a diverse and engaged workforce, and this complements other initiatives being undertaken by the business to promote equality, diversity and inclusivity across the organisation. The Committee understands the role that ethnicity pay reporting can play as part of this and will continue to look at this in the context of the business developing relevant records and metrics.

Finally, the Committee values the inputs and feedback received from both employees and Glas Members and will continue to engage with them to ensure their views on the implementation of our Policy are taken into account in our decision-making process.

JOANNE KENRICK
Chair of the Remuneration Committee
1 June 2022

SECTION 2: THE ALIGNMENT OF PAY AND PERFORMANCE, REMUNERATION PRINCIPLES AND OFWAT GUIDANCE

In December 2019, Glas Members approved an amendment to our Articles of Association to set out clearly our purpose, which we have been committed to delivering since 2001 when Glas Cymru acquired the business of Welsh Water. Our purpose, which is set out on on the inside front cover of this report, has informed the development of our Remuneration Principles, as set out below.

THE REMUNERATION PRINCIPLES

The Chair of the Committee regularly discusses with Glas Members the key Principles that apply to the Committee's work. These Principles, listed below, were last shared with Members at the 2020 AGM, and are unchanged since then.

1	2	3	4
Remuneration should reward/incentivise the long-term interests of the business, promote its long-term sustainable success and reflect its agreed future strategic approach.	Remuneration should help align the interests of Directors and employees with the business' customers, and reflect the Company's purpose and values.	Remuneration should be focused on the issues of key concern to the business – water and environmental quality, customer service and financial performance.	Remuneration should reflect Welsh Water's aim to be one of the best performing companies in the sector.

5	6	7	8
Remuneration targets should be stretching both in relation to past performance and in comparison with other companies in the sector. Where possible, they should be hard numbers which can be audited.	Remuneration is intended to incentivise management in the absence of shareholders and share options.	Remuneration should be fair and competitive both in relation to the sector and internally so as to help attract and retain high-calibre individuals.	An appropriate proportion of remuneration for the Executive Directors should be variable so as to achieve the right balance in relation to risk-taking.

9	10	11	12
The remuneration structure should be sufficiently clear so that those affected by it understand what it is aiming to achieve.	Remuneration will be transparent to Glas Members and subject to their regular approval.	Remuneration should take account of the Company's not-for-shareholder corporate structure, the views of members and other stakeholders.	Decisions made by the Committee should take account of workforce remuneration and related policies, and the alignment of incentives and reward with culture.

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When developing the Remuneration Policy and considering its implementation for 2022, the Committee was mindful of the objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance and the UK Corporate Governance Code. The Committee considers that the executive remuneration framework appropriately addresses the following factors:

Clarity	The Committee is committed to being open and transparent with pay and we seek to do this through our high level of disclosure and clear reporting. In taking its decisions, the Committee follows the Objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance, and the requirements of the FRC's UK Corporate Governance Code (the Code). Actual incentive outcomes are set out in the Remuneration Report each year.
Simplicity	We aim to make our remuneration structure clear to all participants so that all those affected by it understand it and its purpose. Where possible, our remuneration arrangements are in line with UK best practice.
Risk	The Committee has discretion to adjust AVPS and LTVPS outcomes if it considers these inconsistent with overall Company performance, taking into account any relevant factors. Malus and clawback provisions apply to both the AVPS and LTVPS.
Predictability	Maximum opportunities for AVPS and LTVPS are set out in the policy, with actual outcomes depending on the level of performance achieved against specific measures.
Proportionality	Our policy has been designed to strike a balance between long-term and short-term measures linked to the Company's strategic plan. A significant proportion of our remuneration arrangements for Executive Directors is tied to the achievement of stretching performance conditions to ensure individuals are rewarded fairly for success. When benchmarking Director pay we consider the data in its context, including the complexity of the role. As an additional reference we also consider the application of a discount to the market data in order to reflect our not-for-shareholder status.
Alignment to culture	The use of the same key measures for all variable pay schemes ensures transparency and a sense of shared ownership of the targets – the annual award of every colleague is determined by achievement against the same key targets, to a greater or lesser degree.

This report includes an explanation of the Company's executive pay policy and how the criteria for awarding short and long-term performance-related elements are substantially linked to stretching delivery for customers and are rigorously applied.

STRATEGIC ALIGNMENT OF PAY

In setting remuneration policies, the Committee is focused on the need to attract and retain individuals who can meet the short and long-term challenges that the Group faces.

Pay must be sustainable and encourage a focus on achieving the long-term strategy of the Company. It must also be fair to individuals and the wider workforce. The Committee is mindful when thinking about levels of pay of our not-for-shareholder corporate structure.

The Committee is determined that remuneration should not reward poor performance and that we should be transparent about the reporting of performance. This is closely aligned to the Group's vision 'To Earn the Trust of our Customers Every Day'.

LINKING PAY TO PERFORMANCE AND THE CUSTOMER

In addition to linking pay to the short and long-term challenges the business faces and taking into account our corporate structure, our Remuneration Policy also ensures any performance-related element of executive pay is linked to the underlying performance of the Company in its delivery for customers.

For AMP7, the AVPS was amended to focus on the key performance objectives of the business plan while LTVPS objectives are linked to a range of performance measures which are relevant to achieving the Company's long-term goals as set out in Welsh Water 2050 (for more details about these goals, please see page 36).

Delivery against customer metrics is a key part of our incentive structure and the policy for short and long-term performance pay is linked to stretching performance delivery for customers, including through C-MeX and D-MeX metrics (Ofwat's customer measures of experience and satisfaction - see Performance Commitment Definitions on page 229).

Our policy seeks to ensure that Executive Directors are fairly rewarded, and the Committee will also assess outcomes to ensure that pay is aligned to performance. Where necessary, the Committee will make amendments through the discretion available under our schemes.

ROLE OF GLAS MEMBERS

Glas Members perform an essential governance function for the Group in the approval of remuneration policies. The 2021-22 Annual Report on Remuneration will be subject to an advisory vote by Members at the forthcoming 2022 AGM. The vote is 'advisory' because it does not change the decisions already taken, but the Committee will take it into account in its future decision-making.

Members also approve the Remuneration Policy of the Board by a binding vote at least every three years (or where any significant change is proposed). This is in accordance with the remuneration reporting requirements for UK listed companies.

Members approved the Remuneration Policy for AMP7 at the 2020 AGM, and last approved the Annual Report on Remuneration at the 2021 AGM with the votes as follows:

	Vote for
Members (present in person or by proxy) who voted in favour of the Annual Report on Remuneration – 2021 AGM	96%
Members (present in person or by proxy) who approved the Directors' Remuneration Policy for 2020-2025 – 2020 AGM	90%

ENGAGEMENT WITH EMPLOYEES AND OTHER STAKEHOLDERS

Colleagues from across the business are regularly invited to attend informal meetings with the Chair and Non-Executive Directors to talk about issues affecting the business, the workforce, customers and other stakeholders. One of these sessions, held in July 2021, included a discussion on the role of the Remuneration Committee, the link between performance and remuneration, and remuneration policies for the Executive Directors and the wider business. The outputs from this discussion were subsequently reviewed at a meeting of the Glas Board.

See page 121 for other examples of Board engagement and details of site visits undertaken in 2021-22.

The Remuneration Committee is conscious of the Company's position as one of the largest companies in Wales and of the geographic and socioeconomic context in which the Company operates, and in which decisions concerning remuneration are made by the Committee.

The Board is also conscious of the need to balance societal concern around the quantum of executive remuneration with the need to attract and retain key individuals with the relevant experience and capabilities. The views of other relevant stakeholders, including Ofwat and other regulators, Defra and Welsh Government and the CCWater, are also taken into account.

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SECTION 3: SUMMARY OF DIRECTORS' REMUNERATION POLICY FOR AMP7 (2020-2025)

The AMP7 Remuneration Policy was approved by the Glas Members at the 2020 AGM, and the key elements are set out in the table below.

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
Base salary	To help attract, retain and motivate high-calibre employees.	Normally reviewed annually and any increases applied with effect from 1 April. Review reflects: • Role, experience and performance • Wider economic conditions • Increases awarded throughout the rest of the workforce • Periodic reviews of remuneration within the water sector.	Annual inflationary increases generally linked to those of the wider workforce though the Remuneration Committee retain discretion to award increases to individuals above or below this level where appropriate.	Annual Performance Reviews
Benefits	To provide a market-competitive benefits package to help attract and retain employees. Healthcare benefits also promote business continuity.	Directors are eligible for private health cover. The Chief Executive has a historic entitlement to permanent health insurance. Other benefits such as relocation expenses or travel/accommodation allowances may be offered as appropriate.	Value of benefits is based on the cost to the Company and is not predetermined.	None

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
Pension	To help attract and retain high-calibre employees.	All employees, including Executive Directors, are entitled to a maximum employer pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance of 9.7% (9.6% from 1 April 2022). Pension benefits for all employees who participated in the DCWW Pension Scheme continue to increase in line with increases in their base salary. These increases are also provided for in the Employer Funded Retirement Benefits Scheme in which Peter Perry participates. Life assurance at 4x base salary is provided for Executive Directors and all employees who participate in the DCWW Group Personal Pension Plan or Pension Cash Alternative Plan.	The cash allowance is equivalent to the employer contribution of 11% less employer NI contribution.	None

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	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
AVPS	To incentivise the annual delivery of stretching targets and delivery of strategic goals.	AVPS targets reviewed annually by the Committee. Performance is measured against threshold, target and maximum levels. Outturn against targets is determined by the Remuneration Committee after the year end based on performance against targets. • Paid as cash • Not pensionable • Clawback provisions apply in the following circumstances: – Material misstatement or a calculation error in assessing any Group member company's financial results – Material failure of risk management in any Group member company or a relevant business unit – Gross misconduct or reputational damage caused to the Company or Group member company – Material corporate failure in any Group member company or a relevant business unit AVPS awards may be varied (either increased or decreased) at the discretion of the Committee or clawed back either prior to the payment of the award for a particular performance year or in the following performance year.	Maximum AVPS potential of 100% of salary, for the achievement of stretching performance targets.	Measures aligned to the Business Plan and based on overall reward/ penalty outcomes – 40% based on Customer Service, 40% based on Operational Performance and 20% based on a suite of strategic goals, which are selected by the Committee each year.

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
LTVPS	To align the long-term focus of the Executive Directors with those of Welsh Water's customers and stakeholders. To incentivise achievement of the Company's long-term strategy.	Cash awards based on stretching performance targets. Performance is measured against threshold, target and maximum levels. Performance against the measures is assessed over the five-year period of AMP7. Interim payments are made on an annual basis. LTVPS awards may be varied (either increased or decreased) at the discretion of the Committee or clawed back either prior to the payment of the award for a particular performance year or until the accounts for the year to 31 March 2028 have been audited.	The maximum potential award for the Chief Executive is 500% of salary over the five-year regulatory period (to a maximum potential award of 100% per annum). For the Chief Financial Officer, the maximum potential award is 300% of salary over the five-year regulatory period to 31 March 2025 (to a maximum potential award of 60% per annum).	50% based on totex performance and 50% based on overall reward/ penalty outcomes for a range of performance development measures relevant to achieving the Company's long-term goals as set out in Welsh Water 2050.
Non-Executive Directors	Provides an appropriate level of fixed fee to attract and retain individuals with a broad range of experience and skill to support the Board in the delivery of its duties.	The Remuneration Committee determines the fee payable to the Chair of the Board and, separately, the Executive Directors and the Chair approve the fee payable to the Non-Executive Directors. All Directors may be paid for additional expenses incurred in connection with their role on the Board and are responsible for any taxable benefit implications that may result.	Non-Executive Directors do not receive any additional fees for chairing committees.	Annual Review

The elements of the Remuneration Policy which address Executive Directors joining and leaving the Board are set out in the 2020 Annual Report which is available at **dwrcymru.com/glascymrureports**.

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LONG-TERM INCENTIVE – LTVPS

The below illustrates how and when performance is assessed, and payments are made.

Y/E March 2021 | Y/E March 2022 | Y/E March 2023 | Y/E March 2024 | Y/E March 2025

PERFORMANCE PERIOD 2020–25

PLAN YEAR 1

PLAN YEAR 2

PLAN YEAR 3

PLAN YEAR 4

INTERIM PERFORMANCE ASSESSMENT AND PAYMENTS

For plan years 1, 2, 3 and 4, interim payments can be made if the relevant annual performance conditions are met. The maximum interim payment will be up to the 'target' level (60% of the award value for the relevant plan year).

PLAN YEAR 5

FINAL ASSESSMENT AND PAYMENT

The final payment for each participant will be based on performance against the cumulative five-year targets for AMP7, less any interim payments. Clawback will be applied if interim payments exceed the overall payment earned based on the five-year performance targets.

SECTION 4: PAY LAST YEAR – 2021-22

WIDER WORKFORCE PAY

The Remuneration Committee is responsible for setting the remuneration policy for the Executive Directors and Executive team and maintains oversight of pay policy across the Group. Workforce pay policy is agreed with our recognised trade unions and follows the terms of our Working Together and Household Customer Services Partnership Agreements.

FIXED PAY

The Annual General Salary Award is agreed with our recognised trade unions and salaries are uplifted consistently across the workforce. For the 2022 salary review the Committee, on the recommendation of the Executive Directors, decided it would not be appropriate to align the Executive Director salary increase with that of 4.8% awarded to the wider workforce in accordance with the AMP7 Working Together Agreement but instead reduced the percentage by 2 percentage points. This resulted in a 2.8% increase from 1 April 2022.

Pension benefits are aligned across the Company with all Group Personal Pension Plan members receiving the same employer contribution as a percentage of salary, in line with best practice.

VARIABLE PAY

The Annual Variable Pay Scheme (for colleagues below Executive Director level above Band 5) and the Colleague Reward Scheme (Bands 1-5) utilise a number of the same key measures – those linked to Customer, Performance and Expenditure. The use of the same key measures for all variable pay schemes, to a greater or lesser degree, ensures transparency and a sense of shared ownership of the targets.

The Annual Variable Pay Scheme includes an element of opportunity based on achievement of personal objectives, as well as on Company performance. Maximum opportunity ranges from 10% to 60% of base salary.

The Colleague Reward scheme, which applies to all other employees, does not include a personal element and award payment is based entirely on Company performance against the identified key measures.

- Maximum opportunity: £1,500
- Actual pay-out 2021-22: £1,000
- Actual pay-out 2020-21: £1,100
- Actual Pay-out 2019–20: £1,500
- Actual Pay-out 2018–19: £1,000.

PAY FOR EXECUTIVE DIRECTORS

HOW MUCH EXECUTIVE DIRECTORS WERE PAID FOR 2021-22 (AUDITED)

		Peter Perry		Mike Davis	
		2022 £'000s	2021[1] £'000s	**2022 £'000s**	2021[1] £'000s
Fixed Pay	Salary	**332**	309	**263**	245
	Benefits[2]	**1**	1	**1**	1
	Other	**5**[3]	5	**3**[4]	–
	Pension and pension accrual[5]	**105**	337	**25**	25
	Total Fixed Pay	**443**	652	**292**	271
Variable Pay	Annual variable pay – AVPS	**133**	165	**105**	131
	Long-term incentive – LTVPS	**99**	75	**47**	36
	Total Variable Pay[6]	**232**	240	**152**	167
Total Single Figure of Remuneration[5]		**675**	892	**444**	438

1. Peter Perry and Mike Davis requested that their salaries should be reduced by 20% for May, June and July 2020. The figures shown for FY2021 reflect these reductions. The value of these reductions were added to the Company's Community Fund and did not impact their other elements of remuneration.
2. Taxable benefits relate to private health cover.
3. For Peter Perry this represents a £5,000 per annum car allowance.
4. Payment in line with company Transfer of Base policy due to Nelson closure.
5. Total Remuneration for Peter Perry in 2021 included pensions accrual reflective of increase in his salary on appointment as CEO.
6. 2021 figures adjusted since last year's report to reflect final outcome of AVPS scheme.

PENSIONS (AUDITED)

Pension benefits for all employees who participated in the DCWW Pension Scheme continue to increase in line with increases in their base salary. These increases are also provided for in the Employer Funded Retirement Benefits Scheme in which Peter Perry participates. The pension earned by Peter Perry during the year is shown below.

	Normal retirement age	Accrued pension at 31 March 2021	Capitalised value of accrued pension at 31 March 2021	Revalued capitalised value of accrued pension at 31 March 2021	Accrued pension at 31 March 2022	Capitalised value of accrued pension at 31 March 2022	Member contributions paid during the year 2022	Pension Input Amount (net of member contributions) 2022
Peter Perry	60	193,555	3,871,100	3,890,456	198,166	3,963,311	-	72,855

From 1 April 2020 Peter Perry and Mike Davis have been eligible to receive a maximum employer pension contribution of 11% of salary. Eligible employees can opt out and receive a cash allowance of 9.7%. Both Peter Perry and Mike Davis have elected to receive their pension allowance as a cash allowance.

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ANNUAL VARIABLE PAY (AVPS) – OUTCOME FOR 2021-22

The table below shows the breakdown of performance against the targets for AVPS for 2021-22. Where the final outcome for a particular target is not available as at the date of this report, the award reported is based on a current best estimate. Payments will not be made until final performance data is available.

Up to 100% of salary can be earned in any year. Performance achieved for each target is shown below:

Element	Weighting	Metric	Threshold performance (10% achievement)	Target performance (60% achievement)	Maximum performance (100% achievement)	Performance achieved
Customer service	40%	C-MeX	4.4	4.4	6.0	3.4
		D-MeX	(2.0)	0	3.0	(0.3)
		Business Customer Satisfaction	4.4	4.4	4.5	4.4
Total Company ODI £m			1.4	1.9	3.2	1.8
Total % of Salary for this Element			4	24	40	19.1
Operational performance	40%	Tap water quality (score)	4.17	2.90	2.0	9.85
		Water supply interruptions	11:08	10:4	6:1	16:12
		Treatment works compliance (Percent)	99.00	99.16	100	98.32
		Pollution incidents from wastewater (Incidents per 10,000 km of sewers)	23.72	23.72	22.4	23.17
		Bioresources disposal (Percent)	100	100	100	100
		Bioresources product quality (Percent)	96.1	97.3	98.6	98.7
		Sewer flooding to customer properties internal (Properties per 10,000 connections)	2.05	1.6	1.58	1.36
		Sewer flooding to customer properties external (Properties per 10,000 connections)	25.82	25.44	24.47	26.27
		Total Complaints (Complaints per 10,000 customers)	122	105	84	28*
		Unbilled properties (Percent)	4.03	3.80	3.65	3.78
		Water process unplanned outages (Percent)	1.5	1.5	0.7	0.55
Total Company ODI £m			(7.5)	(3)	1.9	(3.7)
Total % of Salary for this Element			4	24	40	12
Strategic Goals	20%	Employee engagement (Percent)	75	80	85	69
		Customer trust (Ranking)	4th Quartile	Top	Top + Score ≥8.15	2nd Place
		Tap water quality (Ranking)	Average	Upper Quartile	Top	Below Average
		Employee training (Percent)	85	90	95	91
		Risk of sewer flooding in a storm (Percent)	33.88	30.38	26.88	25.05
		Company level of bad debt (Percent)	4.3	3.3	3	2.5
Total % of Salary for this Element			2	12	20	8.9
Total % Award Achieved						40%

* Note that performance measure changed for 2021-22

- Customer service – outcome based on regulatory outperformance/underperformance payment achieved against Ofwat's Outcome Delivery Incentive (ODI) (performance against regulatory targets) performance for these measures over the year.
- Operational performance – outcome based on total financial outperformance/underperformance payments achieved against Ofwat's ODI performance for these measures over the year.
- As discussed in the Committee Chair's statement, during the year the Committee became aware of the potential unintended consequences of measuring ODI performance as a cumulative assessment across a basket of measures, in particular that a single measure could disproportionately dominate the AVPS outcome with outperformance in other measures having little opportunity to affect the outcome. As a result, the Committee decided to limit the potential impact of over or under performance against each ODI measure at the threshold and maximum levels in the framework. The intention of this change in approach is to better reward performance across all ODI measures in the scheme, including key environmental measures, while retaining the emphasis on meeting stretching targets aligned to customers for any payment to be made. The Committee, therefore, also considered the role of discretion under the framework and the need to adjust the formulaic outcomes produced by the scorecard where they are not consistent with overall performance achieved in the year.
- The revised approach to assessment of ODI performance increased the overall customer service and operational performance Company ODI performance achieved. This would have produced an overall AVPS award of 50.1% of maximum. Reflecting the overall performance achieved in the year the Committee determined that discretion should be applied to cap the customer service and operational performance at 19.1% of salary and 12% of salary respectively. This resulted in an overall AVPS award of 40% of maximum. The level of performance resulted in total awards to Executive Directors of: Peter Perry: £132,647 (40% of salary) and Mike Davis: £105,132 (40% of salary).
- For reference, Peter Perry had a target opportunity of £198,970 (60% of salary) and a maximum opportunity of £331,617 (100% of salary). Mike Davis had a target opportunity of £157,698 (60% of salary) and a maximum opportunity of £262,830 (100% of salary).

LONG-TERM PLAN (LTVPS) OUTCOME FOR 2021-22

Under the LTVPS for the period 2020 to 2025, performance is assessed annually against interim goals and interim payments are made up to 60% of maximum for each of the two elements, with overall performance over the five-year period resulting in a final payment or recovery of any overpaid amounts (see illustration on page 156).

For 2021-22, the performance achieved for each target has been as follows:

Element	Weighting	Threshold level of performance (10% achievement)	Target level of performance (60% achievement)	Maximum level of performance (100% achievement)	Performance achieved	% of element earned
Totex Performance	50%	£690m	£655m	£639m	£653m	31.9
Overall ODI outcomes for performance development measures	50%	£(2.8)m	£(1.5)m	£0.0m	£(2.9)m	0
Total (as % of salary)						31.9

In accordance with the LTVPS rules, as this is an interim payment on account of the performance achieved during the period of the AMP, the pay-out for each element is capped at 60% of the maximum, i.e. 30%.

CORPORATE GOVERNANCE REPORT

5 REMUNERATION

Details of the performance achieved for each of the performance development measures which contributed to the overall LTVPS assessment for 2021-22 were as follows:

Measure	CEO CFO Units	Threshold level of performance (5% achievement) (3% achievement)	Target level of performance (30% achievement) (18% achievement)	Maximum level of performance (50% achievement) (30% achievement)	Performance achieved	Outcome Delivery Incentive (ODI) £m
Continuous service measures						
Acceptability of drinking water	Contacts per 1,000 pop.	2.72	2.64	2.07	2.44	(0.9)
Mains repairs	# per 1,000km of Mains	133	132.7	137	136.6	0.0
Leakage	%	2.2	4.2	4.2	5.2	0.3
Sewer collapses	# per 1,000km of Sewer	7.2	7.2	7.2	6.7	–[1]
Community education	Nr	70,000	72,000	72,000	45,655	(0.1)
Visitors to recreational facilities	Nr	560,000	675,000	675,000	842,701	0.2
Per capita consumption	% reduction	0.7	1.4	2.0	(8.9)	(2.3)
Investment programme measures						
Lead pipes replaced	Nr	2,800	2,800	2,800	1,462	–
Km of river improved	Km	5	5	31	94	[2]
Surface water removed from sewers	m^3	141,900	141,900	141,900	–	(0.1)
Combined sewer overflow storage systems	m^3	–	–	–	–	–
Delivery of dam safety programme	Sites	8	8	8	8	–[1]
Delivery of zonal studies programme	Zones	0	0	0	2	–[1]
Direct procurement for customers: Cwm Taf Water supply strategy scheme (underperformance)	Per Date	n/a	n/a	n/a	n/a	–
Direct procurement for customers: Cwm Taf Water supply strategy scheme (outperformance)	Date	n/a	n/a	n/a	n/a	–
Delivery of a new visitor centre	Delivered	n/a	n/a	n/a	n/a	–
Delivery of the Company's South Wales Grid water supply resilience scheme	% complete	3	3	3	0	–
Total		(2.8)	(1.5)	(0.0)		(2.9)

1. No ODI for outperforming this measure – penalty only measure.
2. End of AMP measure.

The measures in the table above with "n/a" for performance in the year reflect commitments to ensure we deliver our capital programmes on time, where there were no outputs scheduled for 2021-22. The overall performance achieved for 2021-22 was 31.9% of maximum, below the target level of 60% of maximum. The award for each element is capped at 30% and therefore this resulted in LTVPS awards to Executive Directors of:

- Peter Perry: 30% of salary (£99,485) – to be paid in July 2022 and will be subject to final performance to 31 March 2025.
- Mike Davis: 18% of salary (£47,309) – to be paid in July 2022 and will be subject to final performance to 31 March 2025.

For 2021-22 performance, Peter Perry had a target opportunity of 60% of salary and a maximum opportunity of 100% of salary. Mike Davis had a target opportunity of 36% of salary and a maximum opportunity of 60% of salary.

FEES FOR CHAIR AND NON-EXECUTIVE DIRECTORS (AUDITED)

How the Chair of the Board and Non-Executive Directors were paid last year

	Fees		Benefits		Total remuneration	
Non-Executive Directors	£000 2022[1]	£000 2021	£000 2022	£000 2021	£000 2022	£000 2021
Alastair Lyons	222	211	–	–	222	211
Graham Edwards[2]	73	67	–	–	73	67
Joanne Kenrick	62	59	–	–	62	59
John Warren[3]	16	59	–	–	16	59
Debra Bowen Rees	62	59	–	–	62	59
Tom Crick	59	62	–	–	59	62
Jane Hanson[4]	62	16	–	–	62	16

1. Fees in 2021 were reduced after the Chair of the Board and the then serving Non-Executive Directors requested their fees for May, June and July 2020 to be reduced by 20%. Due to an administrative error, Tom Crick's fee reduction took place retrospectively from June 2021. This is reflected in Tom's fee for 2022.
2. Graham Edwards is Senior Independent Director and receives an additional fee of £11k per annum.
3. Stepped down from the Board on 2 July 2021.
4. Joined the Board on 1 January 2021.

SECTION 5: PAY DECISIONS FOR NEXT YEAR – 2022-23

PAY FOR EXECUTIVE DIRECTORS

	Base salary 2022-23	Base salary 2021-22
Peter Perry	£340,903	£331,617
Mike Davis	£270,189	£262,830

BASE SALARY

When reviewing Executive salaries, the Committee considered the proposed increases for the wider workforce, business and individual performance to date in 2021-22, and National Living Wage and Real Living Wage rates. The Committee decided to accept the recommendation of the Executive Directors that it would be appropriate to award an increase lower than the increase for the wider workforce under the AMP7 Working Together Agreement. The wider workforce were awarded 4.8% in line with CPIH in December 2021 and the Executives were awarded a 2.8% increase, both with effect from April 2022.

CORPORATE GOVERNANCE REPORT

5 REMUNERATION

BENEFITS AND PENSION

Benefits and pension arrangements will not change for 2022-23. All employees, including Executive Directors, are entitled to a maximum pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance equivalent to 9.6%. Benefits in the year will include private health insurance and car allowances.

ANNUAL VARIABLE PAY

For 2022-23 annual variable pay of up to 100% of salary will be able to be earned, based on performance achieved. The performance measures used are set out below and have been set with reference to the aims under the 2020-25 business plan. As discussed in the Committee Chair's statement, the targets for 2022-23 will continue to be set for the customer, operational and strategic elements, but each measure will have a defined weighting rather than using the cumulative rewards and/or penalties set by Ofwat. This approach will simplify the scheme and will reduce the impact of extreme over or under performance against any single measure, better rewarding performance across all measures included in the framework.

Details of the measures and their weightings are set out below.

	Customer Service	Operational Performance	Strategic Goals
Measures	• C-MeX (25%)* • B-MeX (7.5%)* • D-MeX (7.5%)* *Ofwat's measures of customer service for household, business, and developer customer satisfaction, respectively.	Water: • Water quality compliance (5%) • Interruptions to supply (5%) • Acceptability of water (5%) • Leakage performance (5%) Waste: • Waste water compliance (10%) • Pollution incidents from waste water (5%) • Internal sewer flooding on customer property (5%)	• PR24 preparation (8%) • Employee engagement (4%) • Credit rating performance (4%) • Improve gender balance at senior manager level (4%)
How much of the scheme?	40%	40%	20%

LONG-TERM PLAN

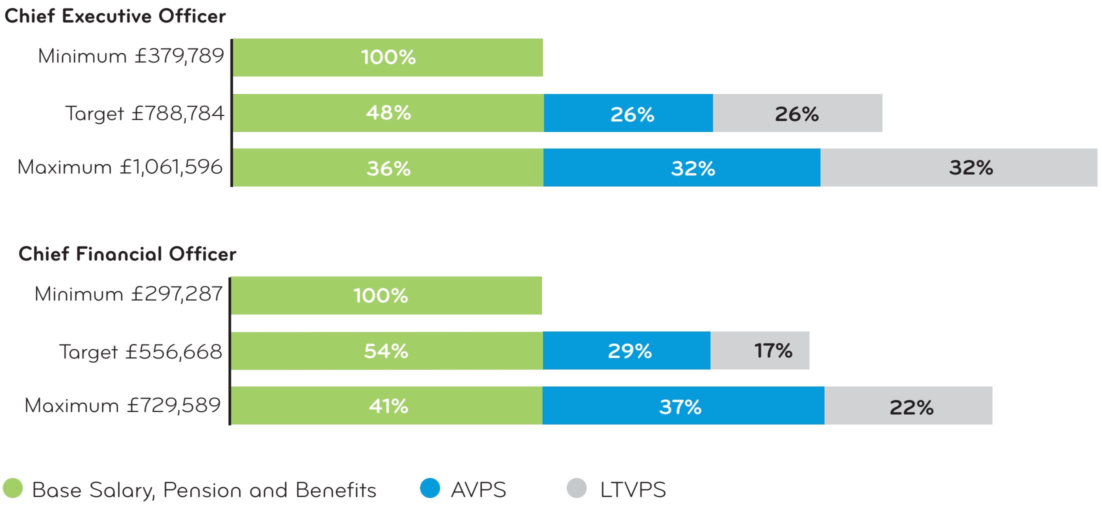
The long-term plan will continue to operate in line with the Policy. As summarised above, performance will be measured under the 2020-25 five-year plan and be based on:

- Totex (total expenditure – operating costs and investments): (50%)
- Overall rewards/penalties for performance development measures: (50%)

HOW MUCH COULD OUR EXECUTIVE DIRECTORS EARN NEXT YEAR?

THE GRAPHS BELOW SHOW THE OPPORTUNITIES FOR EACH EXECUTIVE DIRECTOR FOR 2022-23:

- The minimum level of remuneration payable. This comprises basic salary, any travel and car allowances, health insurance benefits and pension;
- On-target level of remuneration which represents 60% of the maximum payout for the annual variable pay and the long-term incentive; and
- The maximum level of remuneration, if all annual variable pay and long-term incentive performance targets were fully achieved.



Over the last 10 years, the average outcome for variable pay elements has been 61.9% of maximum for the AVPS, and 47.3% of maximum for the LTVPS. The maximum award has not been achieved under either plan during that time.

FEES FOR CHAIR AND NON-EXECUTIVE DIRECTORS

The fees payable to the Chair of the Board were reviewed in March 2022 and the Committee (in the absence of the Chair) resolved that the Chair of the Board's fee should be increased by 2.8% and be reviewed in spring 2023.

In March 2022, the Chair of the Board and the Executive Directors resolved that the fees for Non-Executive Directors should also be increased by 2.8% and be reviewed in spring 2023.

For the past three annual reviews (March 2019, March 2020 and March 2021) there had been no increase in either the Chair or Non-Executive Director fees. Fees for 2022-23 will be as follows:

Role	Fee
Chair	£228,213
Senior Independent Director	£75,044
Non-Executive Directors	£63,376

CORPORATE GOVERNANCE REPORT

5 REMUNERATION

SECTION 6: OTHER IMPORTANT INFORMATION

WORKFORCE PAY ACROSS DŴR CYMRU

CEO PAY RATIO

This is the third year that we have applied the CEO Pay Ratio Reporting requirements for UK listed companies which compares the CEO's pay to the 25th percentile, median, and 75th percentile employees. In order to calculate the ratio we have applied methodology A from the UK Government guidance.

Year	Methodology	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021-22	A	19:1	15:1	12:1
2020-21	A	28:1	23:1	18:1
2019-20	A	22:1	18:1	14:1

The median ratio this year represents a significant decrease from last year. This is mainly due to the pension accrual reported for the CEO in 2021, which was a one-off adjustment to accruals relating to the increase in his salary on promotion to CEO. A reduction in the CEO's AVPS and LTVPS awards since FY2019-20 also contributed to this outcome.

The 25th percentile, median, and 75th percentile employees were determined on 10 May 2022 using total pay for the year ended 31 March 2022 for all employees as at 31 March 2022. Pay details for the individuals on a full-time equivalent basis are set out below:

Year 2021-22	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Salary	25,642	39,334	40,743
Total pay	30,997	39,362	50,189

METHODOLOGY NOTES

- The pay ratios reflect our remuneration principles and our approved Remuneration Policy. Total remuneration is considered to be fair and competitive and to reflect wider economic conditions, enabling us to attract and retain the necessary skills and talent.
- The variable pay elements have been estimated for the wider workforce, as individual payments are not finalised until July 2022.
- Pension accrual has been excluded as the figures for the wider workforce were not available at the time of reporting.
- Total payments and benefits have been included on a full-time equivalent annualised basis for new hires, part-time employees, unpaid leave relating to long-term sickness and maternity.

GENDER PAY GAP

The gender pay gap is defined as the overall median and mean gender pay and bonus gap (based on hourly rate of pay at the snapshot date of 5 April 2021 and bonuses paid in the year to 5 April 2021) regardless of role or seniority. We have seen a decrease in both our median and mean Gender Pay Gaps continuing the downward trend over the last five years. It is encouraging that our gender pay gap remains significantly lower than the national average. Our Gender Pay Gap report (link below) highlights the key initiatives we are undertaking to promote diversity and inclusivity at Welsh Water.

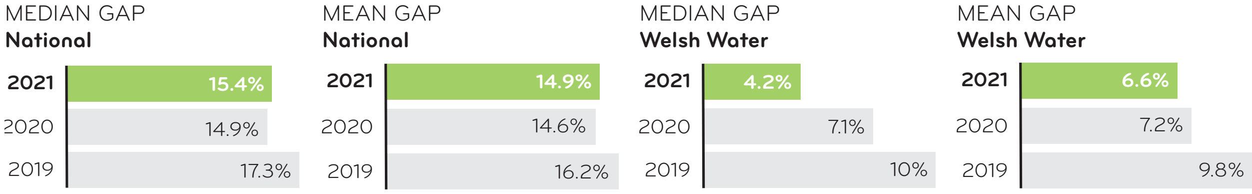
We are continuing to promote the progression of women through the Company – for further details of some of the actions we are taking to support gender and other forms of diversity throughout our organisation, please see page 93 within our Environmental, Social and Governance report section.

Full details of our gender pay reporting are available on our website at **dwrcymru.com/genderreport**

DEFINITIONS

Median – The difference between the midpoints in the ranges of men's and women's pay
Mean – The difference between the average of men's and women's pay.

The median gap has reduced from 7.1% in 2020 to 4.2% in 2021, and the mean gap has reduced from 7.2% in 2020 to 6.6% in 2021. While there are always a variety of factors that affect gender gaps, the main factors in the reduction in 2021 are the increase in women in senior roles within the organisation, and also the split of men and women in less senior roles where the percentage of men has increased.



As regards bonuses, the majority of our employees receive the fixed amount Colleague Reward payment. The midpoint for each gender falls within the numbers of colleagues who receive the Colleague Reward payment, and as this is a fixed payment, there is no difference between men and women when calculated on a median basis. As a result, as in previous years, there continues to be no median bonus gap. The mean bonus gap reflects the higher proportion of men occupying the most senior positions in the Company where variable pay opportunities are higher. This, however, decreased from 14.5% in 2020 to 8.1% as the gap between Annual Variable Pay awards and the Colleague Reward payment reduced. We expect this to increase next year and be more in line with previous years' results.

ETHNICITY PAY GAP

During the year, the Committee continued to explore the possibility of including our ethnicity pay gap within this year's annual report in light of developing good practice and as part of our actions to support diversity throughout our organisation.

However, when looking at the data, while the information we hold has increased to 66.5% of the workforce as at 31 March 2022 (31 March 2021: 45%), we still do not currently have sufficient information available under the necessary metrics to produce meaningful information at this time. The Committee will continue to monitor this going forward, and will continue strongly to encourage the collation of data across the organisation which will make this reporting possible.

CORPORATE GOVERNANCE REPORT

5 REMUNERATION

ANNUAL CHANGE IN PAY FOR DIRECTORS AND ALL EMPLOYEES

The following table sets out the change in the remuneration paid to Board Directors from financial years 2021-22 and 2020-21 compared with the average percentage change for Dŵr Cymru employees:

	2021-2022			2020-2021		
	% change in salary/fees	% change in benefits	% change in AVP	% change in salary/fees	% change in benefits	% change in AVP
Directors						
Peter Perry	2	(5.1)	(19.7)	2	(2.3)	(6.3)
Mike Davis	2	(5.1)	(19.7)	2	22	51.7
Non-Executive Directors						
Alastair Lyons	–	–	–	–	–	–
Graham Edwards	–	–	–	–	–	–
Joanne Kenrick	–	–	–	–	–	–
John Warren	–	–	–	–	–	–
Debra Bowen Rees	–	–	–	–	–	–
Tom Crick	–	–	–	–	–	–
Jane Hanson	–	–	–	–	–	–
Average Dŵr Cymru Employee	4.5	0	1.0	4.5	0	4.1

HOW DOES THE CHIEF EXECUTIVE'S PAY COMPARE TO PREVIOUS YEARS?

	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
Total remuneration for Managing Director/Chief Executive (£'000)	590	742	974	746	629	679	607	685	892	**675**
Total remuneration net of pension accrual (£'000)	590	520	690	604	629	601	624	678	555	**570**
Annual variable pay outcome	61%	51%	79%	70%	75%	65%	67%	60%	50.8%	**40%**
Long-term plan outcome	50%	78%	91%	65%	65%	27%	25%	19%	23.1%	**30%***

* As this is an interim payment on account of the performance achieved during the period of the AMP the pay-out is capped at 30%.

HOW DOES THE TOTAL SPEND ON EXECUTIVE PAY AND TOTAL STAFF PAY COMPARE TO OTHER EXPENDITURE?

			Change	
	2021	**2022**	£m	%
Total expenditure	828.5	**744.9**	77.6	9.43
Employee remuneration costs	153	**150**	3	1.96
Customer return of value	11	**13**	2	18.18
Executive Director remuneration costs	1.3	**1.1**	(0.2)	(15.38)

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Dates of the service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors in place at 31 March 2022 are as follows:

Alastair Lyons 12 April 2016	**Graham Edwards** 1 October 2013	**Tom Crick** 1 October 2017	**Debra Bowen Rees** 5 December 2019
Jane Hanson 3 December 2020	**Peter Perry** 3 June 2020	**Joanne Kenrick** 1 November 2015	**Mike Davis** 3 June 2020

Enquiries for the inspection by Members of the above service contracts and letters of appointment should be made via email to the Company Secretary at company.secretary@dwrcymru.com

DIRECTORS' REPORT

The Directors present their report together with the Group's audited Financial Statements for the financial year ended 31 March 2022. The performance review of the Company can be found within the Strategic Report on pages 46 to 53. This provides detailed information relating to the Group, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2022. The Corporate Governance Report set out on pages 107 to 169 is incorporated by reference to this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing the principal risks and uncertainties facing the Group are set out in the Risk Management section from pages 70 to 76.

FINANCIAL PERFORMANCE

The Group is in a strong financial position as at 31 March 2022; gearing remains on track at 58% (2020–21: 60%) and we have retained our strong credit ratings. Read more about our financial performance, Taxation, Return of Value to our Customers, Capital Investments, Credit Rating and Interest Management, Gearing Policy and our Liquidity and Financial Reserves within the Financial Review section from pages 58 to 65.

DIVIDEND POLICY (DŴR CYMRU CYF.)

The current Dividend Policy was approved by the Glas Board in February 2022. Details are set out in the Financial Review on page 65.

DIRECTORS

The Directors of the Company who were in office during the year, and up to the date of the signing of the financial statements, are set out on pages 114 to 116.

DIRECTORS' INDEMNITY

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

EMPLOYEES

The Board recognises the importance of attracting, developing and retaining the right people. In accordance with best practice, we have employment policies in place which provide equal opportunities for all employees, irrespective of sex, race, colour, disability, sexual orientation, religious beliefs or marital status. Further information on the Board's methods for engaging with the workforce are on pages 54 and 121.

ENGAGEMENT WITH STAKEHOLDERS

Details of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, are set out in the Strategic Report on pages 54 to 56.

CORPORATE GOVERNANCE

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. Further details can be found in the Governance section on pages 117 to 118.

AMENDMENT OF ARTICLES OF ASSOCIATION

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

POLITICAL DONATIONS

It is Board policy not to make donations to political parties or to incur political expenditure. 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.

WATERAID AND THE PRINCE'S TRUST

As appropriate for a Company with our corporate structure, we do not engage in corporate sponsorship. However, we continue to support WaterAid and The Prince's Trust.

PERSONS OF SIGNIFICANT CONTROL

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

DIRECTORS' REPORT

GREENHOUSE GAS EMISSIONS

Due to our commitment to transparent and best practice reporting, we have included our streamlined energy and carbon reporting (SECR) disclosures on pages 100 to 103 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.

AUDITOR

KPMG LLP act as Auditors to Glas Cymru for the accounts for the year ended 31 March 2022. As part of the audit process we have confirmed that, as far as each Director is aware, there is no relevant audit information of which the Auditors are unaware, that they have taken any necessary steps to be made aware of any such information and to establish that the Group's Auditors are aware of that information. We confirm that to the best of our knowledge:

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

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

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

Taken as a whole, these processes enable the Board to review the effectiveness of the internal control system during the course of the year.

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

HUMAN RIGHTS

We are committed to respecting human rights in relation to colleagues, and our supply chain (see page 96 for information on our Supplier Code of Conduct). Our internal Code of Conduct is supported by several Group policies including, Anti-bullying and Harassment, Whistleblowing, Anti-bribery and Corruption, and Anti-Fraud.

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**

OTHER INFORMATION

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Financial Review on pages 58 to 65.

ANNUAL GENERAL MEETING (AGM)

The Glas Cymru AGM will be held at Bangor University on Friday 8 July 2022. The Notice of Meeting together with explanatory notes is contained in the circular to our Members that accompanies the report and accounts.

GOING CONCERN

The Directors' statement on going concern is on page 186. The financial statements for the year ended 31 March 2022 have been prepared on the going concern basis.

By order of the Board

NICOLA WILLIAMS
Company Secretary
1 June 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

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

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

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

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

The Directors have decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

We consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provides the information necessary for stakeholders to assess the Group's position and performance, business model and strategy.
By order of the Board

N Williams

NICOLA WILLIAMS
Company Secretary
1 June 2022


ROBUST FINANCIAL PERFORMANCE, A STRONG FINANCIAL POSITION, AND SECTOR-LEADING CREDIT-RATINGS

FINANCIAL RESULTS

THIS SECTION CONTAINS THE GROUP'S AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2021-22

Independent auditor's report

to the members of Glas Cymru Holdings Cyfyngedig

1. Our opinion is unmodified

We have audited the financial statements of Glas Cymru Holdings Cyfyngedig ("the Company") for the year ended 31 March 2022 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in reserves, parent company balance sheet, parent company statement of changes in reserves, consolidated cash flow statement, parent company cash flow statement, and the 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

— the financial statements 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 as applied to other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview		
Materiality: group financial statements as a whole	£12m (2021:£11m) 0.15% (2021: 0.16%) of Total Assets	
Coverage	100% (2021:100%) of Total Assets	
Key audit matters		**vs 2021**
Recurring risks	Group pension obligation	◄►
	Provision for trade receivables	◄►
	Classification of costs between operating expenditure and capital expenditure	◄►
Parent Company only	Valuation of parent company's investment in subsidiaries	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2021):

	The risk	Our response
Group pension obligation (£504.5 million; 2021: £528.9m) *Refer to page 137 (Audit Committee Report), page 191 (accounting policy) and page 219 (financial disclosures).*	**Subjective estimate:** Small changes in the assumptions and estimates used to value the group's pension obligation such as discount rates, inflation rates and mortality rates would have a significant effect on the group's defined benefit obligation. The effect of these matters is that, as part of our risk assessment, we determined that the value of the group's pension obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Group.	Our procedures over the obligation included: — **Benchmarking assumptions:** with the support of our own actuarial specialists, we challenged the key assumptions applied, being the discount rate, inflation rates and mortality rates against externally derived data; and — **Assessing transparency:** we have considered the adequacy of the group's disclosures in respect of the sensitivity of the deficit to changes in key assumptions. We performed the tests above rather than seek to rely on any of the group's controls because the number of transactions meant that detailed testing is inherently the most effective means of obtaining audit evidence.
Provision for trade receivables (£69.5 million; 2021: £77.8m) *Refer to page 137 (Audit Committee Report), page 191 (accounting policy) and page 208 (financial disclosures).*	**Subjective estimate:** The provision for doubtful debts is a significant risk area as a result of the complexity of the calculation, its subjective nature, and because of its size and the fact that any change in the balance sheet provision would directly impact profit. The provision methodology is based upon historic cash collection rates to build an expected loss model. In addition to this, management adjust for items expected to impact future cash collections such as the impact of the cost-of-living crisis in order to appropriately estimate bad debt exposure. The effect of these matters is that, as part of our risk assessment, we determined that recoverability of trade receivables has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) discloses the sensitivity estimated by the Group.	Our procedures included: — **Methodology implementation:** we have assessed whether the calculation incorporates the appropriate information, risks and data including historical cash collections and write offs, to estimate the level of irrecoverable debt, based on our knowledge of the group and the industry; — **Sector experience**: we have challenged the directors' assumptions over the cash collection profiles based on our knowledge of the market, historical trends, operational performance and economic trends; — **Sector experience:** we have challenged the directors' assumptions over the ongoing impact of Covid-19 and the current cost-of-living crisis on future cash collections; — **Sensitivity Analysis**: we have performed sensitivity analysis on the assumptions made, in particular future cash collections rates, and compared the impact on the level of the provision; — **Assess transparency:** we have assessed the adequacy of the group's disclosures about the degree of estimation uncertainty involved in calculating the provision. We performed the tests above rather than seeking to rely on the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

2. Key audit matters: our assessment of risks of material misstatement

	The risk	Our response
Classification of costs between operating expenditure and capital expenditure PPE Additions net of grants and contributions (£307.4 million; 2021: £341.0) *Refer to page 137 (Audit Committee Report), page 189 (accounting policy) and page 205 (financial disclosures).*	**Accounting Treatment:** There is a risk that costs could be inappropriately capitalised based on judgments made by Directors. The group incurs a high level of expenditure on PPE ("property, plant and equipment"), including repair and maintenance, and enhancement costs. There is increased risk over infrastructure renewals expenditure. There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, meet the relevant criteria for capitalisation and therefore are included in the carrying value of PPE, or alternatively should be expensed immediately. Third party experts are engaged to assist the directors in their assessment of the expenditure to be capitalised on infrastructure assets which are more judgemental in nature. There is an increased risk over Own Costs Capitalised (e.g. Staff Costs Capitalised). There is a high degree of judgement involved in determining whether costs, including employee and other internal expenditure, meet the relevant criteria for capitalisation and therefore are included in the carrying value of PPE, or alternatively should be expensed immediately. There is an increased risk over Reactive Capital Maintenance expenditure given that these costs are inherently more judgemental in nature.	Our procedures included: — **Accounting analysis:** we have assessed the group's capitalisation policy against the requirements of the accounting standards for staff costs capitalised, reactive capital maintenance and infrastructure renewables expenditure — **Sector experience:** on a sample basis, we have challenged the judgements made by both the group (reactive capital maintenance) and the independent third party engaged by the group (infrastructure renewables expenditure) over the capitalisation based on the group's accounting policies, knowledge of the sector and underlying nature of the projects — **Sensitivity analysis:** we have performed sensitivity analysis on the assumptions made in the staff costs capitalised calculation, including the allocation rates; and — **Assess expert credentials**: we have assessed the third party expert's competence to perform this assessment of capital expenditure by considering their sector experience with reference to previous industry projects and the method used.
Valuation of parent company's investment in subsidiaries: (£4,201.5m; 2021: £3,958.1m): *Refer to page 137 (Audit Committee Report), page 189 (accounting policy) and page 207 (financial disclosures).*	**Forecast based valuation:** The valuation of the parent company's investment in subsidiaries are stated at fair value. The fair value is calculated using a discounted cash flow model. The judgements relate to the future cash flow forecasts and the use of the company's Regulatory Capital Value (RCV) as its terminal value are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the value of the parent company's investments have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: — **Methodology implementation:** assessed whether the calculation incorporates the appropriate inputs including reasonable forecasts and assumptions about the future prospects of the subsidiaries; — **Historical comparisons:** evaluated the director's forecasting ability by comparing previous forecasts to actual results; — **Benchmarking assumptions:** assessed the valuation method based on recent prices paid for similar companies within the industry, with a focus on the multiple of OFWAT reported RCV used; and — **Our sector experience**: assessed the discount rate used in the discounted cash flow with reference to the Ofwat regulatory cost of capital. We performed the tests above rather than seek to rely on any of the group's controls because the number of transactions meant that detailed testing is inherently the most effective means of obtaining audit evidence.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £12m, determined with reference to a benchmark of group's total assets, of which it represents 0.15% (2021: 0.16%).

Materiality for the parent company financial statements as a whole was set at £7.9m (2021: £5.7m), determined with reference to a benchmark of parent company total assets, of which it represents 0.19% (2021: 0.14%).

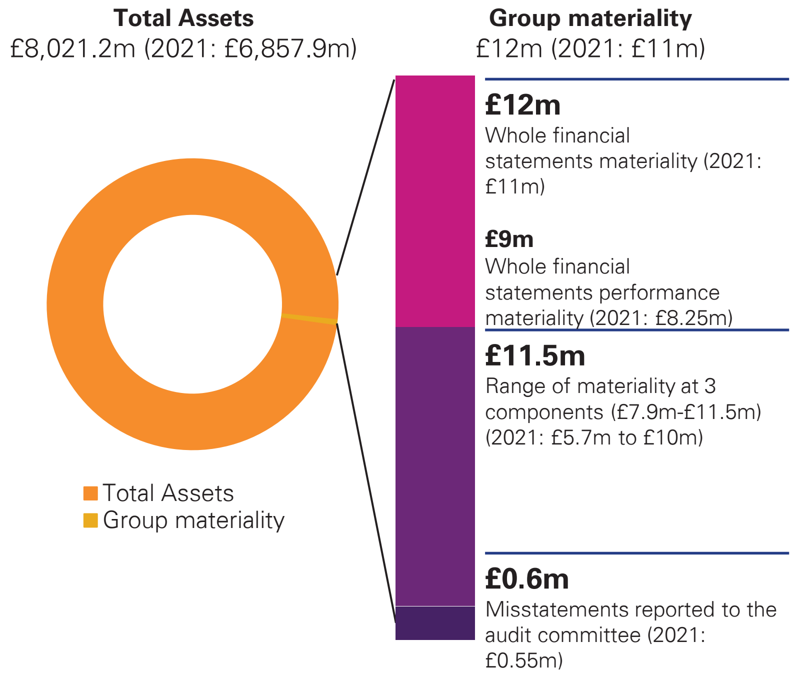
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £9m (2021: £8.25m) for the group and £5.9m (2021: £4.275m) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.6m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 12 (2021: 12) reporting components, we subjected 3 (2021: 3) to full scope audits for group purposes. The components within the scope of our work accounted for the percentages illustrated opposite. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved the component materialities, which ranged from £7.9m to £11.5m (2021: £5.7m to £10.0m), having regard to the mix of size and risk profile of the Group across the components. The work on all of the components, including the audit of the parent company, was performed by the Group team.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting



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4. 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.

5. 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 directors 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 entries. 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.

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5. Fraud and breaches of laws and regulations – ability to detect (continued)

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), 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 noncompliance 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.

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.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic report and directors' report

Based solely on our work on the other information:

— 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.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

— the directors' confirmation within the long-term viability statement, page 77, that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

— the Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and

— the directors' explanation in the long-term viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

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Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

— the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;

— the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and

— the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

7. We have nothing to report on the other 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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements are not in agreement with the accounting records and returns; 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 169, the Directors are responsible for: the preparation of the financial statements including 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.

9. 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	810.2	778.3
Operating costs:			
Operational expenditure	3	(348.6)	(329.0)
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	(328.9)	(334.2)
	3	(729.5)	(771.1)
Operating profit		80.7	7.2
Profit on disposal of fixed assets		0.6	0.1
Profit before interest		81.3	7.3
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		(215.2)	(120.8)
Taxation	5	(8.4)	21.9
Loss for the year		(223.6)	(98.9)

The Company has taken the exemption under section 408 of the Companies Act 2006 not to present a parent company income statement. The profit of the parent Company for the year to 31 March 2022 was £1.2 million (2021: £0.9 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £m	2021 £m
Loss for the year		(223.6)	(98.9)
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)
Total items that will not be reclassified to profit or loss		269.3	22.2
Total comprehensive gain/(loss) for the year		45.7	(76.7)

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2022

	Note	2022 £m	2021 £m
Assets			
Non-current assets			
Property, plant and equipment	8	**6,275.4**	5,821.2
Intangible assets	9	**203.6**	204.0
Trade and other receivables	11	**0.7**	0.8
Other financial assets:			
– derivative financial instruments	15	**344.0**	3.3
		6,823.7	6,029.3
Current assets			
Inventories		**4.3**	4.4
Trade and other receivables	11	**594.0**	570.7
Cash and cash equivalents	12	**515.1**	220.9
Other financial assets:			
– derivative financial instruments	15	**84.1**	32.6
		1,197.5	828.6
Total assets		**8,021.2**	6,857.9
Liabilities			
Current liabilities			
Trade and other payables	13	**(614.1)**	(540.8)
Provisions	17	**(2.8)**	(8.5)
Other financial liabilities:			
– borrowings	14	**(85.3)**	(78.3)
– derivative financial instruments	15	**(56.7)**	(39.2)
		(758.9)	(666.8)
Net current assets		**438.6**	161.8
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	**(668.3)**	(470.3)
		(6,149.3)	(5,123.8)
Total liabilities		**(6,908.2)**	(5,790.6)
Net assets		**1,113.0**	1,067.3
Reserves			
Revaluation reserve	7	**1,339.7**	1,157.1
Retained earnings		**(226.7)**	(89.8)
Total reserves		**1,113.0**	1,067.3

The financial statements on pages 179 to 222 were approved by the Board of Directors on 1 June 2022 and were signed on its behalf by:

P Perry
Chief Executive Officer

M Davis
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

FOR THE YEAR ENDED 31 MARCH 2022

	Revaluation reserve £m	Retained earnings £m	**Total reserves £m**
At 1 April 2020	1,203.7	(59.7)	**1,144.0**
Loss for the year	–	(98.9)	**(98.9)**
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	(89.8)	**1,067.3**
Loss for the year	–	(223.6)	**(223.6)**
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**	**(226.7)**	**1,113.0**

PARENT COMPANY BALANCE SHEET

AS AT 31 MARCH 2022

	Note	2022 £m	2021 £m
Assets			
Non-current assets			
Investment in subsidiaries	10	4,201.5	3,958.1
Other financial assets:			
– loans to Group undertakings	11	21.6	21.6
		4,223.1	3,979.7
Current assets			
Trade and other receivables		4.4	3.1
Cash and cash equivalents	12	8.7	8.7
		13.1	11.8
Net assets		4,236.2	3,991.5
Reserves			
Retained earnings		34.7	33.5
Revaluation reserve		4,201.5	3,958.0
Total reserves		4,236.2	3,991.5

The financial statements on pages 179 to 222 were approved by the Board of Directors on 1 June 2022 and were signed on its behalf by:

P Perry
Chief Executive Officer

M Davis
Chief Financial Officer

PARENT COMPANY STATEMENT OF CHANGES IN RESERVES

FOR THE YEAR ENDED 31 MARCH 2022

	Revaluation reserve £m	Retained earnings £m	Total reserves £m
At 1 April 2020	3,875.1	32.6	3,907.7
Profit for the year	–	0.9	0.9
Revaluation	82.9	–	82.9
At 31 March 2021	3,958.0	33.5	3,991.5
Profit for the year	–	1.2	1.2
Revaluation	243.5	–	243.5
At 31 March 2022	4,201.5	34.7	4,236.2

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £m	2021 £m
Cash flow from operating activities			
Cash generated from operations*	18a	429.3	348.4
Interest paid	18b	(116.6)	(110.7)
Income tax received		2.3	2.5
Net cash flow from operating activities		315.0	240.2
Cash flow 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 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		68.5	(58.7)
Cash flows from financing activities			
Bond issue		300.0	–
Bond issue costs		(2.9)	–
Bond repayments		–	(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	(387.8)
Increase/(decrease) in cash and cash equivalents	19b	294.2	(446.5)
Cash and cash equivalents at 1 April		220.9	667.4
Cash and cash equivalents at 31 March	12	515.1	220.9

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

PARENT COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £m	2021 £m
Cash flow from investing activities			
Interest received		–	–
Net cash flow from investing activities		–	–
Increase in cash and cash equivalents		–	–
Cash and cash equivalents at 1 April		8.7	8.7
Cash and cash equivalents at 31 March	12	8.7	8.7

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2022

Glas Cymru Holdings Cyfyngedig ('the Company') is a private company incorporated, domiciled and registered in Wales in the UK. The registered number is 09917809 and the registered address is Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT.

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

BASIS OF PREPARATION

Glas Cymru Holdings Cyfyngedig is limited by guarantee and is the ultimate parent company of the Glas Group.

The consolidated financial statements of Glas Cymru Holdings Cyfyngedig and the parent company financial statements have been prepared and approved by the directors in accordance with 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 significant to the financial statements, are disclosed on page 194.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Intra-group transactions and profits are eliminated on consolidation.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated statement of comprehensive income from the date on which control is obtained. They are de-consolidated from the date on which control ceases.

The Company financial statements present information about the Company as a separate entity and not about its group.

GOING CONCERN

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group and parent company have adequate resources for a period of at least 12 months from the date of their approval 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 while the reduced cash flows weaken our financial metrics, they remain within rating agencies' guidance for our current ratings.

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

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments

- IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments' and IFRS 16 'Leases': Disclosures' 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, IFRS 7 AND IFRS 16 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES continued

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 2018-2020

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

REVENUE RECOGNITION

Revenue represents the income receivable in the ordinary course of business for 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 99% of total income; 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 the Group recognise as income on delivery of that performance obligation.

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

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

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

Other operating income principally relates to sales of gas. Revenue from sales of gas is recognised upon delivery. 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 Company's performance.

INVESTMENTS

The Company's investments comprise equity holdings in wholly owned subsidiaries, as set out in note 10. These are stated at fair value with any resultant gain or loss being recognised directly in equity, in the revaluation reserve (note 7).

The fair value has been calculated using a discounted cash flow technique, alongside considering observable market transactions, with reference to the Group's weighted average cost of capital.

BUSINESS COMBINATIONS

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

PROPERTY, PLANT AND EQUIPMENT

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

As at 31 March 2022 the total value of tangible and intangible fixed assets has been revalued to the 'shadow-RCV' of Dŵr Cymru Cyfyngedig, 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, ground operational structures and equipment, and fixtures and fittings).

INFRASTRUCTURE ASSETS

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

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

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

OTHER ASSETS

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

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

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

BORROWING COSTS

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES continued

INTANGIBLE ASSETS

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

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

LEASES

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 Company'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 and customer contributions 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.

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

1) 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. Contribution rates are based on the advice of a professionally qualified actuary. 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.

2) 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL 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 the Group 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.

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, uninsured losses and billing disputes 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 is small.

FINANCING RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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 that have 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 £100 million (2021: £100 million).

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: 98.8%). For this purpose, floating rate interest liabilities are hedged through a combination of derivative instruments and cash balances. The regulatory framework under which revenues and the regulatory asset value are indexed also exposes the Group to inflation risk. Therefore, subject to market constraints and Board approval, the Group may seek to raise new debt through index-linked instruments or to enter into appropriate hedging transactions.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £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, 94.6% (2021: 93.0%) of the Group's gross debt was at fixed or index-linked to RPI rates of interest after taking into account interest rate and RPI swaps. The hedges established to manage interest rate risks are economic in nature, but do not satisfy the requirements in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £595 million in the 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 in 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.

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 £10 million each. As at 31 March 2022, the Group had committed undrawn borrowing facilities of £200 million (2021: £200 million) and cash and cash equivalents (excluding debt service payments account) of £473 million (2021: £187 million). These undrawn facilities are available for one year with a one-year extension option. There is also a £10 million 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES continued

CAPITAL RISK

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

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 judgement, 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 £5.0 million (2021: £5.0 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. The base assumptions in (CMI) 2021 have been applied with no allowance made in these disclosures for the impact of Covid-19. The only change from those adopted last year is the use of (CMI) 2021 instead of (CMI) 2018; mortality assumptions remain consistent with last year. 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, consistent with the assumptions used in the base CMI 2021 model. 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.

PARENT COMPANY'S INVESTMENT IN SUBSIDIARIES

Glas Cymru Holdings Cyfyngedig's investment in its subsidiaries is reported at fair value, using a discounted cash flow approach with reference to projected revenues and expenditure, the weighted average cost of capital and the company's RCV. The forecasts on which the cash flows and RCV movements are based are drawn from our 2022 financial plan, itself based on our PR19 Final Determination plan set by Ofwat. There is an inherent uncertainty involved in forecasting the estimated impact of the current economic climate, but due to the size of its impact, a sensitivity analysis would yield an immaterial change to the valuation. The discount rate used to discount future cash flows is based on the regulator's allowed weighted average cost of capital (WACC), based on our PR19 Final Determination plan set by Ofwat. Due to its inherent uncertainty, this has been subjected to sensitivity testing with a 0.1% change in the discount rate used would increase or decrease the valuation by £123 million (2021: £116 million). (See also note 10).

FAIR VALUE ESTIMATION

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES continued

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

Level 2:

Assets: trading derivatives £17.1 million, treasury derivatives £389.0 million (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 £517.2 million).

Level 3:

Assets: trading derivatives £22.0 million, 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 £nil).

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 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 per cent decrease in average asset lives would have resulted in a £32.9 million increase in this figure.

1. ACCOUNTING POLICIES, FINANCIAL 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 available on page 98.

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 £m	2021 £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)	9.4	6.3
Total revenue	810.2	778.3

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

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

NOTES TO THE FINANCIAL STATEMENTS

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	8.9	7.3
Vehicles and plant	7.6	6.7
Office expenses	5.7	5.6
Property costs	3.5	4.7
Insurance	6.8	6.6
Water and 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	39.3	41.2
Employee costs (note 20)	165.0	168.1
Staff costs capitalised	(67.5)	(67.9)
Research and development credit	(0.6)	(0.9)
Trade receivables impairment	23.7	20.9
Rates	26.3	26.5
Natural Resources Wales/Environment Agency charges	16.5	15.9
Fees payable to Auditors	0.5	0.4
Total operational expenditure	348.6	329.0
Other operating income	(6.0)	–
Exceptional item	(3.8)	33.5
Infrastructure renewals expenditure	61.8	74.4
Depreciation and amortisation		
Depreciation of property plant and equipment	301.4	310.5
Release of deferred income	(10.2)	(9.1)
Amortisation of intangible assets	37.7	32.8
Total depreciation and amortisation	328.9	334.2
Total operating costs	729.5	771.1

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 £76.7m (2021: £49.2m) and we exported £14.0m (2021: £3.4m).

3. OPERATING PROFIT continued

SERVICES PROVIDED BY THE GROUP'S AUDITORS

During the year, the Group obtained the following services from its statutory Auditors:

Group	2022 £000	2021 £000
Audit fees		
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 assurance	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 and 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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS

4. FINANCING COSTS

A) FINANCE COST BEFORE FAIR VALUE LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

Group	2022 £m	2021 £m
Finance income	4.1	4.8
Financial expenses:		
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 index-linked swaps are fair valued at each balance sheet date with the net gain or loss disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 15 in respect of derivative financial instruments held on the balance sheet.)

Group	2022 £m	2021 £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
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 IN THE YEAR

Group	2022 £m	2021 £m
Current tax		
Current tax on loss for the year	–	–
Current tax on research and development credit	(0.1)	(0.2)
Adjustment in respect of prior years	0.1	0.4
Total current tax	–	0.2
Deferred tax		
Origination and reversal of timing differences	39.5	22.3
Adjustment in respect of prior years	(0.1)	(0.6)
Effect of tax rate change	(47.8)	–
Total deferred tax (note 6)	(8.4)	21.7
Taxation	(8.4)	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 an Research & Development tax credit of £0.7 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 £0.1 million (2021: £0.4 million) relate to tax credits for energy efficient capital expenditure and the remediation of contaminated land. Both are claimed under government incentives which provide tax credits for this particular expenditure. Claims are made based on an assessment of qualifying expenditure in accordance with the criteria for these incentives. As a consequence, a deferred tax charge in respect of prior years of £0.1 million (2021: £0.6 million) has arisen from claiming these tax credits and from adjustments to deferred tax balances in respect of capital expenditure. The net adjustment relating to prior years is £nil (2021: £0.2 million) as shown in the total tax reconciliation below.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2021: 19%).

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 £150.2 million of which £47.8 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:

NOTES TO THE FINANCIAL STATEMENTS

5. TAXATION CONTINUED

Group	2022 £m	2021 £m
Loss before tax	(215.2)	(120.8)
Loss before tax multiplied by the corporation tax rate in the UK of 19% (2021: 19%)	40.9	23.0
Effect of:		
Adjustments in respect of prior years	–	(0.2)
Depreciation charged on non-qualifying assets	(2.9)	(0.8)
Expenses not deductible for tax purposes	(0.1)	(0.1)
130% super-deduction for plant and machinery	1.5	–
Effect of changing rate for deferred tax from 19% to 25%	(47.8)	–
Taxation	(8.4)	21.9

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 £m	2021 £m
Loss before tax	(215.2)	(120.8)
Expected tax charge (19%)	40.9	23.0
Depreciation in excess of capital allowances	(38.3)	(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)	1.2
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	0.1	0.4
Tax losses carried forward	(4.3)	(0.1)
Taxation	–	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. While bonds are issued as bearer bonds, they are transferred electronically via Euroclear and Clearstream and have not been issued in 'definitive form' (paper form).

6. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2021: 19%).

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

Group	2022 £m	2021 £m
At 1 April	470.3	486.9
Charge/(credit) to income statement	8.4	(21.7)
Credit to the Statement of comprehensive income	(2.7)	(0.3)
Charge to revaluation reserve	192.3	5.4
At 31 March	668.3	470.3

Analysis of amounts charged to the Statement of Comprehensive Income and revaluation reserve:

Group	2022 £m	2021 £m
Defined benefit pension scheme	2.0	(0.3)
Increase in corporation tax rate – pension scheme	(4.7)	–
Credited to the Statement of Comprehensive Income	(2.7)	(0.3)
Revaluation of fixed assets	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 £m	2021 £m
Effect of:		
Tax allowances in excess of depreciation	357.4	296.6
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	(8.6)	(2.2)
Deferred tax on losses on derivative financial instruments	(109.3)	(79.3)
Pensions	(19.3)	(16.4)
Other tax differences	(2.0)	(2.5)
Deferred tax	668.3	470.3

NOTES TO THE FINANCIAL STATEMENTS

6. DEFERRED TAX continued

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 £357.4 million at the balance sheet date (2021: £296.6 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.

The Group has recognised a deferred tax asset of £109.3 million (2021: £79.3 million) in respect of derivative financial instruments which are carried at their fair value in the accounts. The fair value movements relating to derivatives are not subject to corporation tax in the period in which they arise but are taxable/deductible in later periods when the actual cash flows occur. The maturities of the derivatives are set-out in note 15, and in some cases extend to 2057.

A deferred tax asset of £19.3 million (2021: £16.4 million) has also been recognised in relation to the deficit on the pension scheme – See note 21. Tax deductions will be available when the deficit is paid.

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

The Group has tax losses of £34.5 million carried forward at 31 March 2022 (2021: £11.6 million).

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. 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 £33.3m (2021: £25.3m) being the rolled over gain multiplied by the rate used to calculate deferred taxes of 25% (2021: 19%).

The Company has no deferred tax balance (2021: none).

7. REVALUATION RESERVE

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

As at 31 March 2022 the total value of tangible and intangible fixed assets for Dŵr Cymru Cyfyngedig has been revalued to the Company's 'shadow RCV', being the 31 March 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.

Revaluation reserve movement	2022 £m	2021 £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

The movement in the parent Company's revaluation reserve relates solely to the increase in the value of the Company's investment in subsidiaries during the year by £243.5 million, from £3,958.0 million to £4,201.5 million (2021: increase of £82.9 million, from £3,875.1 million to £3,958.0 million). This is reflected in the Statement of Changes in Reserves.

8. PROPERTY, PLANT AND EQUIPMENT

Group — 2022	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	2,798.1	4,750.6	278.4	7,870.1
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	3,029.4	4,908.2	281.2	8,261.4
Accumulated depreciation					
At 1 April 2021	24.1	57.4	1,695.7	271.7	2,048.9
Revaluation	–	(123.0)	(239.9)	–	(362.9)
Charge for the year	0.9	65.6	232.2	2.7	301.4
Released on disposal	–	–	–	(1.4)	(1.4)
At 31 March 2022	25.0	–	1,688.0	273.0	1,986.0
Net book value					
At 31 March 2022	17.6	3,029.4	3220.2	8.2	6,275.4
At 31 March 2022 (historic cost basis)	17.6	2,120.7	2,344.6	8.1	4,491.0

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).

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

Group — 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	2,632.4	4,578.6	276.8	7,530.9
Additions net of grants and contributions	–	165.7	172.0	3.3	341.0
Disposal	(0.1)	–	–	(1.7)	(1.8)
At 31 March 2021	43.0	2,798.1	4,750.6	278.4	7,870.1
Accumulated depreciation					
At 1 April 2020	23.0	1.9	1,472.8	270.9	1,768.6
Revaluation	–	(12.9)	(15.7)	–	(28.6)
Charge for the year	1.1	68.4	238.6	2.4	310.5
Released on disposal	–	–	–	(1.6)	(1.6)
At 31 March 2021	24.1	57.4	1,695.7	271.7	2,048.9
Net book value					
At 31 March 2021	18.9	2,740.7	3,054.9	6.7	5,821.2
At 31 March 2021 (historic cost basis)	18.9	2,023.7	2,345.3	6.7	4,394.6

NOTES TO THE FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT continued

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)	**459.9**	**19.2**	**479.1**

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)	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 — 2022	Cost £m	Amortisation £m	Net book value £m
At 1 April 2021	**462.5**	**(258.5)**	**204.0**
Additions/(charge) for the year	**37.3**	**(37.7)**	**(0.4)**
At 31 March 2022	**499.8**	**(296.2)**	**203.6**

Intangible assets principally comprise computer software and related system developments.

Group — 2021	Cost £m	Amortisation £m	Net book value £m
At 1 April 2020	417.9	(225.7)	192.2
Additions/(charge) for the year	44.6	(32.8)	11.8
At 31 March 2021	462.5	(258.5)	204.0

The net book value of intangible assets includes £45.1 million in respect of assets in the course of construction (2021: £39.0 million). 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 £10 investment in Glas Cymru Anghyfyngedig (100% holding) and a £100,000 investment in Welsh Water Holdings Limited (100%). It also has indirect investments in the following subsidiary undertakings:

	Principal activities	Tax residency	Country of incorporation	Holding
Glas Cymru (Securities) Cyfyngedig	Holding company	UK resident	England and Wales	100%
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%
Cambrian Utilities Limited	Retail services in the competitive market	UK resident	England and Wales	100%
Welsh Water Infrastructure Limited	Competitive business activity in the water sector and other associated sectors	UK resident	England and Wales	100%
Welsh Water Organic Energy Limited	Food waste processing, treatment and recycling	UK resident	England and Wales	100%
Welsh Water Organic Energy (Cardiff) Limited	Operation and maintenance of an anaerobic digestion food waste facility	UK resident	England and Wales	100%
Welsh Water Organic Waste Limited	Tankering of liquid waste for disposal	UK resident	England and Wales	100%

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

The parent Company has revalued its investments in subsidiary undertakings to fair value; the carrying value is revalued annually and subject to an impairment review.

Further information on the Group's structure is available at **dwrcymru.com/companystructure**

Investment in subsidiaries	2022 £m	2021 £m
At 1 April	3,958.1	3,875.2
Revaluation	243.4	82.9
At 31 March	4,201.5	3,958.1

The parent Company's investments in subsidiary companies are initially recognised at cost and subsequently revalued to fair value using a discounted cash flow method. The fair value of investments comprises mainly the fair value of the regulated water and sewerage company, Dŵr Cymru Cyfyngedig. A present value has been determined using a discount rate based on the regulator's allowed weighted average cost of capital (WACC) and a terminal value being the projected Regulatory Capital Value.

We have set the discount rate at 2.4%, being the WACC allowed by Ofwat in its Final Determination for the period 2020 to 2025.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS continued

The RCV is set by Ofwat every five years and is, in effect, a proxy for the economic value in use of the appointed business for Dŵr Cymru Cyfyngedig. The terminal value is based on a projection of the RCV resulting from the cash flows in our financial forecasts.

The forecasts on which the cash flows and RCV movements are based are drawn from our 2022 Financial Plan, itself based on our PR19 Final Determination plan set by Ofwat.

See also the critical accounting estimates in note 1.

Revaluation amounts are recognised in other comprehensive income.

11. TRADE AND OTHER RECEIVABLES

Group	2022 £m	2021 £m
Current		
Trade receivables	558.4	551.7
Provision for impairment of receivables	(69.5)	(77.8)
Trade receivables – net	488.9	473.9
Prepayments and accrued income	94.9	87.9
Other receivables	10.2	8.9
	594.0	570.7
Non-current		
Other receivables	0.7	0.8
Total trade and other receivables	594.7	571.5

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.

2022 Trade receivables	Total £m	Provided for £m	Net £m
Billed in advance	384.6	–	384 .6
Under one month	16.1	(1.7)	14.4
Between one and six months	30.1	(3.6)	26.5
Between six months and one year	23.0	(3.1)	19.9
Between one and two years	32.2	(30.2)	2.0
Between two and three years	22.0	(20.6)	1.4
Over three years	50.4	(10.3)	40.1
	558.4	(69.5)	488.9

2021 Trade receivables	Total £m	Provided for £m	Net £m
Billed in advance	369.6	–	369.6
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
	551.7	(77.8)	473.9

11. TRADE AND OTHER RECEIVABLES continued

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

	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).

	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.

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 and, as at 31 March 2021, the estimated adverse effect on collections of the Covid-19 pandemic. The Group holds around 7000 charging orders as collateral against £12 million of debt (2021: 7,000 orders against £12 million of debt).

2022	Historical default rates %	Forward-looking adjustment %	Adjustment total %	Historical impairment £m	Forward-looking adjustment £m	Total impairment £m
Billed in advance	–	–	–	–	–	–
Under one month	9.2%	(0.9%)	8.3%	1.9	(0.2)	1.7
Between one and six months	10.2%	(0.9%)	9.3%	4.0	(0.4)	3.6
Between six months and one year	11.4%	(0.9%)	10.5%	3.4	(0.3)	3.1
Between one and two years	73.9%	(0.9%)	73.0%	30.6	(0.4)	30.2
Between two and three years	75.9%	(2.8%)	73.1%	21.5	(0.9)	20.6
Over three years	78.1%	(7.8%)	70.3%	12.2	(1.9)	10.3
				73.6	(4.1)	69.5

NOTES TO THE FINANCIAL STATEMENTS

11. TRADE AND OTHER RECEIVABLES continued

2021	Historical default rates %	Forward-looking adjustment %	Adjustment total %	Historical impairment £m	Forward-looking adjustment £m	Total impairment £m
Billed in advance	–	–	–	–	–	–
Under one month	9.0%	1.0%	10.0%	2.3	0.2	2.5
Between one and six months	8.4%	0.8%	9.2%	3.3	0.3	3.6
Between six months and one year	10.1%	0.8%	10.9%	2.7	0.2	2.9
Between one and two years	76.0%	(5.3%)	70.7%	30.5	(2.1)	28.4
Between two and three years	78.0%	(6.2%)	71.8%	23.2	(1.8)	21.4
Over three 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 £4.0 million, being a revenue provision of 5% against a gross balance of £80.7 million (2021: 7% and £77.1 million).

The parent Company's loan to Group undertakings of £21.6 million (2021: £21.6 million) represents a loan to a wholly owned subsidiary, Welsh Water Holdings Limited. The loan attracts interest at a rate of 5% and is repayable on demand. Interest accruing on the loan is included in trade and other receivables.

12. CASH AND CASH EQUIVALENTS

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
Cash at bank and in hand	**57.2**	97.9	**–**	–
Short-term deposits	**457.9**	123.0	**8.7**	8.7
	515.1	220.9	**8.7**	8.7

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 30 days (2021: 12 days). All cash and cash equivalents were held in sterling.

13. TRADE AND OTHER PAYABLES

Group Current	**2022 £m**	2021 £m
Trade payables	**50.2**	46.6
Capital payables	**38.4**	18.0
Social security and other taxes	**3.8**	3.5
Accruals and deferred income	**521.7**	472.7
	614.1	540.8

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

14. OTHER FINANCIAL LIABILITIES — BORROWINGS

Group Current	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

Group Non-current	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 Dŵr Cymru Cyfyngedig (DCC), as part of the Group's bond programme for the benefit of holders of senior bonds, finance lessors and other senior financial creditors.

The obligations of DCC are guaranteed by the Company, Glas Cymru (Securities) Cyfyngedig and Dŵr Cymru (Holdings) Limited. The main elements of the security package are:

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

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

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 and Standard & Poor's respectively and is not rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher of the financial guarantor's rating or the underlying rating of these bonds, of A1/AA/A from Moody's, Standard & Poor's and Fitch respectively. The underlying rating (A3/A-/A) reflects the standalone credit quality of these bonds without the benefit of the guarantee from Assured Guaranty and is the same as the credit ratings of the Group's Class B bonds of £1,422 million (2021: £1,378 million).

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

NOTES TO THE FINANCIAL STATEMENTS

15. OTHER FINANCIAL ASSETS AND LIABILITIES – DERIVATIVE FINANCIAL INSTRUMENTS

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

Fair values Group — 2022	Assets £m	Liabilities £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)

Fair values Group — 2021	Assets £m	Liabilities £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 fixed 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. OTHER FINANCIAL ASSETS AND LIABILITIES – 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 SWAPS

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

The principal terms are as follows:

Indexed notional amount	£1,407 million (2021: £1,014 million)
Swap maturity	16 years (2021: 18 years)
Interest rate	(0.16)% indexed by RPI (2021: 0.15% indexed by RPI)

16. FINANCING RISK MANAGEMENT

The policies of the Group in respect of financing risk management are included in the accounting policies note on page 192. 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 liabilities	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	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	515.1	–	–	–	515.1
Trade and other receivables	594.8	–	–	–	594.8
	1,109.9	–	–	–	1,109.9
Liabilities:					
Bonds	0.8	0.8	566.1	2,431.8	2,999.5
Term loans	56.3	85.3	232.6	263.0	637.2
Other unsecured loans	–	–	–	0.2	0.2
Lease liabilities	17.6	1.0	282.6	94.4	395.6
Trade and other payables	614.1	10.2	30.6	406.4	1,061.3
Future interest payable	143.5	129.3	357.0	719.5	1,349.3
	832.3	226.6	1,468.9	3,915.3	6,443.1

NOTES TO THE FINANCIAL STATEMENTS

16. FINANCING RISK MANAGEMENT continued

Group – 2021	Within 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	220.9	–	–	–	220.9
Trade and other receivables	571.5	–	–	–	571.5
	792.4	–	–	–	792.4
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
Lease liabilities	17.2	1.0	233.6	159.4	411.2
Trade and other payables	540.8	9.1	27.3	365.5	942.7
Future interest payable	107.5	108.3	323.4	652.5	1,191.7
	719.6	171.8	1,230.3	3,732.5	5,854.2

The minimum lease payments under leases 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		2021	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Bonds	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. FINANCING RISK MANAGEMENT continued

D) BORROWING FACILITIES

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

	2022 £m	2021 £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 £10 million each, such that available commitment is now £200 million (2021: £200 million). The facilities are all available for one year with a one-year extension option. There is also a £10 million 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	2022 £m	2021 £m
Total borrowings	(4,066)	(3,755)
Less: cash and cash equivalents	515	221
Net debt	(3,551)	(3,534)
Regulatory Capital Value (RCV)	6,460	6,010
Total capital	2,909	2,476
Less: unamortised bond costs and swap indexation	(171)	(77)
Total capital per bond covenants	2,738	2,399
Gearing ratio	58%	60%

As set out on page 194 the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat-determined RCV.

Under the Common Terms Agreement, regulatory gearing is calculated as the level of net debt in the whole business securitisation group (under Glas Cymru Anghyfyngedig) relative to the Regulatory Capital Value.

NOTES TO THE FINANCIAL STATEMENTS

17. PROVISIONS

Group — 2022	Restructuring provision £m	Uninsured loss provision £m	Other provisions £m	Total £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
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 £m	Uninsured loss provision £m	Other provisions £m	Total £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
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 been reduced by £4.8m and this amount has been written back to the income statement.

For the year to 31 March 2021, an additional restructuring cost of £4.1m 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 £m	2021 £m
Operating profit	80.7	7.2
Adjustments for:		
Depreciation and amortisation	328.9	334.2
Changes in working capital:		
(Increase)/decrease in trade and other receivables	(25.0)	4.5
Decrease/(Increase) in inventories	0.1	(0.4)
Increase in trade and other payables	51.7	3.3
Decrease in provisions	(7.1)	(0.4)
	19.7	7.0
Cash generated from operations	429.3	348.4

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

B) INTEREST PAID

Group	2022 £m	2021 £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
Decrease in accruals	0.3	0.2
	(70.5)	(15.4)
Interest paid	116.6	110.7

NOTES TO THE FINANCIAL STATEMENTS

19. ANALYSIS AND RECONCILIATION OF NET (DEBT)/FUNDS

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

A) NET (DEBT)/FUNDS AT THE BALANCE SHEET DATE MAY BE ANALYSED AS:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Cash and cash equivalents	515.1	220.9	8.7	8.7
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)	4.3	3.1
	(4,066.5)	(3,754.9)	4.3	3.1
Net (debt)/funds	(3,551.4)	(3,534.0)	13.0	11.8

B) THE MOVEMENT IN NET (DEBT)/FUNDS DURING THE YEAR MAY BE SUMMARISED AS:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Net (debt)/funds at 1 April	(3,534.0)	(3,451.5)	11.8	10.9
Movement in net cash	294.2	(446.5)	–	–
Movement in debt arising from cash flows	(227.1)	388.1	–	–
Movement in net (debt)/funds arising from cash flows	67.1	(58.4)	–	–
Movement in accrued interest	0.4	0.3	1.2	0.9
Indexation of index-linked debt	(84.9)	(24.4)	–	–
Other non-cash movements	–	–	–	–
Movement in net (debt)/funds	(17.4)	(82.5)	1.2	0.9
Net (debt)/funds at 31 March	(3,551.4)	(3,534.0)	13.0	11.8

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

20. EMPLOYEES AND DIRECTORS

STAFF COSTS FOR THE GROUP DURING THE YEAR

	2022 £m	2021 £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: £74.6 million) has been capitalised, being the investment cost of employees' work on the capital programme. For March 2021, exceptional items amounting to £0.8 million have been disclosed separately on the face of the income statement (note 3).

	2022 Number	2021 Number
Average number of people employed by the Group (including Executive Directors)	3,547	3,607

For further information see the Remuneration Report on page 146.

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

21. PENSION COMMITMENTS

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

The DCWW Pension Scheme was closed to new members from 31 December 2005. A new defined contribution scheme, the DCWW Group Personal Pension Plan, was introduced from 1 January 2006.

EFRBS

During 2011, the Company put arrangements in place via an Employer-Financed Retirement Benefit Scheme (EFRBS) for four 'capped' Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the DCWW Pension Scheme. At 2022: there were two Executive Members with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

RISKS

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

- Asset volatility:

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

- Movement in bond yields:

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

- Inflation risk:

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

- Life expectancy

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

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 actuary 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.

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION COMMITMENTS continued

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/(gain) 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 gains/(losses)	(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 and Bonds	322.3	326.2
Absolute return	–	–
Property	–	–
Other	99.9	99.8
Total assets	427.5	442.7

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 statement of comprehensive income are as follows:

	2022 £m	2021 £m
Income statement:		
Service costs	0.4	0.3
Interest costs	1.6	2.0
Total charged to the income statement	2.0	2.3
Statement of 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/(charge) to the statement of comprehensive income	10.5	(1.3)

21. PENSION COMMITMENTS continued

	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)

	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 while 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 now due. The Company 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 Company) 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 IFRIC 14.

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

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

22. LESSOR

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

23. CAPITAL AND OTHER FINANCIAL COMMITMENTS

The Group's business plan at 31 March 2022 forecasts 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 Group 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, and for injunctive relief, on the basis that these charges were allegedly levied contrary to the European Information Regulations ('EIR'). 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 outcomes stated throughout the Annual Report & Accounts for 2022 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 2020-21 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 Holdings Cyfyngedig group.

The parent Company issued an intercompany loan to Welsh Water Holdings Limited, a wholly owned subsidiary, during the year ended 31 March 2018. As at 31 March 2022, the balance on this loan stood at £21,553,698 (2021: £21,553,698). Interest is chargeable at a fixed rate of 5% and £1,287,515 was charged during the year (2021: £1,077,685). As at 31 March 2022, accrued interest receivable relating to this totalled £4,809,716 (2021: £3,522,201).

26. STATUS OF THE COMPANY

The Company is limited by guarantee and does not have any share capital. In the event of the Company being wound up, the liability of the Members is limited to £1 each.

27. ELAN VALLEY TRUST FUND

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

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

The assets of the fund are not included in these financial statements. As at 31 March 2022 the market value of the trust fund was £109 million (2021: £116 million).

Interest receivable includes £3.2 million (2021: £3.0 million) in respect of distributions from the Elan Valley Trust Fund.

28. IMMEDIATE AND ULTIMATE HOLDING COMPANY AND CONTROLLING PARTY

The immediate and ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales, company number 09917809, registered office Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT. The largest and smallest group within which the results of the Company are consolidated is that headed by Glas Cymru Holdings Cyfyngedig.

APPENDICES

THE PAGES WHICH FOLLOW DEFINE TERMS USED THROUGHOUT THIS ANNUAL REPORT AND ACCOUNTS AND EXPLAIN THE MEASURES OF SUCCESS AGAINST WHICH WE TRACK OUR PERFORMANCE

GLOSSARY

AMP6	AMP6 ran from 2015 to 2020. AMP7 will run from 2020 to 2025.
Anaerobic digestion	A process by which organic material is broken down by bacteria and other microorganisms to generate renewable energy.
Assets	These include infrastructure such as water mains and sewers, dams and reservoirs, water and sewage treatment works, pumping stations, company laboratories, depots and workshops.
AVPS	Annual Variable Pay Scheme – a performance-related element of emoluments.
Bacteriological failures	The drinking water supplied to customers is sampled and analysed against a range of chemical and bacteriological parameters. If a sample shows a bacteriological parameter that exceeds the limit specified in the regulations, it is deemed a bacteriological failure.
Catchment	An area of land through which water drains into a body of water (such as a river or reservoir).
Combined storm overflow (CSO)	CSO is a system for sewage and rain water runoff, which prevent the overloading of sewers which could otherwise lead to flooding of properties and sewage treatment works.
Company limited by guarantee	A private company that does not have shareholders or share capital.
CPNI	Centre for the Protection of National Infrastructure.
CCWater	Consumer Council for Water.
C-MeX	The customer measure of experience (C-MeX) is a measure of customer satisfaction. A company's C-MeX score is calculated as the weighted average of customer satisfaction (CSAT) scores from customer service (CS) and customer experience (CE) surveys.
Credit rating	Credit ratings provide an assessment of the credit quality of a company which can affect the cost of borrowing.
Customer Reserves	Customer Reserves is the difference between the RCV and net debt and is therefore a measure of the value created by the business for customers. Some of that value can be used for investment in the business and rebates to customers. We aim to maintain net debt at around 60% of the RCV with retained Customer Reserves as the remaining 40%.
Cwm Taf project	A project to design, build and finance a major new water treatment works to help ensure water quality and improve resilience in supplies to South East Wales, being undertaken under Ofwat's DPC delivery model.
Discharge permits	Legal agreements issued by the environmental regulator relating to the amount, quality and frequency of wastewater that can be returned to the environment.
D-MeX	The customer service measures for developer services (new connections) customers, developed by Ofwat for AMP7. See C-MeX definition above.
DPC	Direct Procurement for Customers – Ofwat's delivery model for competitively tendering for services in the context of the delivery of large infrastructure projects, in order to ensure best value for customers.
DWI	Drinking Water Inspectorate.
Drinking Water Safety Plan	A proactive method of assessing risk to drinking water quality, which better protects public health.
Drought Plan	Statutory plan produced by a water company that details the actions to be taken to manage the supply of water in a drought.
Effluent	Water that flows from a sewage treatment plant after it has been treated.
Environment Agency (EA)	An executive, non-departmental government body that has a statutory duty to protect and enhance the environment in England.
Financeability	The ability of appointed water companies to finance their functions through debt, equity or retained earnings.
Gearing	Net debt expressed as a percentage of regulatory capital value.

Glas Cymru	Glas Cymru is the generic name used to refer to the Group holding company. Glas Cymru Cyfyngedig was formed in 2000 to own, finance, and manage Dŵr Cymru Welsh Water. During 2015–16 Glas Cymru Cyfyngedig was re-registered as Glas Cymru Anghyfyngedig and Glas Cymru Holdings Cyfyngedig was created to be the holding company for the Glas Cymru Group.
Groundwater	Water that can be found in the saturated zone of the soil.
Group	Glas Cymru and all its subsidiaries.
ICT	Information and communications technology.
IEAP	Independent Environmental Advisory Panel is an advisory panel to Welsh Water, consisting of representatives from front-line environmental organisations in Wales and England, and leading academics in specialist areas.
Leakage	Water lost between the treatment works and the customer's home or business.
Liquidity	The availability of readily convertible assets into cash. This represents cash and cash equivalents and revolving credit facilities for the Group.
LTVPS	Long-term Variable Pay Scheme. A performance-related element of emoluments.
'Look-up' Compliance	Where a wastewater treatment works fails to meet the consented parameters set by the NRW or EA for less than 95% of the time.
Megalitres (Ml)	One megalitre is equal to 1,000 cubic metres or one million litres. A standard Olympic-size swimming pool contains 2.5 megalitres of water.
Natural Resources Wales (NRW)	Welsh Government-sponsored body whose purpose it is to ensure that the natural resources of Wales are sustainably maintained, enhanced and used.
Non-Executive Directors	Members of Glas Cymru's Board. Non-Executive Directors are not responsible for the day-to-day running but challenge management and oversee the running of the Group. See pages 114 to 116 for further details of their role.
ODI	Outcome Delivery Incentive. This is the mechanism for rewards and penalties which underpins the performance measures set out in our Final Determination Ofwat PR14 and PR19 business plans.
Ofwat	The economic regulator of the water sector in England and Wales.
Operating costs	Total operating expenditure of the business, net of any operating income, primarily any profits or losses on the disposal of fixed assets and power export income.
Pollution Incidents	An accidental or deliberate release of contaminants such as oils, fuels and chemicals that can be harmful to human health and the environment.
PR19	Ofwat's Price Review process 2019, the five-year regulatory price-setting review for AMP7 (2020–2025), culminating in the Final Determination of prices issued to companies in December 2019.
PR24	Ofwat's forthcoming Price Review process 2024, which will culminate in a Determination in December 2024, to set prices for AMP8 (2025–2030).
Pumping station	Used to pump water or sewerage from one place to another.
Quality and Environment Committee (QEC)	Board-level Committee in Glas Cymru which addresses performance and operational risk issues across the Company.
RainScape	Glas Cymru's approach to managing surface water and overloaded sewers (sustainable urban drainage systems).
Real terms	The change in a financial number after removing the effect of inflation.
Regulatory Capital Value (RCV)	The asset value of Dŵr Cymru, determined by Ofwat, on which our investment returns (or Regulatory Returns) is allowed to be made. This is, in effect, a proxy for the economic value in use of the appointed business of Dŵr Cymru Cyfyngedig.
Reservoir	A natural or artificial lake where water is collected and stored until needed.

GLOSSARY

Return of Value	Payments made for the benefit of our customers from distributable profits, that could otherwise be paid out to shareholders as dividends in a shareholder-owned company.
Rising main	A pumped pipeline that carries wastewater.
Scorecard	A statistical record used by Welsh Water to measure achievement or progress towards a particular goal.
Security and Emergency Measures Directive (SEMD)	Issued by the Welsh Government and Defra to the water sector to provide guidance on how to respond to major incidents.
Service reservoir	A tank containing drinking water that is usually sited within or near to a water distribution system.
Serviceability	The capability of a system of assets to deliver an expected level of service to consumers and to the environment now and into the future.
Sewer	An underground pipe that takes household and non-household wastewater and surface water away from properties for treatment and disposal.
Sewer flooding	Occurs when wastewater escapes from sewer pipes through a manhole cover or a drain, or by backing up through toilets.
Safety Takes Every Person (STEP)	Behavioural safety training which emphasises that each individual has responsibility for health and safety issues.
SSSI	Site of Special Scientific Interest.
Storm tank	A tank into which, in wet weather, stormwater and wastewater is stored until the wastewater treatment works can treat it.
Surface water	Run-off from rainwater that falls onto customers' properties (such as roofs, paths and driveways).
Surface water drainage	The removal of rainwater, snow or melted ice from exterior areas of a property (such as roofs and driveways) often to a surface water sewer or combined sewer.
Sustainable Urban Drainage (SUDS)	A sustainable drainage system is designed to reduce the potential impact of new and existing developments with respect to surface water drainage discharges.
Totex	An Ofwat abbreviation for total expenditure. The total sum of capital expenditure and operational expenditure.
Trunk main	A main through which water is fed into a water distribution system. A trunk main will often run from a water treatment works to a service reservoir.
UKRI	UK Research and Innovation, a research funding body combining seven former Research Councils.
UKWIR	UK Water Industry Research, a body set up by the water industry to support research and shape the industry's research agenda.
Wastewater	Waste matter from household or non-household properties that is carried away from properties in sewers or drains.
Wastewater treatment works (WWTW)	Wastewater treatment works are designed to remove biological or chemical waste products from water before it is returned to water sources.
Water main	A large pipe that carries treated water to households.
Water Resource Management Plan (WRMP)	This outlines how a water company will maintain a sustainable balance between water supplies and demand over the next 25 years.
Water treatment works (WTW)	Water treatment plants produce drinking water for public consumption or industrial water for manufacturing or other business operations.

PR19 PERFORMANCE COMMITMENTS: DEFINITIONS

Wt1	Water quality compliance (CRI)	A CRI score is calculated for every individual compliance failure at water supply zones, supply points and treatment works, and service reservoirs. The annual CRI for a company, for any given calendar year, is the sum of the individual CRI scores for every compliance failure reported during the year.
Wt2	Water Supply Interruptions	The average number of minutes that customers are without water within our supply area (includes both planned and unplanned interruptions). It is calculated as the average number of minutes lost per customer for the whole customer base for interruptions that lasted three hours or more.
Wt3	Acceptability of drinking water	The number of times the company is contacted by consumers due to the taste and odour of drinking water, or due to drinking water not being clear, reported per 1,000 population.
Wt5	Unplanned outage %	This measure is a means of assessing asset health (primarily for non-infrastructure – above ground assets), for water abstraction and water treatment activities. It is defined as the annualised unavailable flow, based on the peak week production capacity. This measure is proportionate to both the frequency of asset failure as well as the criticality and scale of the assets that are causing an outage.
Wt8	Lead pipes replaced	This measure records the reduction in the number of lead pipes in our water supply network.
En1	Treatment works compliance %	For our water and wastewater treatment works there is a permit which regulates the quality of wastewater the Company is allowed to discharge into rivers and coastal waters, which is regulated by Natural Resources Wales. The measure is the % compliance against the discharge permits.
En3	Pollution incidents (Per 10,000km of sewer)	Reduce the number of pollution incidents (caused by blockages or collapsed sewers). Pollution incidents are categorised as category 1, 2 or 3 incident and reported by Natural Resources Wales and the Environment Agency. Category 1 - the most severe and have a major or serious impact on the environment, people or property. Category 2 - significant impact or effect on the environment, people or property. Category 3 - minor or minimal impact on the environment, people or property.
En4	Leakage (% reduction) – 3-year average	Reduce our leakage levels – The percentage reduction of three-year average leakage in megalitres per day (Ml/d) from the 2019-20 starting baseline.
En5	Per Capita Consumption (% reduction) – 3-year average	Reduce our per capita consumption (PCC) - Annual average PCC is defined as the sum of measured household consumption and unmeasured household consumption divided by the total household population. This measure is reported as a % reduction of our three-year average PCC.
Sv1	C-MeX	C-MeX is a customer measure of experience and customer satisfaction. It comprises two survey elements: 1. Customer Experience Survey – a customer satisfaction survey among a random sample of the water company's customers; and 2. Customer Service Survey – a customer satisfaction survey among a random sample of those customers who have contacted their water company. The scores of each of the two surveys are weighted equally to produce the combined C-MeX measure.

PR19 PERFORMANCE COMMITMENTS: DEFINITIONS

Sv2	D-MeX	D-MeX is a measure of customer satisfaction for developer services. A D-MeX score is calculated from two components that contribute equally: • qualitative D-MeX score, based on the ratings provided by developer services customers who transacted with the company throughout the reporting year to a customer satisfaction survey; and • quantitative D-MeX score, based on the company's performance against a set of selected Water UK performance metrics throughout the reporting year.
Sv4	Business customer satisfaction	This performance commitment measures the average customer score out of five from four quarterly business customer satisfaction surveys. The Company will undertake a survey of 250 business customers per quarter (1,000 in total per year). It will survey a sample from all customers, not just those who have contacted the company.
Sv5	Priority Services for Customers in Vulnerable Circumstance	We provide special assistance to those customers in vulnerable circumstances who are registered on our Priority Services Register (PSR). This measure reports on the number of households on the Company's PSR as a proportion of all households in the Company's region.
Rt1	Internal sewer flooding (per 10,000 sewer connections)	The measure is calculated as the number of internal sewer flooding incidents normalised per 10,000 sewer connections, including sewer flooding due to severe weather events.
Rt3	Sewer collapses (per 1,000 km of sewers)	A sewer collapse is where a structural failure has occurred to the pipe that results in a service impact to a customer or the environment and where action is taken to replace or repair the pipe to reinstate normal service. This is reported as the number of sewer collapses per 1,000 kilometres of all sewers causing an impact on service to customers or the environment.
Rt4	Total Complaints	The total complaints by household customers received by the Company per 10,000 connections. It includes the combined total of unwanted contacts (i.e. telephone complaints), written complaints (letter and email), and contacts via new contact channels (such as social media or web chat).
Bl2	Vulnerable customers on social tariffs	The number of residential customers receiving financial support via our social tariffs.
Bl3	Company level of bad debt	The Company level of bad debt is a measure of the total unpaid water and wastewater bills that are deemed uncollectable as a proportion of the total revenue billed in each reporting year.
En6	KM of river improved	The cumulative length of river improved as a result of the company's actions to improve the health and aesthetics of rivers.
Ft10	Community Education	The total number of children and adults who have participated in the company's education programme each year.
Ft11	Visitors to recreational facilities	The total number of visitors to the company's recreational sites each year.
Co1	Reportable injuries	The number of individual injuries reported to the Health and Safety Executive under RIDDOR per annum.

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Dŵr Cymru
Welsh Water

Glas Cymru Holdings Cyfyngedig
Company Number: 09917809