GLAS CYMRU

PRELIMINARY RESULTS

2022

Dŵr Cymru Welsh Water

COMPANY NUMBER: 09917809

CONTENTS

FOREWORD TO THE PRELIMINARY RESULTS ANNOUNCEMENT

BASIS OF PREPARATION

The following announcement of preliminary results includes information which has been extracted directly from the Glas Cymru Holdings Cyfyngedig (Glas Cymru) Annual Report and Accounts for the year ended 31 March 2022, approved by the Board on 1 June 2022.

The audited Annual Report and Accounts will be received by Members at the Glas Cymru Annual General Meeting on 8 July 2022. The Annual Report and Account will also be made available online at **dwrcymru.com**.

The financial information does not constitute statutory accounts within the meaning of sections 434(3) and 435(3) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards (IFRS). The Company's auditors, KPMG LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 March 2022. The auditors' report did not include reference to any matters to which the auditors drew attention without qualifying their report and did not contain any statement under section 498 of the Companies Act 2006. The consolidated financial statements will be filed with the Registrar of Companies following the Company's Annual General Meeting.

This report contains certain forward-looking statements with respect to the future business prospects and strategies of the Glas Cymru Group. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. A number of factors exist which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

References to Glas Cymru and the Group in this document refer, respectively, to Glas Cymru Holdings Cyfyngedig and the group of companies of which it is the parent; references to Welsh Water relate to Dŵr Cymru Cyfyngedig, the sole operating company in the Group.

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 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!

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.

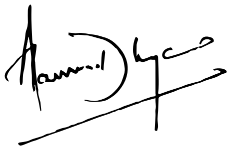
OUR PEOPLE

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.

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 CBE
Chair of the Board

CHIEF EXECUTIVE'S MESSAGE

> 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.

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.

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 nonfinancial 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.

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.

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 longterm 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 Officer

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)

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.

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

ENERGY COSTS

Energy costs are one of our biggest expenses, second only to staff costs, and totalled £77 million during the year, before £14 million of export income (2021: £49 million and £3 million respectively). We rely on power to run many of our water and sewerage processes across a geographically diverse region where pumping is frequently essential to enable content to be transported, and minimising costs can be very challenging. In recent years we have increased our own power generation capacity and this year we delivered 24% of our total power requirement (2021: 23%). We exported £20m of energy through a combination of self-generated electricity and private wire agreements (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.

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.

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.

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.)

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.

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).

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.

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.

PERFORMANCE REPORTING

Leakage and per capita consumption reported this year are provisional, as we have initiated a third-party review of our interpretation of Ofwat guidance on reporting methodology for these performance commitments. Once the conclusions of the review are known later this year, we will review our published outcomes for 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.

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.

MIKE DAVIS
Chief Financial Officer

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2022

Continuing activities	2022 £m	2021 £m
Revenue	810.2	778.3
Operating costs:		
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	(328.9)	(334.2)
	(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	4.1	4.8
Financial expenses	(187.1)	(126.1)
Fair value losses on derivative financial instruments	(113.5)	(6.8)
	(296.5)	(128.1)
Loss before taxation	(215.2)	(120.8)
Taxation	(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 £1.2m (2021: £0.9m).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2022

	2022 £m	2021 £m
Loss for the year	(223.6)	(98.9)
Items that will not be reclassified to profit or loss		
Actuarial loss recognised in the pension scheme	10.5	(1.3)
Related deferred tax	2.7	0.3
Revaluation of property, plant and equipment	448.4	28.6
Related deferred tax	(192.3)	(5.4)
Total items that will not be reclassified to profit or loss	269.3	22.2
Total comprehensive loss for the year	45.7	(76.7)

CONSOLIDATED BALANCE SHEET

	2022 £m	2021 £m
Assets		
Non-current assets		
Property, plant and equipment	**6,275.4**	5,821.2
Intangible assets	**203.6**	204.0
Trade and other receivables	**0.7**	0.8
Other financial assets:		
– derivative financial instruments	**344.0**	3.3
	6,823.7	6,029.3
Current assets		
Inventories	**4.3**	4.4
Trade and other receivables	**594.0**	570.7
Cash and cash equivalents	**515.1**	220.9
Other financial assets:		
– derivative financial instruments	**84.1**	32.6
	1,197.5	828.6
Total assets	**8,021.2**	6,875.9
Liabilities		
Current liabilities		
Trade and other payables	**(614.1)**	(540.8)
Provisions	**(2.8)**	(8.5)
Other financial liabilities:		
– borrowings	**(85.3)**	(78.3)
– derivative financial instruments	**(56.7)**	(39.2)
	(758.9)	(666.8)
Net current assets	**438.6**	161.8
Non-current liabilities		
Trade and other payables	**(447.2)**	(401.9)
Employee benefits	**(80.7)**	(89.9)
Provisions	**(5.7)**	(7.1)
Other financial liabilities:		
– borrowings	**(3,981.2)**	(3,676.6)
– derivative financial instruments	**(966.2)**	(478.0)
Deferred tax – net	**(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	**1,339.7**	1,157.1
Retained earnings	**(226.7)**	(89.8)
Total reserves	**1,113.0**	1,067.3

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

PETER PERRY
Chief Executive Officer

MIKE DAVIS
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

	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**

CONSOLIDATED CASH FLOW STATEMENT

	2022 £m	2021 £m
Cash flow from operating activities		
Cash generated from operations	**429.3**	348.4
Interest paid	**(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 flow 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	**294.2**	(446.5)
Cash and cash equivalents at 1 April	**220.9**	667.4
Cash and cash equivalents at 31 March	**515.1**	220.9