glas

Glas Cymru Holdings Cyf

Dŵr Cymru Welsh Water

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2023

We are Welsh Water

We provide water and wastewater treatment services to most of Wales and some adjoining parts of England.

See page 09 for a map of the area we serve, but note that throughout this report for simplicity we refer to Wales as an approximation to our service area.

> Read more on what we do and where we do it on pages 08 to 09.

We refer to our non-shareholder operating model (unique in the water sector in England and Wales) as the Glas Advantage.

> Read more on page 06.

Within this report we have presented our planning and strategy under 4 strategic themes: Water, Environment, Customers and Communities.

> Read more on pages 06 to 07.

These strategic themes are supported by our non-shareholder financing and strong governance.

> Read more on pages 20 to 21.

Sustainability, climate change and other environmental factors represent the biggest challenges we face in the coming decades, and so are integral to all aspects of our business.

> Read about our sustainability and ESG strategy on pages 18 to 19 and 106 to 132.

> Initialisms are listed in the Glossary from page 250.

3.1 million
PEOPLE SERVED

1.4 million
HOUSEHOLD CUSTOMERS

850ML
OF FRESH WATER PROVIDED DAILY

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

c.9,100
JOBS SUPPORTED (DIRECT AND INDIRECT)

Contents

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

WHAT MATTERS TO OUR STAKEHOLDER GROUPS

As a water company without shareholders, we are unique among utility companies in Wales and England. We focus on acting in our customers' best interests and regularly speaking with and listening to all our stakeholders to understand their needs and priorities. This helps us include in our plans and activities the things they think are most important.

What matters to our Customers

- Reliable and high-quality water supply
- Accessible and efficient services
- Fair and affordable charges
- Resilience to extreme weather events
- Protecting our environment from harm
- Honesty and openness
- Fixing problems quickly

What matters to our People

- Safety at work
- Opportunities for skills development and meaningful careers
- Supportive and inclusive culture
- A clear sense of purpose
- Environmentally conscious operations
- Well-respected and fair employer
- Open and honest in how we work

What matters to Future Generations and the Environment

- Safeguarding our natural resources
- Minimising pollution and environmental harm
- Responsible consumption and procurement practices

What matters to our Communities

- Being listened to and consulted
- Minimising pollution and any environmental harms
- Working together to enhance communities for all

What matters to Regulators and Government

- Strong and effective governance
- Delivering against our commitments
- Transparency of compliance with regulations
- Providing affordable and reliable services
- Honesty and openness in all dealings

What matters to Investors

- Security of debt servicing and repayment
- Appropriate risk/reward balance
- Emerging risks and management's response in mitigation
- Transparent, accurate, reliable and balanced reporting

OUR PURPOSE, VISION AND VALUES

OUR PURPOSE

The Company's Purpose is "to provide high quality and better value drinking water and environmental services so as to enhance the well-being of its customers and the communities it serves, both now and for generations to come".

OUR VISION

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

OUR VALUES

These are embedded in our Code of Conduct

> Read more on page 05

OUR CULTURE

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

Our culture focuses on delivering value and the best outcomes for our customers and the environment. We are always striving to do a better job, and we do it through learning, innovation, embracing change and sharing best practice internally and with other organisations.

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

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

How does culture support the delivery of our strategies?

It is inherent in our culture to listen to stakeholders to understand their evolving needs, modify our strategy and plans as appropriate and apply our culture and values to meet those needs, now and into the future.

Values in action

Excellence in everything we do

Key to achieving operational excellence and delivering out-performance is ensuring that every individual understands their role and how they can make a difference, while feeling valued for their contribution. This is why we continue to invest significantly in developing our workforce, with around £1.2 million invested every year in training and development to help us deliver the high quality service our customers expect.

Proud to put customers first

We are proud of the role that we play as an anchor company in Wales in providing one of the most essential public services. Our activities generate spending of over £1 billion a year, supporting over 9,000 jobs (directly and indirectly). Our pride in being a flagship company protecting public health is reflected by 87% of colleagues saying that that they were proud to work for Welsh Water in our latest Employee Engagement Survey.

Trusted to do the right thing

Our vision is to earn the trust of our customers every day. Trust is extremely important for all businesses, but particularly when operating in a monopoly as we do for all but our largest business customers. It is critical that our stakeholders trust us, and so we believe it is very important that we maintain high standards of business conduct in all that we do. Even if we sometimes make mistakes our customers can rely on us to do the right thing and fix it.

Safety takes every person

The water sector is a safety-critical industry and we will never compromise on the health, safety and wellbeing of our colleagues, partners and everyone with whom we interact. It was therefore pleasing that the results of the Health & Safety questions asked in our latest Employee Engagement Survey continued to highlight the strong cultural focus on health and safety among colleagues as they undertake their work:

- I believe Welsh Water is committed to employee safety – 94%
- I feel comfortable in reporting any safety concern – 94%
- I understand my role and responsibilities in creating a safe work environment – 98%

Honest with everyone

Over the past 12 months, our environmental performance, in particular in relation to river water quality, has been subject to unprecedented scrutiny by stakeholders and customers. We welcome this scrutiny and remain committed to being open and honest in how we work. We have continued to publish the results of our research which shows the impact of our assets on rivers in Special Areas of Conservation (SAC), and will continue to collaborate with other sectors which are having an impact on river water quality so that together we can help protect these and other rivers for future generations.

Open to new ideas

All colleagues are invited to monthly online briefings with our Chief Executive and other executives to challenge and ask questions. We also work closely with other key stakeholders to share information on the challenges we face so we can collaborate and explore new ways of working, encouraging them to submit solutions to our online Ideas Portal.

THE GLAS ADVANTAGE

Unlike the other water and wastewater companies in England and Wales, Welsh Water has no shareholders. We do not pay any dividends, and so are not driven by demands for profit growth. This means we can focus all our resources and expertise more closely on our Purpose and Vision. Any surpluses we generate are reinvested in the business to support our current and long-term objectives of providing the best-value outcomes, for the benefit of our customers, our communities and the environment. During AMP7 our non-shareholder model – the Glas Cymru Advantage – will enable us to invest additional funds of £160 million for the benefit of our customers through accelerated investment to help improve service delivery and social tariffs to support our most vulnerable customers.

Purpose-led in all we do

We provide high-quality and better-value water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve.

Link to strategic theme:

Water

High-quality, committed workforce

Our people are deeply committed to reducing any environmental harms caused by our activities.

Link to strategic theme:

Environment

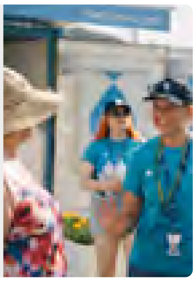
Excellent service earns customer trust

And this excellent service allows us to earn the trust of our customers every day.

Link to strategic themes:

Communities

Customers



Nature of our business affords a long-term planning horizon

Our long-term planning horizon allows us to tackle the long-term challenges and embrace the opportunities which will affect our business, our services to customers, and the communities that we support.

Link to enabler:

Sustainability

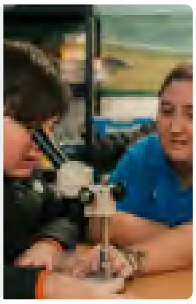
Low-risk and low-cost financing structure with no shareholders

Our long-term planning and low-cost structure ensure we have long-term sustainability, meaning we can continue to make a difference for generations to come.

Link to enablers:

Financing

Governance



OUR STRATEGIC THEMES SUMMARISED

Our 4 'Strategic Themes' and 3 'Enablers' are summarised below, introducing a short name and an icon for each. These short names and icons are used throughout the rest of this report to indicate particular themes.

Each strategic theme and enabler is described in more detail on the following pages. The enablers support everything we do. Please note also that throughout this report for simplicity we refer to Wales as an approximation to our service area.

VISION

To earn the Trust of our Customers Every Day

Water

Safe, high-quality and reliable drinking water

> Read more on pages 10 to 11

Environment

Supporting the environment

> Read more on pages 12 to 13

Communities

Supporting the future of communities

> Read more on pages 16 to 17

Customers

Excellent customer service

> Read more on pages 14 to 15

Financing

Non-shareholder financing

> Read more on page 20

Governance

Strong governance

> Read more on pages 21 and 133 to 197

Sustainability

including climate change adaptation

> Read more on pages 18 to 19 and 106 to 132

strategic themes

enablers

OUR OPERATING PROCESSES

1. Work with landowners to prevent contamination of the water that runs off the hills into reservoirs.

2. Collect and store raw water from the environment in reservoirs.

3. Clean the raw water from reservoirs and make sure it is safe to drink.

4. Transport clean water safely through our network of pipes to individual properties.

5. Help manage the amount of surface water entering our sewers to prevent sewers backing up and causing flooding.

6. Maintain the extensive network of pipes and minimise leaks.

7. Take away wastewater.

8. Treat wastewater so it can be returned to our rivers and seas.

9. Create energy from waste materials.

OUR OPERATING AREA AND OUR RESOURCES

Our drinking water supply area covers most of Wales and parts of Herefordshire and Deeside in England. Our wastewater network covers most of Wales and parts of Chester and Deeside.

Our resources

Our people

We directly employ around 3,500 staff and ensure they are trained and able to develop to their full potential. We recognise that diversity in our workforce to reflect the communities we serve gives us the experiences, ideas and opinions from a wider range of backgrounds.

The natural environment

Wales is blessed with a relatively high rainfall of in excess of 3,000mm per annum in some areas, from which we extract c.3% from the natural environment to store and treat to provide a reliable supply of high-quality drinking water.

Financial management

Creating and maintaining infrastructure is a long-term and costly activity. We raise the required funds from revenue from our services and by borrowing on financial markets.

Physical assets and intellectual capital

Our extensive estate of physical assets includes mains and wastewater networks, treatment works for both 'raw' water and wastewater, reservoirs, pumping stations, depots and offices across our operating area.

Relationships with regulators and governments

We work closely, and maintain an open dialogue, with all regulators.

STRATEGIC THEME: WATER

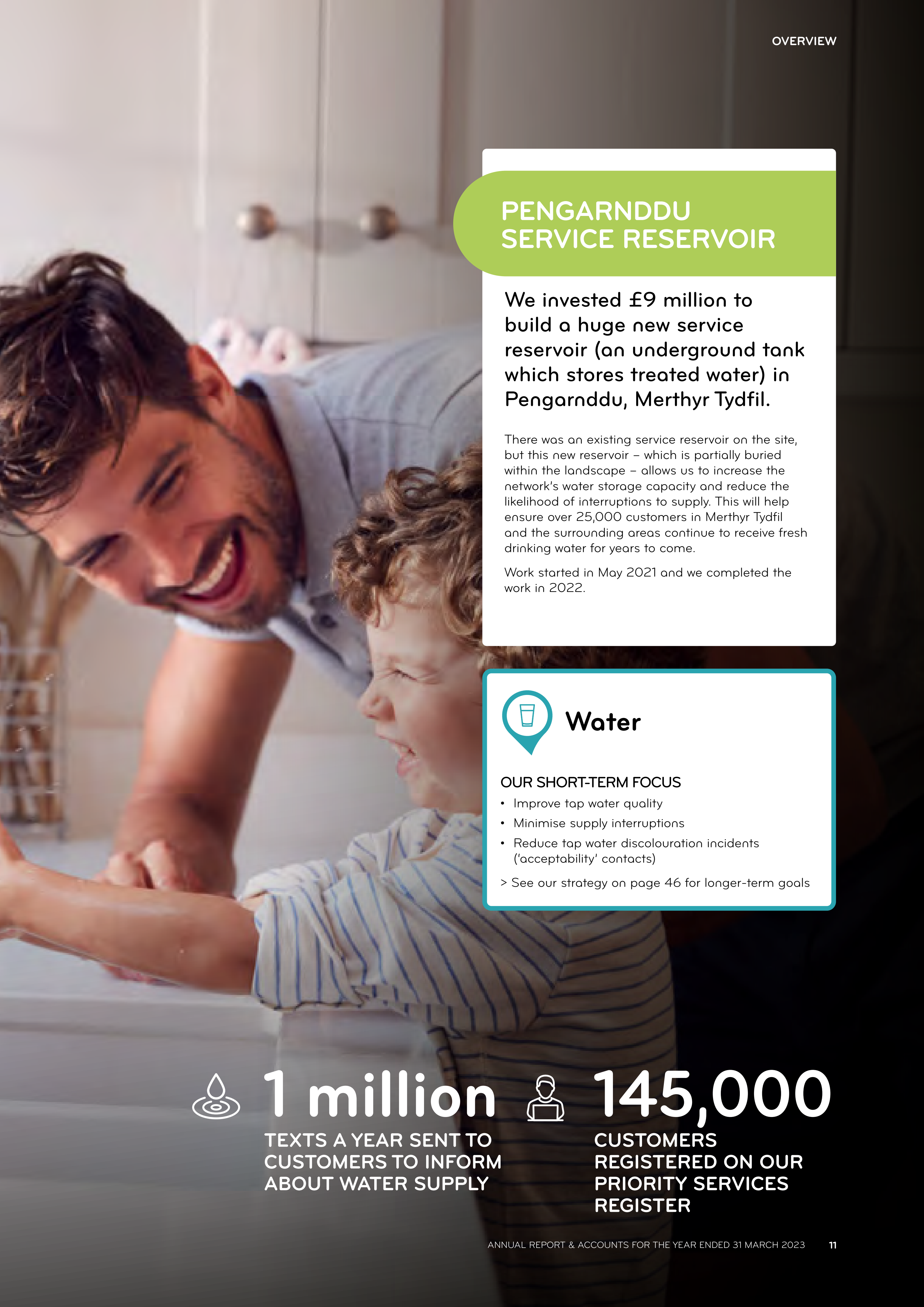
At the heart of our Purpose is providing safe and high-quality drinking water. This is essential to public health and the functioning of people's daily lives.

Our customers now largely take this for granted – which is the way it should be. When things go wrong and water supplies are interrupted, or when water quality is not what it should be, our customers are impacted in a very direct way; which is why we do our utmost to minimise these service failures, always prioritising drinking water safety, while also striving to make sure it always looks and tastes good.

Customers rightly expect water to be available from their tap whenever they need it. When pipes burst, we work hard to minimise the impact on customers. This means keeping them informed, and using tankers to refill local networks while our crews carry out repairs. If this happens, we make sure vulnerable customers are prioritised for bottled water deliveries.

The importance of maintaining supplies was heightened during the freeze/thaw event in December 2022. While we maintained supply to 99% of our customers during this period, a number of rural communities in some areas experienced prolonged loss of supply. There are some clear lessons to learn from our response and we will make every effort to implement opportunities to improve performance in similar circumstances in future.

> For performance see pages 50 to 53.



PENGARNDDU SERVICE RESERVOIR

We invested £9 million to build a huge new service reservoir (an underground tank which stores treated water) in Pengarnddu, Merthyr Tydfil.

There was an existing service reservoir on the site, but this new reservoir – which is partially buried within the landscape – allows us to increase the network's water storage capacity and reduce the likelihood of interruptions to supply. This will help ensure over 25,000 customers in Merthyr Tydfil and the surrounding areas continue to receive fresh drinking water for years to come.

Work started in May 2021 and we completed the work in 2022.

Water

OUR SHORT-TERM FOCUS

- Improve tap water quality
- Minimise supply interruptions
- Reduce tap water discolouration incidents ('acceptability' contacts)

> See our strategy on page 46 for longer-term goals

1 million

TEXTS A YEAR SENT TO CUSTOMERS TO INFORM ABOUT WATER SUPPLY

145,000

CUSTOMERS REGISTERED ON OUR PRIORITY SERVICES REGISTER

STRATEGIC THEME:
ENVIRONMENT

Our wastewater services focus on minimising the potentially harmful impact of human activity on the natural environment.

We have invested heavily in wastewater treatment infrastructure over the preceding decades which has resulted in Wales securing nearly a third of the UK's Blue Flag awards for beach quality despite having only 15% of the coastline. We have significantly improved how human waste is managed and absorbed by the environment, reflecting higher societal and governmental expectations of river and coastal water health. At the same time, certain long-term trends, from population growth and urban creep to changing rainfall patterns, are putting pressure on these improvements. Activities in other sectors are also having an impact on the health of rivers and marine waters.

This year, water company performance in protecting the health of our rivers and bathing waters has been in the spotlight more than ever. We have improved the availability of data on the way our assets operate in different weather conditions, giving us a better understanding of where improvements are needed. In line with regulatory guidance, we are focusing on reducing the ecological harm caused by some of our Combined Storm Overflows (CSO) – and not simply reducing the number of spills.

We are also responsible for tackling the wider environmental challenges faced in Wales and globally. We launched our Net Zero Carbon strategy in 2020 in response to the Welsh Government's declaration of a climate emergency in 2019, and this is also supported by our Biodiversity Action Plan which outlines how we are meeting the strengthened duty as outlined in the Environment (Wales) Act 2016.

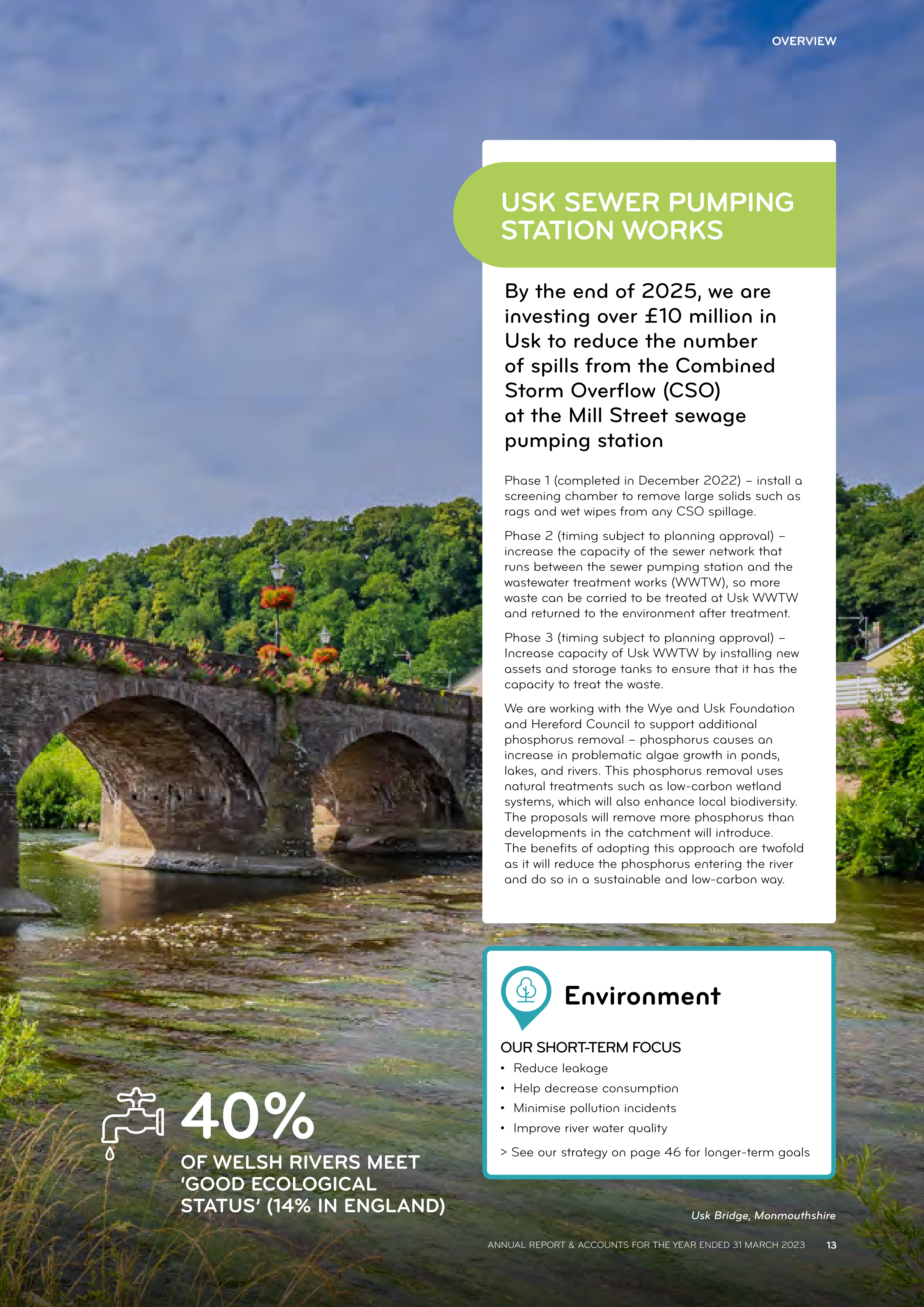
> For performance see pages 54 to 59.

£100 million

ADDITIONAL INVESTMENT IN RIVER QUALITY – ENABLED BY THE GLAS ADVANTAGE

122km

OF RIVER IMPROVED



USK SEWER PUMPING STATION WORKS

By the end of 2025, we are investing over £10 million in Usk to reduce the number of spills from the Combined Storm Overflow (CSO) at the Mill Street sewage pumping station

Phase 1 (completed in December 2022) – install a screening chamber to remove large solids such as rags and wet wipes from any CSO spillage.

Phase 2 (timing subject to planning approval) – increase the capacity of the sewer network that runs between the sewer pumping station and the wastewater treatment works (WWTW), so more waste can be carried to be treated at Usk WWTW and returned to the environment after treatment.

Phase 3 (timing subject to planning approval) – Increase capacity of Usk WWTW by installing new assets and storage tanks to ensure that it has the capacity to treat the waste.

We are working with the Wye and Usk Foundation and Hereford Council to support additional phosphorus removal – phosphorus causes an increase in problematic algae growth in ponds, lakes, and rivers. This phosphorus removal uses natural treatments such as low-carbon wetland systems, which will also enhance local biodiversity. The proposals will remove more phosphorus than developments in the catchment will introduce. The benefits of adopting this approach are twofold as it will reduce the phosphorus entering the river and do so in a sustainable and low-carbon way.

Environment

OUR SHORT-TERM FOCUS

- Reduce leakage
- Help decrease consumption
- Minimise pollution incidents
- Improve river water quality

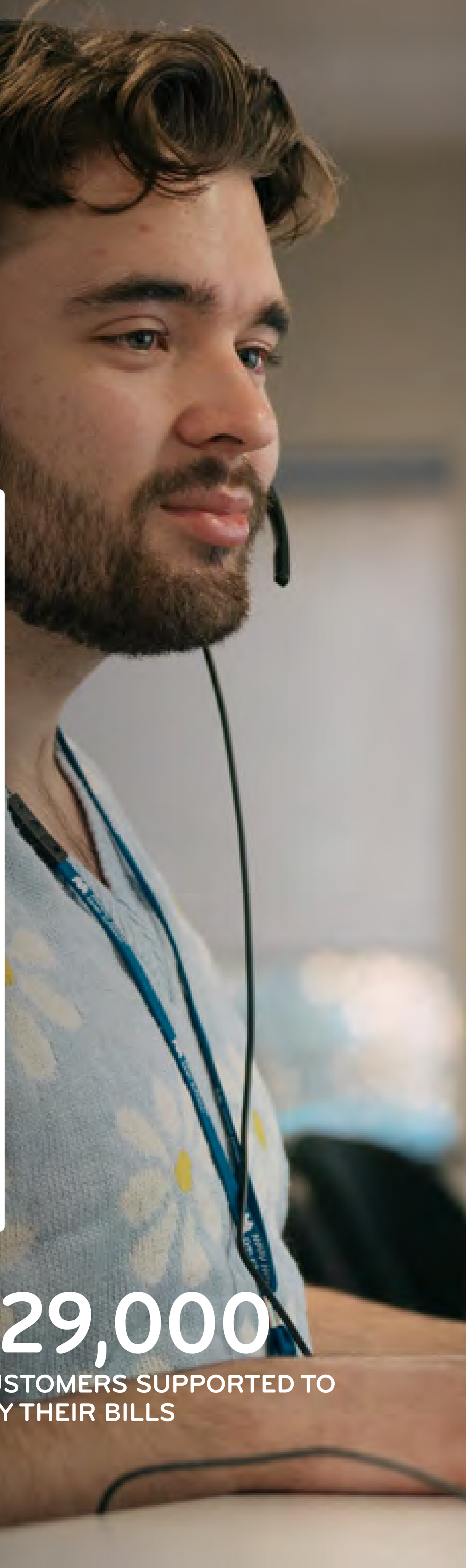
> See our strategy on page 46 for longer-term goals

40%

OF WELSH RIVERS MEET 'GOOD ECOLOGICAL STATUS' (14% IN ENGLAND)

Usk Bridge, Monmouthshire

STRATEGIC THEME: CUSTOMERS



Our customers are at the heart of everything we do. We are constantly working to improve the quality of the service we provide. Customer feedback helps us improve our services and achieve our Vision to 'earn the trust of our customers every day'.

As a company with no shareholders, we are better able to focus on providing a great service for our customers.

Trust is vital because the services we provide are essential to human and environmental health, and because we need our customers to help us minimise service failures such as sewer blockages, which can lead to internal sewer flooding; and to work with us to reduce water use and report pollution incidents.

Our track record here is strong, and we continue to be among the most trusted water companies in England and Wales. Our ongoing engagement with our customers ensures we continue to understand and meet their changing needs, and enables us to prioritise investment and design services to meet their expectations.

In our operating area we have some of the most deprived communities in the UK, and we are proud that we provide financial support to a larger number of customers, proportionate to the company's size, than any other water company in England and Wales. We announced plans during the year to support an extra 50,000 households, to provide more financial support and keep bills affordable.

> For performance see pages 60 to 63.

2nd
MOST TRUSTED WATER COMPANY IN 2023

129,000
CUSTOMERS SUPPORTED TO PAY THEIR BILLS

DEBT SURGERIES

To help address the ongoing cost-of-living crisis and soaring energy prices, our specialist debt advice team, who lead on talking to customers about our social tariffs, have been visiting communities to support customers who are in debt or worried about their finances.

In January 2023, we held events in Newport, an area with high levels of social deprivation. These drop-in surgeries were targeted towards local customers whose accounts are in arrears. They enabled customers to meet debt advisers in person to discuss their concerns and find out about support to help control debt and set up manageable payment plans.

One customer who attended a drop-in surgery commented, "I just came down to sort my bills out. I'm a bit nervous on the phone so I thought this was a great idea. I'm trying to sort myself out. Times are hard and every penny helps. Welsh Water have helped me enormously today."

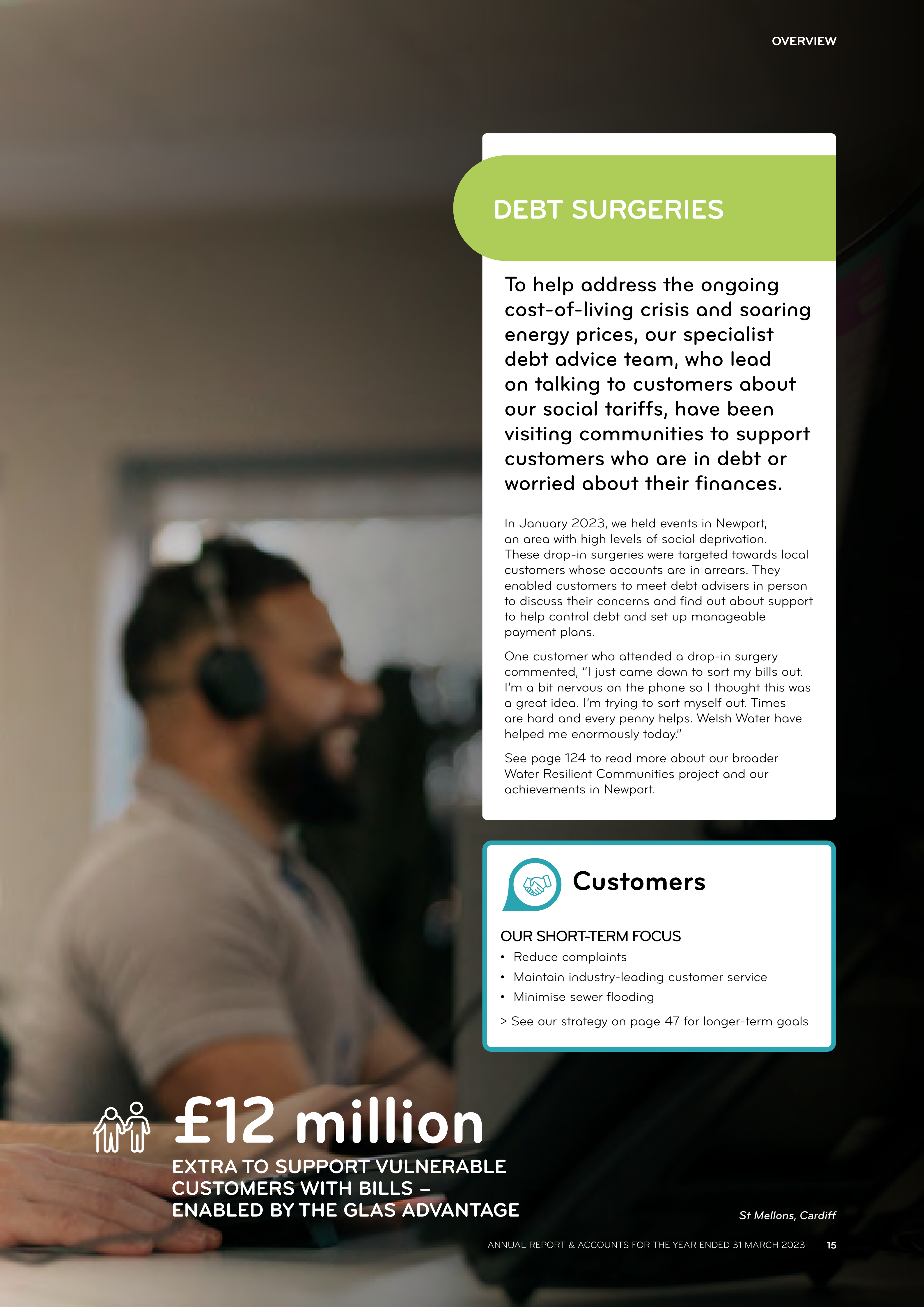
See page 124 to read more about our broader Water Resilient Communities project and our achievements in Newport.

Customers

OUR SHORT-TERM FOCUS

- Reduce complaints
- Maintain industry-leading customer service
- Minimise sewer flooding

> See our strategy on page 47 for longer-term goals



£12 million

EXTRA TO SUPPORT VULNERABLE CUSTOMERS WITH BILLS – ENABLED BY THE GLAS ADVANTAGE

St Mellons, Cardiff

STRATEGIC THEME: COMMUNITIES

We exist, first and foremost, to serve the communities where we operate. We are determined to act responsibly and believe that building close links with and supporting our communities helps build trust.

This is why we carry out a wide range of activities focused on our communities, including:

- Providing one of the most extensive education outreach programmes in the sector to help teach children about the water cycle and the importance of using water efficiently.
- Operating 4 visitor attraction sites, offering a range of activities for local communities and tourists. We will open our 5th site, near Cardiff, in summer 2023 (Lisvane and Llanishen) offering an array of water sports, including stand-up paddle boarding, canoeing and kayaking.
- Hosting annual 'open days' at our wastewater sites to help customers learn and understand more about how we operate, linking this to our behavioural change campaigns such as Stop the Block.
- Operating our £100,000 Community Fund which offers support to local communities with wellbeing and environmental initiatives, and international charities such as WaterAid and Business in the Community.
- See also page 65 for our economic impact assessment which considers our broader contribution to jobs and the Welsh economy.

> For performance see pages 64 to 67.

739,000
VISITORS TO OUR CENTRES

5th
VISITOR CENTRE TO OPEN IN SUMMER 2023

80,000
PEOPLE TOOK PART IN OUR EDUCATION PROGRAMME

COMMUNITIES-BASED CASE STUDY

In the year, we supported over 80 local groups and organisations to undertake innovative projects in their community which offer environmental or wellbeing benefits.

The funding has helped community groups to thrive, especially those who struggled following the Covid-19 pandemic. Community groups have been able to purchase new essential equipment, schools have developed outdoor learning areas and sports groups have purchased the kit they need to keep their clubs going.

This is part of our commitment to maintain our Community Fund which aims to benefit those communities where we are working.

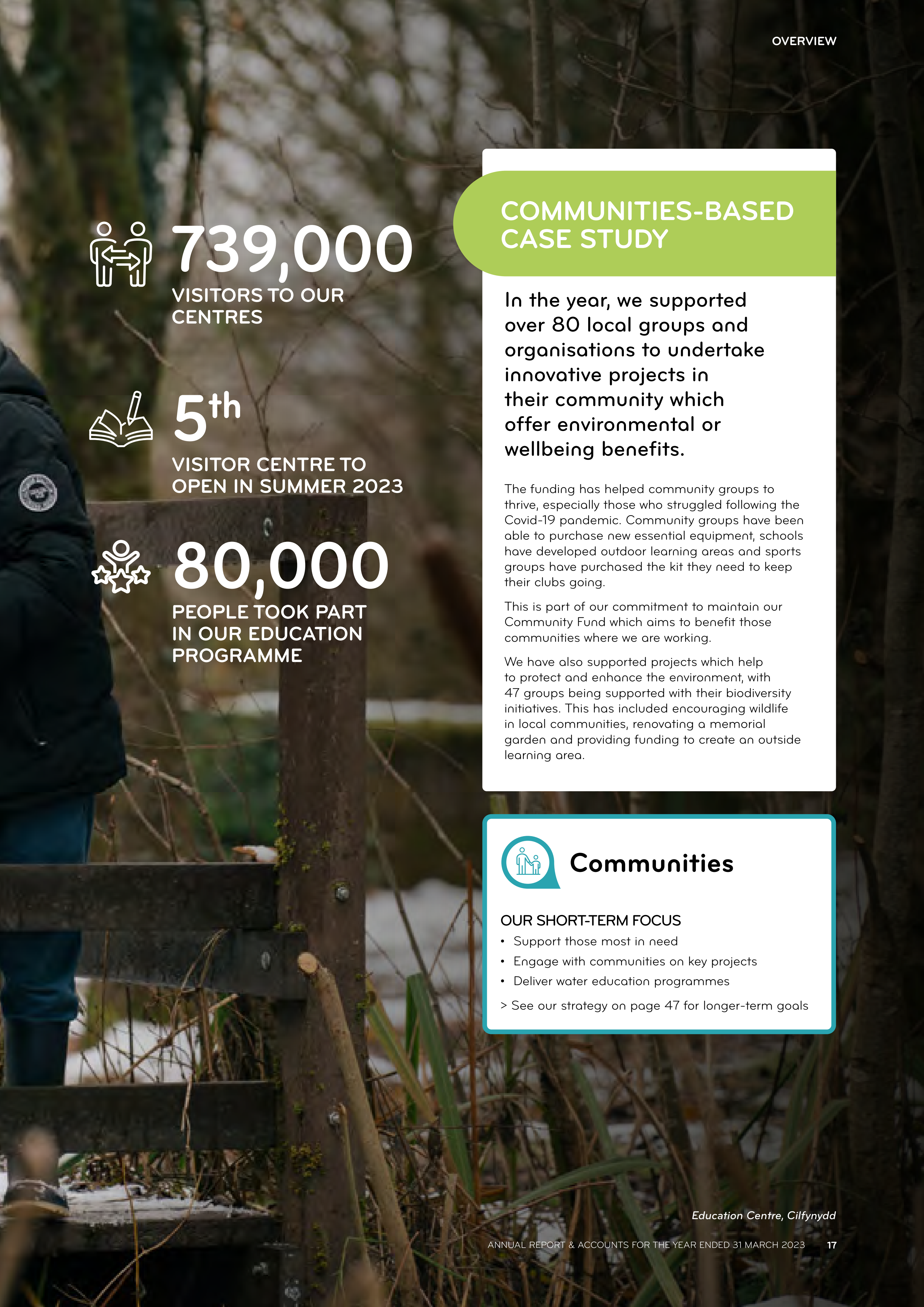
We have also supported projects which help to protect and enhance the environment, with 47 groups being supported with their biodiversity initiatives. This has included encouraging wildlife in local communities, renovating a memorial garden and providing funding to create an outside learning area.

Communities

OUR SHORT-TERM FOCUS

- Support those most in need
- Engage with communities on key projects
- Deliver water education programmes

> See our strategy on page 47 for longer-term goals



Education Centre, Cilfynydd

WHAT SUSTAINABILITY MEANS TO WELSH WATER

Our approach to sustainability

To be a sustainable water and wastewater services provider we must fulfil the needs of current generations without compromising those of future generations. This approach is integral to everything we do and is fundamentally underpinned by our 'non-shareholder' business model. This makes it easier for us to focus on the long term, which is critical if we are to remain sustainable, given our very long-lived assets.

Welsh Water 2050 was aligned to the 7 Wellbeing Goals as outlined in the Well-being of Future Generations (Wales) Act. In 2020 we launched our Wellbeing Commitments which were agreed with our Independent Challenge Group (ICG, formerly known as Customer Challenge Group), independently chaired by Peter Davies. These commitments have been amalgamated into our Environment, Social and Governance (ESG) strategy and underlying key performance indicators (KPI). The ICG reviews performance against these metrics and provides an annual report to the ESG Committee.

For more information about the impact of the water sector and the UN Strategic Development Goals (SDG), go to: https://www.unglobalcompact.org.uk/measuring-up/

Rather than discuss sustainability in isolation, this report sets out 4 strategic themes relating to our drinking water services, working to protect the environment, working with and for our customers, and ensuring our communities are well served.

Mapping sustainability: our strategic themes and the UN SDGs

The following sections consider sustainability in relation to our strategic themes.

Strategic themes	UN SDGs	Wellbeing goals
Water	6 CLEAN WATER AND SANITATION	• a globally responsible Wales • a resilient Wales • a healthier Wales
Environment	6 CLEAN WATER AND SANITATION 13 CLIMATE ACTION 15 LIFE ON LAND	• a globally responsible Wales • a resilient Wales • a healthier Wales
Customers	1 NO POVERTY	• a prosperous Wales • a more equal Wales • a Wales of vibrant culture and thriving language
Communities	4 QUALITY EDUCATION 8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES	• a prosperous Wales • a Wales of cohesive communities

> Read more about sustainability on pages 104 to 132.

Enabled and supported by governance of sustainability

Adapting to future challenges → Demonstrating accountability → Working collaboratively

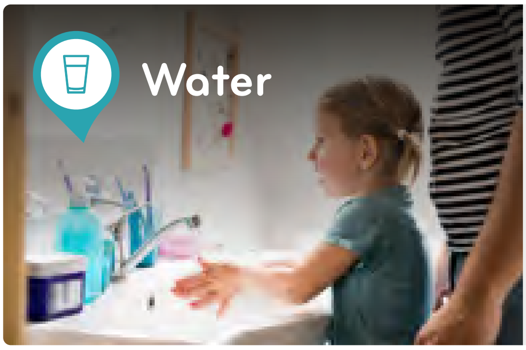
> Read more on our governance of sustainability on pages 108 to 111.

Sustainability is central to our Welsh Water 2050 Vision to become a truly world-class, resilient and sustainable water service, for the benefit of current and future generations. In Welsh Water 2050 we published our bespoke Resilience Framework which captures all aspects of what it is to be a truly resilient and sustainable water service for the long term.

The Vision more broadly addresses the significant challenges we face in both the short but particularly the longer term and forms the foundation for the 18 Strategic Responses set out in Welsh Water 2050. See Our Strategy online at https://dwrcymru.com/ourplans

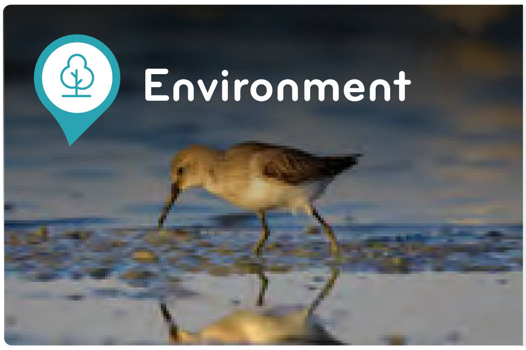
Sustainability and our strategic themes

Below we set out a summary of what sustainability means for each of our strategic themes.



Sustainable drinking water services are those which protect the environment from over-abstraction or carbon emissions to the atmosphere, from the unsustainable use of chemicals and other materials, and from poor waste management, and which embrace the circular economy. These services reduce as far as possible the requirement for processed water, through limiting leakage and proactively supporting our customers to reduce consumption. They also control pollution at source.

> Read more on pages 112 to 113.



Sustainable wastewater services are those which protect the environment from the impact of treated and storm effluents being returned to our rivers and seas, from carbon emissions to the atmosphere, the unsustainable use of chemicals and other materials, the recycling of biosolids, and which embrace the circular economy. Such services control pollution at source, and help prevent such pollutants as perfluoroalkyl and polyfluoroalkyl substances (PFAS) – also colloquially known as forever chemicals – entering the sewerage system.

> Read more on pages 114 to 121.

Customers play an essential role in supporting the sustainability of the services we provide. Customers, in large part, ultimately determine the amount of water we need to abstract from the environment, and can impact on our sewers and the environment by the inappropriate flushing of plastics and other materials into the sewer. Working with customers to change their behaviours is an essential component of maintaining our services on a sustainable footing.

> Read more on pages 122 to 123.

Our services exist to support sustainably the public health and wellbeing of communities and individual customers alike. In addition to providing them with drinking water and wastewater services, we will also maximise the wellbeing potential of our landholdings and facilities, to help our customers enjoy the environment, partake in recreational activities, and understand better the key role they have in ensuring we are able to offer sustainable services to both current and future generations.

> Read more on pages 124 to 128.

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

... is supported by our Strategic Themes, our approach to sustainability and our enablers of Financing and Strong Governance.

Financing

LIQUIDITY

Liquidity remains robust, with cash at year-end of £379 million (FY* 22: £515 milliion), and undrawn credit facilities of £200 million.

CREDIT RATINGS

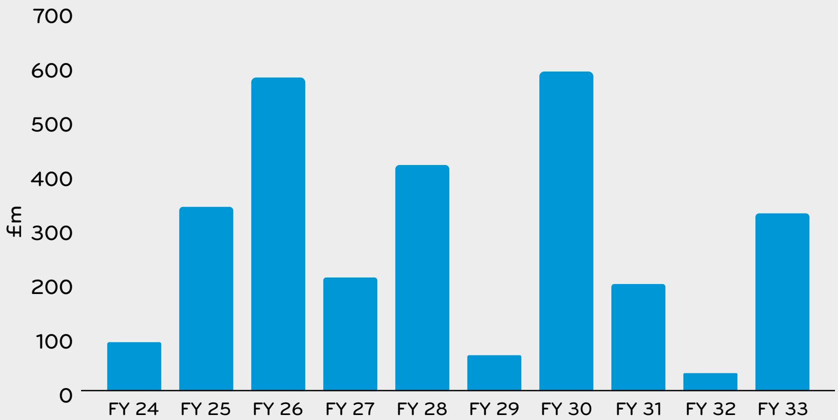
Bonds	MOODY'S	S&P	FITCH
Class A*	A1	AA	A
Class B	A3	A-	A
Class C	Baa2	BBB	BBB+
Outlook	stable	negative	stable

*The Class A bonds are guaranteed by Assured Guaranty UK Limited (A1/AA/Not rated) and revert to the higher of the guarantor's rating and the underlying bond rating.

GEARING

Gearing of 58% (FY 22: 58%) is in line with the Board's target range.

MATURITY PROFILE OF EXISTING DEBT



We are fully financed to the end of the current Asset Management Plan (AMP) period ending in 2025.

This graph covers the next 10 years and relates to existing debt only.

For more, including longer-term maturities, please see financial statements notes 14 and 16, and our periodic investor reports on our website at https://dwrcymru.com/investors.

We need considerable financial resources to provide our core services and to invest in our infrastructure. These resources are generated from our revenues and from investor funding. Our non-shareholder corporate structure means we do not raise equity funding or generate returns for shareholders, and our financial surpluses are re-invested in our strategic themes, and in providing the best possible value for our customers.

We manage our operations and finances, and maintain strong relationships with current and potential investors and rating agencies, with the objective of maintaining an investment grade credit rating to ensure we can access debt markets when necessary to fund our investment programme. We aim to both preserve investors' strong appetite for investment in Welsh Water and obtain our funding at the lowest cost. Our approach to financing also takes into account ESG considerations, with the aim of generating more long-term investments in sustainable economic activities and projects.

> Read more in the Chief Financial Officer's Review on pages 34 to 39.

The nature of our activities means that our operations and company objectives are naturally sustainability-focused, and we have always found there to be strong investor demand for our bonds. Appetite in the financial markets for green bond issues has increased significantly since our last bond issue in 2021, and organisations in various sectors are now formally promoting their green credentials. It is against this backdrop that we have developed our ESG agenda over the past 2 years, and our ESG rating from Sustainable Fitch recognises our track record, our ongoing strong support for vulnerable customers, and our sustained efforts to protect biodiversity. See further details on page 39.

* Throughout this report for simplicity we refer to our financial years as FY NN to represent the financial year ending on 31 March 20NN.

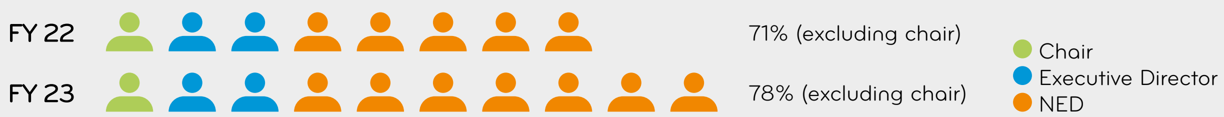
Governance

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

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

- The majority of our Board comprises independent Non-Executive Directors (NEDs): 78% following the two Board appointments in FY 23 – see Board biographical details on pages 140 to 143.

Board Majority consists of Independent NEDs



See note on page 151 on Directors' independence.

- Our group of 62 independently appointed Glas Members hold the Board, to account for the stewardship of our assets and for providing an essential public service (see more on pages 148 to 150).
- Our Independent Challenge Group (ICG) comprises an independently appointed chair and members with relevant experience. It meets 4 times a year and provides independent challenge, scrutiny and advice through the Chair to the Glas Cymru Board. To read more see pages 71 to 72.
- Our independent assurance processes – see page 151
- Our Independent Environmental Advisory Panel (IEAP) and the Special Advisor to the Board on Environmental matters.

For 10 years we have hosted the IEAP, comprising over 20 key environmental stakeholders, including representatives of the Welsh Government, regulators, environmental non-governmental organisations (eNGO) such as the Royal Society for the Protection of Birds (RSPB), regional and national environmental bodies, a variety of environmental trusts, and of key industries, including agriculture and mining.

The IEAP meets 6 times a year, is independently chaired, and is attended by the Special Advisor to the Board on Environmental matters who also attends the Board's Quality and Safety Committee (for further information on this Committee see page 164), and occasionally our Non-Executive Directors. The advice received by the Board is discussed as necessary at the Quality and Safety Committee. The Panel also supports the Company on its biodiversity and research agendas, with members co-financing biodiversity and environmental initiatives and research to help the Company understand the value of blue green investments, such as reafforestation and upland peatland restoration. The Panel also enables its members to share and discuss with other Panel attendees their own key initiatives and proposals, and in so doing fosters a 'Team Wales' approach, sharing expert resources and collaborating to ensure we deliver maximum value for our customers.

> Read more on Governance from page 133.

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 STATEMENT

"CLIMATE CHANGE AND PROTECTING THE ENVIRONMENT REPRESENT OUR GREATEST CHALLENGES IN THE DECADES TO COME."

Alastair Lyons CBE
Chair of the Board

My message in the FY 22 Strategic Report talked of characterising the year as a perfect storm with our business and our people in the eye of the storm. I then spoke about abnormal hot weather with the consequent stressed availability of water, exacerbated by staycation tourism; supply issues, particularly of chemicals; the disruption caused by major storms; soaring energy prices; and greater than ever societal focus on the environment and river quality.

As you will see from Peter Perry's Chief Executive's Message that follows my own, I could write the same headline about FY 23, and highlight the same issues. It is unfortunately the case that the exceptional now has to be regarded as commonplace. If we are to realise our Vision 'to earn the trust of our customers every day' we have to plan to be able to handle the exceptional without these issues and events disrupting the lives of either our customers or our people, these being our principal stakeholders. Our business has to operate at a higher level of resilience than was necessary in the past. We cannot continue to ask our people to make unremitting exceptional contributions of their time and effort no matter how generously they have given, and continue to give, of both. Last year, as Peter recalls, the challenges of maintaining our normal services during, and then recovering from, the long dry summer that lasted into the autumn passed almost seamlessly into handling the December freeze/thaw. Many of our people volunteered in the run-up to and over Christmas to help mitigate the impact of this on those of our customers who lost supply as a consequence. My sincere thanks, personally and on behalf of the Board, go to everyone who worked so hard to deliver the quality of service we aim to provide.

Our Vision: To Earn the Trust of Our Customers Every Day

We are also very conscious that it took us longer than we would have wanted to restore normal service for some of our customers. My apologies go to them. We have taken on board the lessons learned to be able to respond better next time this happens, as it most surely will. Wherever we fall short of our own standards and the expectations of our stakeholders, in particular of our customers, which in turn erodes their trust, we will always hold up our hand, apologise, make amends in the most appropriate way, and work hard to improve so it doesn't happen again.

As a case in point, our internal assurance processes that govern our regulatory reporting have found that for the two financial years FY 21 and FY 22 we misstated the leakage from our networks, in particular from our trunk mains. This should not have happened and our Board has decided to apply a £10 refund to every customer as an apology for the misreporting causing us not to recognise earlier that we need to do more to reduce leakage. Ofwat has announced an investigation – the timing of which is uncertain – and we will of course cooperate fully.

We are now significantly increasing our investment in trunk mains leakage detection so as to get us back on track as rapidly as possible. We recognise that we cannot ask customers, whether households or businesses, to reduce their use of water if they cannot trust us to ourselves do whatever we can to ensure the water we produce is available to supply to our customers.

The same applies to our environmental record: we share fully the public concern relating to the health of our rivers and coastal waters and are always very sorry for any environmental harm that we cause linked to our wastewater services. Our Manifesto for Rivers in Wales sets out the investment we have planned in this AMP and the next to tackle first where we can make the biggest difference to water quality. By being completely open about our plans and sharing with our customers the scale of what we will invest we hope we can earn their trust that we are doing everything we can as fast as we can.

Doing everything we can to earn the trust of our customers is engrained in our not-for-shareholder culture and all culture starts at the top of an organisation. It was, therefore, entirely consistent with our culture that Peter Perry and Mike Davis should say that they would not accept any variable pay in respect of FY 23. I and my colleagues very much respect this decision on their part and thank them for it.

Pontsticill Reservoir, Merthyr Tydfil

Price Review 2024 (PR24)

As we prepare our plans for the next price review, encompassing both our detailed plan for the next 5-year price control from 2025 to 2030 and our Long Term Delivery Strategy out to 2050, we are planning against the backdrop of major challenges to our business from climate change, continuing economic and national/global political uncertainty, and changing expectations of our sector on the part of society as a whole. In so doing we are far from starting the process from cold. Welsh Water 2050, that we first published in 2018 and updated in FY 22, sets out the key trends and challenges that we see ourselves facing over the long term, and our strategic responses to these trends and challenges. We are also not planning alone. The challenges to which I refer are societal, not purely corporate, and how best to address them will most effectively be developed in partnership with our principal stakeholders. The PR24 Forum, chaired by the Welsh Government and comprising the Welsh water companies, our environmental, economic, and water quality regulators, and our Independent Challenge Group, enables a societal view of priorities to be taken, not just our own perspective on where we should focus. And that is critically important: to determine a plan that is deliverable, affordable and financeable we will have to agree priorities with our stakeholders. We will not be able to deliver, or afford, or finance everything that we and our stakeholders would like us to achieve over either the next or the following price control periods. There is also no certainty as to how these challenges will play out over the longer term. Our planning assumptions are just that – assumptions – and we have to be prepared to adapt our plans as we see the future more clearly and as events unfold. While we must avoid committing to a course that may not turn out to be the right one, we must equally avoid not taking action now that is needed to prepare for what is likely to happen. We, therefore, fully support the Ofwat PR24 methodology of a No Regrets core long-term pathway with alternative scenarios that identify what decisions may need to be taken, and when, if those core planning assumptions need to be flexed.

Taking each of these principal challenges in turn.

Climate change

This is causing, and will continue to cause, records to be broken on a regular basis. Last year it was highest ever temperatures, lowest levels in some of our reservoirs, and the fastest rise in winter temperatures in one day since 1947. We also saw the highest recorded level of the river Wye in Hereford. Many of the assets that are the backbone of our water and sewerage systems were designed with different conditions in mind.

With higher average air temperatures supporting great moisture content rain, when it falls, and it does frequently in Wales, will be more intense which creates greater run-off from impermeable surfaces and housing. This in turn overwhelms sewers that date back 50-100 years, leading to storm overflows of diluted sewage into rivers. The only alternative at present is for the sewer to back up into peoples' gardens and houses, and other buildings such as schools and hospitals. To change this the storm water either has to be prevented from entering sewers in the first place, or has to be captured and stored to be discharged when the flow through treatment works returns to normal. At present there are two such forms of storage – large concrete tanks with an attendant large carbon footprint, and nature-based solutions such as reed beds which filter the outflow before it reaches the river. To prevent rainfall entering sewers would require changing the current combined drainage system that services most of our housing stock to separate rain water from foul, and investing significantly in highway and surface water drainage to pipe rainfall straight into watercourses while avoiding just moving the risk of flooding elsewhere. All solutions come, therefore, at a very high cost, and with around 2,500 Combined Storm Overflows (CSOs) in Wales this has to be tackled progressively over an extended timescale if the investment is to be affordable, deliverable and financeable. While we will prioritise where we invest to tackle first those carrying the greatest ecological risk to water quality, we are very clear that any pollution of our rivers and coastal waters is unacceptable. If we are the cause it is always a matter of deep regret and raises our determination to learn so as to avoid it happening again.

> WE ARE VERY CLEAR THAT ANY POLLUTION OF OUR RIVERS AND COASTAL WATERS IS UNACCEPTABLE.

We have 91 reservoirs, many of which were built, as were our sewers, 50-100 years ago when design parameters envisaged a different level of stress event. Now reservoirs have to be equipped with spillways that can handle a 1:10,000 year storm requiring significant investment at many of our dams. As an example, the new spillway we are constructing at Llyn Celyn near Bala will cost £29 million.

CHAIR OF THE BOARD'S STATEMENT CONTINUED

Prolonged periods of dry weather require our water distribution network to have greater resilience. This can be achieved by increasing local storage, typically constructing new service reservoirs such as the one just completed at Pengarnddu outside Merthyr Tydfil which has cost £9 million. One can join up what have typically in Wales been source-to-tap water zones so as to provide alternative routes of supply if a particular reservoir runs low or the amount that we can abstract from a watercourse such as the Wye is restricted by the environmental regulator. We have plans to install an east-west connection in south Wales at a cost of £21 million. With dry weather comes ground movement which increases the frequency of mains bursts particularly affecting certain constructs of pipes such as those that predominate in West Wales – to replace these entirely would cost £1 billion.

Alongside prioritising the investments we make to ensure that they remain within what our customers can afford, and that we can physically deliver, we have to resource our business so it can respond to the inevitable asset failures and local emergencies that are the consequence of not being able to invest in everything immediately. That means increasing our ability to respond rapidly on the ground without making unsustainable demands on our people. In turn we must look to innovation to help us to become more efficient, allowing us to put extra resources into teams while reducing the need for activity elsewhere. Making the most of data science is critical here. We capture huge amounts of data from our own operations and have available to us supplementary data from external sources. Using this data to identify where to focus our efforts, both in response to events and in preparation for what may happen, allows our teams to be considerably more productive.

Uncertainty and Volatility

These have dominated personal lives and business since early in 2022 following the economic and geopolitical challenges brought about by Russia's invasion of Ukraine. For the two years before that we all suffered similar uncertainties caused by the Covid pandemic. In our planning and the way in which we manage the business we must, therefore, be prepared to handle uncertainty and volatility as the norm, rather than the exception, whether that is reflected in high inflation creating a cost-of-living crisis, turbulence in financial markets, shortages of supplies of chemicals key to the treatment process, or the uncertainty of what challenges will be created by changing weather patterns.

In times of uncertainty effective two-way communication is vital. We need to understand how the uncertainty impacts our principal stakeholders and they what we are doing to respond, and why this represents the most effective way we can mitigate its impact on them. Two of our six company values are to be Open with Everyone and to be Honest with Everyone. By living these values we aim to realise the third of our values, to be Trusted to Do the Right Thing.

Engagement drives understanding which creates trust that the organisation will always set out to do the right thing albeit, in an uncertain world, circumstances may work against us. Hence over the last year we have, as Peter outlines, sought to engage with our trade unions and our people to reach a mutually fair pay settlement for our business and people against a difficult economic backdrop. We have reached out to the various groups that are seeking to protect the quality of our rivers to explain the impact of our operations and the steps we are taking to reduce this. Similarly, we have engaged closely on these issues with our environmental regulators and with the Welsh Government, and we explained at first hand to the First Minister's Phosphate Summit the actions we as a company are taking as our contribution to tackle failing Special Areas of Conservation rivers and restart housing development in these catchments. Where the unforeseen creates problems for our customers, as during the recent freeze/thaw, we will aim to be visible in the affected communities advising the steps we are taking.

Key to addressing uncertainty is to understand clearly how resilient one is at present. As part of our preparation for the forthcoming price review we have built a new asset planning capability that has a much stronger understanding of our current asset resilience, is able to assess the impact on it of different scenarios, and can evaluate the resulting risk applying a multi-capitals, rather than purely financial, approach. As far as our financial resilience is concerned, we have assessed the impact on our key financial ratios of alternative bill profiles and investment plans and sought to identify the right balance between delivering against the objectives we have agreed with our stakeholders and creating an overall plan that is affordable by our customers and financeable in debt markets. In an uncertain world we have to be confident in our ability to access these markets as there is no equity backstop within our not-for-shareholder constitution. We were, therefore, very pleased to have Fitch Ratings recently affirm the A rating of our Senior Debt with a Stable Outlook.

In the recent "Your Water Your Say" open challenge session on our plans for the next price review, we identified investment we are proposing to make over the next 5 years to enhance our assets at a cost of £3.1 billion. That will be over £1 billion more than the considerable investment we have made during the current 2020-25 price control period and will mean that we will not be able to achieve our aim of keeping increases in bills below the rate of general inflation, something we delivered from 2010 until 2021/22. To deliver our long-term plan for the environment, in particular to avoid any ecological harm being caused to rivers by our assets, will, we project, cost in excess of £5 billion over the next 25 years. This will mean bills rising by around 5% above inflation every year of the next price control period. It is up to society – our customers and the Government – to determine what we should aim to achieve on the basis of society's priorities. The research we have undertaken with our customers tells us that they are prepared to have bills increasing if the money raised is invested in the right things, in particular to protect the environment, but how much they are prepared to spend on this has not yet been fully tested. The debate to date has been about substantially increasing investment, but only latterly are the balancing factors of the impact on bills and over what timescale should the investment be made beginning to emerge. What we do know is that customers also expect us to seek to ensure our bills are affordable for all, supporting those who would have difficulty paying the full amount through schemes such as HelpU, now proportionately the largest social tariff scheme in the sector, and our new Cymuned (Community) scheme to help those in work but who are struggling to make ends meet. Our not-for-shareholder model means this is something we have consistently front of mind in both the Boardroom and our business.

Society's Changing Expectations

This is something to which businesses must respond if they are to remain relevant and trusted. One can view the pandemic as creating a sea change in peoples' priorities and behaviours. This has been given considerable momentum by the force of social media creating a world where communication and reaction is instantaneous. One now looks for flexibility in all three aspects of life – work; family; social – with an expectation that there should be give and take in each to meet the needs of each. Hence, we have moved to hybrid working wherever it is practical but recognising that social cohesion also requires physical contact to create and bond teams. Long periods of home working during the pandemic would appear to have made people much more sensitive to, and appreciative of, the environment, this in turn reinforced by the recognition of the threat to the environment posed by climate change. Given our not-for-shareholder constitution we exist to deliver our customers' expectations, hence we need to take the most effective action we can to protect the environment, in particular to avoid pollution. We strongly support the Welsh Government's emphasis on preventing ecological harm to our water bodies. Our Drainage and Wastewater Management Plan, which we will be publishing later this year, is prioritised on this basis of avoiding harm. Similarly, there is full alignment between the Government's long-term focus as articulated in the Wellbeing of Future Generations Act and our long-term vision as set out in Welsh Water 2050. Without the short-termism that is inevitable in equity markets we can also determine what we do by considering the long-term interests of our customers and society.

We recognise that our customers' expectations are driven by the best service that they experience regardless of sector. If one can track a parcel from the moment it is ordered through to its delivery and know to within an hour or two when that is going to happen, why shouldn't one be able to do the same when requesting a meter? We have now introduced a workflow tracking portal so that customers can track the progress of their meter application, as well as checking the status of the work we are doing for them. People do not want to hang on waiting for a call centre to answer to change personal details, find out the balance on an account, or settle bills – our digital systems need to match our customers' expectations and each year we expand the range of services available online – next to come will be a customer mobile app to make it easier to pay a bill, and an online service for our non-household customers. If one does need to speak to someone about a problem one does not want to be passed from pillar to post having each time to repeat the same story: we now have a complex case team giving customers a named contact who owns their case through to resolution, linking in with the relevant operational teams and giving the customer regular updates.

Customers now expect businesses to make a positive contribution to society and the environment, and to mirror the diversity of the customers they serve. They expect high responsiveness and full transparency. With only our customers' interests to serve we are ideally placed to deliver against these expectations. Later this year we will be making available real time data on the operation of storm overflows as a further development of the real time data we already publish on the operation of overflows close to bathing beaches.

On the theme of diversity, we are actively seeking to increase the proportion of our colleagues who are female or from an ethnic minority. Currently just under 30% of our workforce are women, and just under 4% are from an ethnic minority compared with 5% for the Welsh population as a whole. We have increased to 35% the proportion of our Executive Team who are female and were pleased to see the median gender pay gap fall to 3.6% compared with a UK national average of 14.9%. Our aim is to attract and recruit more female and under-represented groups and we were delighted to welcome both Lila Thompson and Barbara Moorhouse to join our Board last year – 50% of our Board is now made up of women. Our targets are that 35% of those colleagues in our talent pipeline for senior roles are women, and to make a 5% improvement each year in under-represented groups applying for roles.

In his report Peter discusses in detail both what we achieved, and where we struggled, last year. While we have performed well in some areas such as overall customer satisfaction and relative environmental performance, we recognise we have significant ground to recover in others such as customer acceptability, supply interruptions, leakage, and water quality. Our plans for the final 2 years of this price control period, and for the next, focus our management efforts on achieving sustained improvement in these areas, supported by the necessary investment. These were set out in the Performance Plan published in March this year, (https://dwrcymru.com/ourplans) against which we are making good progress. As befits a long-term business we have long-term objectives in respect of the quality of the services we provide our customers and our impact on the environment. We recognise that to deliver these we will need to work in partnership. To deliver improved water quality in our catchments and our rivers we need the support of agriculture and local authorities. To reduce sewer blockages we need households and businesses to take action to change what they put into the system. To reduce leakage we need to work with our customers to identify where we are losing water, in both our network and their premises. To reduce the use of water we need to support and incentivise behavioural change by our customers. To achieve all these things we need, and commit to, a Team Wales approach, earning the trust of our partners to justify their participation. As I said earlier, trust is built by openness and honesty and being seen to care about the contribution we make to the communities of which we are a part.

Thank you

To finish where I started, thank you to everyone in the business, and to our partners, for having supported our customers and their communities through a very challenging year. My personal thanks to our management team and my colleagues on the Board for their commitment and sound advice as we have sought to navigate the best possible path through these challenges.

Alastair Lyons CBE
Chair of the Board

16 June 2023

CHIEF EXECUTIVE OFFICER'S MESSAGE

WE RESPONDED DECISIVELY TO EXTREME WEATHER EVENTS IN THE YEAR TO LIMIT DISRUPTION TO OUR SUPPLY AND WASTEWATER SERVICES.

Peter Perry
Chief Executive Officer

Key Challenges in FY 23

2022 presented us with some very challenging operating conditions linked primarily to the weather. This is indicative of the climate change impact we have begun to experience, though perhaps with a frequency we weren't expecting to see quite as early as it is actually materialising.

The drought of 2022 was a significant event for us and has stretched us like no other similar event in the history of the business. As we approached the beginning of the new financial year all of our reservoirs were full, with many overflowing. However, in April 2022, as the Meteorological Office started to predict a dry spring, we acted swiftly to set up a weekly director-led review of water resource planning. Having experienced the impact of 'staycations' on water demand in the preceding two years, especially in the coastal tourist areas, we also began to implement targeted 'use water wisely' messaging to customers in these areas during April. We sustained this throughout the summer and into the autumn.

The Bank Holidays from Easter through to Whitsun saw very little rain being forecast, and we could see the prospect of a long dry summer ahead of us. This came to pass, with what turned out to be the hottest and driest period of weather seen across Wales in over 50 years. Guided by our water resource and drought plans, we implemented actions from spring onwards to mitigate the impact on customers and the environment.

In previous drought years, such as 2018, 2003 and 1995, peak summer demand lasted a few days or perhaps a week at most. In 2022 we saw sustained peak demand over several weeks during the summer. On 18 July, the highest temperature ever recorded in Wales at 37.1°C occurred in Hawarden, Flintshire. In this period we increased by an average of 20% the water put into supply across our operating area. In some locations, especially those in tourist areas, the increase was in excess of 30%.

With our increased level of supply and mitigation oversight in place, in late August we identified the potential for supply problems emerging in our Llys y Fran supply system serving much of Pembrokeshire (60,000 properties). In accordance with our Drought Plan, we activated a Temporary Use Ban – more commonly known as a hosepipe ban – in this area on 19 August. A combination of low rainfall, high temperatures and increased demand, in part worsened by staycation tourism, led us to act. This was the first time for over 30 years that any form of water restriction had been deployed in Wales. We introduced the restriction to preserve water for public supply and also to environmentally protect the Cleddau, a Special Area of Conservation river in the south of Pembrokeshire.

I take this opportunity to acknowledge the great support we received from the Welsh Government and Natural Resources Wales, our environmental regulator, in working with us to sustain the Llys-y-Fran system. During and immediately after lifting the restrictions we undertook independent research in the affected area to gauge customer reaction. The majority supported our approach to implementing the restrictions and it was humbling to learn how much understanding there is of climate change risk and a willingness to cooperate with us in these circumstances.

Over the last 2 years I have noticed how staycation holidays have stretched our services in a number of tourism areas and this again took place during the summer and autumn of 2022. In fact, due to the drought and high temperatures, the period of staycation lasted much longer into the autumn than we have seen before. It was encouraging to see that the investment we made over the winter of 2021-22, to strengthen our resilience in Pembrokeshire, mitigated problems of distributing water through our network serving the St Davids area. Without this investment the drought impact in this area would have been much more challenging. More widely, through the summer and early autumn period we had our entire water tanker fleet (40 vehicles) deployed for much of the period. In May we took the decision to add a further 10 hired vehicles to the fleet, and this served us well in increasing the level of tanker support we had available in rural and tourism areas over that period to deal with peak demand. In west Wales in particular, the hot and dry conditions caused significant soil moisture deficit, resulting in a 30% increase in burst mains due to ground movement. We plan to mitigate similar future risk in the area through our PR24 investment plans.

While the focus during a drought tends to be on our drinking water activities, we should not overlook the impact that sustained dry conditions have on our wastewater business. Low water levels in our wastewater network increase the incidence of blockages and mean that sewage is less diluted and, therefore, is more difficult to treat when it arrives at our treatment works. It also means we see increased production of wastewater sludge, which places additional risk on maintaining compliance at our sewage works. In 2021 we invested in additional sludge treatment capability in west Wales, and this proved invaluable in 2022, especially under increased loading due to the staycation impact.

The hot weather saw a sustained period of very low river levels across our operating area and this increased the potential for any incidents at our treatment works or in our sewer network to have a greater impact. Through the great effort of our people this was minimised by increasing the levels of operational monitoring and maintenance.

The drought had its most significant impact for us in the west, although as we moved through summer into early autumn, rainfall there eased the situation, and we lifted the restrictions in Pembrokeshire at the end of October. However, through this period there was little rainfall in south-east Wales and we worked hard and acted decisively to move water around this largely urban area to sustain supplies and protect the environment, and to limit disruption to our customers. This continued into November until the onset of normal levels of rainfall saw the risk diminish. The very low reservoir levels reached at this time also made the remaining raw water incredibly difficult to treat, so over the summer we bought every portable carbon dosing rig available in Europe at that time to deal with this unprecedented challenge. Never before have we seen the impact of drought last so long and I cannot over-emphasise the gratitude I have for our operational teams who worked around the clock to deliver our services in these unprecedented circumstances.

With the drought recovery still very much fresh in our minds, we faced a further significant weather challenge in December. For much of the month we experienced sub-zero temperatures across our operating area. We knew that a thaw would mean significant potential impact on our water infrastructure. With this in mind, and with a Meteorological Office forecast that the thaw would occur on 17-18 December, we deployed our Gold level command structure on 12 December along with establishing our company-wide regional Silver centres at the same time. In the event, the thaw arrived slightly earlier than predicted, on 16 December, and in the west a temperature swing of 6.7°C saw the fastest rise in winter temperature in a single day since the record-breaking winter of 1947.

The western county of Ceredigion, along with parts of Powys in mid Wales and rural Herefordshire, saw the lowest mean temperatures recorded by the Meteorological Office across the UK for December 2022. Only the Scottish Highlands were colder. When the thaw arrived in these parts of Wales and England, starting on 16 December, the ensuing level of bursts in our network and in customer premises saw probably the fastest depletion of water in our distribution system that we have ever experienced.

While we maintained supply to over 99% of our customers across our whole operating area, these rural communities saw c.15,000 properties lose supply for a sustained period: in the worst cases, for up to four days. We implemented our full incident response, including deployment once again of our entire fleet of water tankers, mobilisation of over 500 people to find and fix leaks, and provision of over 1 million litres of bottled water. Due to the length of time for which some customers lost supply we made the decision to ensure they were speedily compensated and I am pleased to report all those affected received £70 per day when supply was lost. We made c.15,000 automated payments to these customers by the end of February 2023.

This was a significant operational incident and we acknowledge the impact on our customers, particularly those who were most affected. We have learnt lessons to help us improve our future response in similar circumstances. This includes keeping customers better informed during incidents, and deployment of alternative water supplies in large rural areas. I would like also to recognise here the effort of my operational colleagues again for their commitment during this period. Many of them had worked tirelessly in response to the drought only to be called on again to deal with further challenging operational conditions soon afterwards. The response this time spanned the Christmas holiday period, with many staff foregoing time with their families to help with this emergency; and for this I am hugely grateful.

FY 23 has also been a challenging year for our customers due to the cost-of-living crisis. We have put considerable effort into promoting how those who are struggling to pay can access help and support from us. We are working with over 300 organisations across our operating area to reach people and communities worst hit by the current tough economic circumstances. Proportionately, we have the largest social tariff schemes (HelpU and WaterSure Wales) of any water company, helping around 129,000 customers with discounts of up to £209 off their bills. We have made provision in the year to add a further 50,000 new participants to the schemes. In January 2023 we also launched the first scheme of its kind in the sector to help people who are not on means-tested benefit but who have negative budgets, more commonly known, sadly, as the working poor. We have launched this as the Cymuned (Community) scheme in two areas – Denbighshire and Rhondda Cynon Taff, and will be rolling it out more widely across our operating area.

As Alastair has mentioned in his statement, after a difficult year for the business and customers, Mike Davis, CFO, and I thought it appropriate not to take our variable pay for FY 23.

While not on the scale of the two major weather events we faced in the last year, I want to mention a very different type of risk we faced in July 2022, when we experienced a distributed denial of service (DDoS) cyberattack on our website. The attack originated from Russia and, thankfully and due to our preparedness, did not penetrate our perimeter defences. We took our website down overnight to ensure it remained secure and to restore it with the optimal protection in place. In line with relevant protocols, the incident was communicated to the National Cyber Security Service and details were also shared with other water companies. We have not seen any subsequent attacks of similar scale or ferocity, but this was a timely reminder to us, as an operator of national critical infrastructure, of the ongoing risk and threat level at a time of world crisis. We have invested heavily in recent years to bolster our capability and defences in this critical area and will continue to do so.

CHIEF EXECUTIVE OFFICER'S MESSAGE CONTINUED

I was very pleased that we were one of the few commercial organisations to be invited to participate in the NATO Marvel cyber exercise in early 2023, where we achieved a third place ranking for our defence capability, out of more than 30 organisations involved.

River and Coastal Water Quality

The momentum behind public interest in river and coastal water quality has grown further and faster over the last year. Since the Covid-19 pandemic, interest in rivers has become a national topic and in 2022 this has culminated in more political and environmental attention. We are acutely aware of this and are committed to being open and transparent about our impact and the role we play to improve water quality across our operating area.

Circumstances in the rest of the UK are different to those in Wales, where the Welsh Government recognises that nutrient pollution, and in particular phosphate, is the greatest threat to river quality. That is why in July 2022 we were pleased to support the First Minister at his 'Phosphate Summit' which brought together government, regulators, water companies and representatives from the agricultural sector to develop a joint action plan to reduce phosphate in Welsh rivers, particularly targeting the 5 failing Special Area of Conservation (SAC) rivers across the country: the Cleddau, Dee, Teifi, Usk and Wye. We are investing around £100 million in AMP7 to reduce phosphate on these rivers and are planning to bring forward a further £60 million to accelerate investment on them by FY 26. More broadly, we fully support the Welsh Government's policy of prioritising investment to reduce environmental harm as a meaningful way to target the fastest improvement and ensure best value for our customers.

Over 40% of Welsh rivers have 'good' ecological status (as measured under the EU Water Framework Directive) compared with 14% in England. In Wales, 60% of our sewerage network is combined (among the highest levels in the UK) and we have some of the heaviest rainfall. This results in relatively high numbers of CSO spill events. In the vast majority of instances, the environmental impact is not as acute as that from nutrient pollution. Our focus on reducing nutrient pollution will provide the greatest opportunity for further improvement. For example, our detailed modelling of the rivers Usk and Wye shows that only 1% and 2% respectively of pollution impacts on these rivers is due to overflows. Nevertheless, we share the public concern over river quality, and are absolutely committed to reducing the impact of storm overflows on rivers and coastal waters. We are spending around £100 million in the current regulatory period to do this, tackling spill numbers from CSOs as well as nutrients effects.

The improvement of overflow performance, alongside other actions to improve river quality, has to be a long-term programme due to the scale and configuration of our sewerage system. The costs will be substantial and we will need to consider carefully the affordability of this long-term plan and the impact on future customer bills.

With this as a clear focus to improve river quality we are also pleased to be supporting the wider action plan from the Phosphate Summit and are working with regulators and the Welsh Government to progress these. As part of this programme, we are keen to support the Nutrient Management Boards (NMB) set up to cover the SAC rivers. We have supported the longest-established NMB in Herefordshire, focused on the river Wye. In addition to our substantial investment programme to improve this river, we are helping establish innovative sustainable solutions to tackle phosphate, such as wetlands, in the north of the county, working jointly with Herefordshire Council and the agricultural sector. We expect this work to provide a useful blueprint for us to establish across Wales.

The level of interest in our activities linked to water quality has seen us continue to undertake considerable stakeholder engagement over the last year. This has involved meeting politicians, river users and community groups across our operating area. It has also involved attendance at some challenging public meetings where we are doing all we can to show that we are taking extensive action to improve the water quality environment. I do not underestimate that public sentiment will remain potentially hostile towards the sector. However, we will embrace all the opportunities we get and seek to transparently explain how we recognise there is more to do and that we are committed to achieving that.

To help with this, we have appointed 3 dedicated River Liaison Managers whose sole remit is to work closely with river users and communities to understand their concerns, and to inform them of our impact and our proposed improvements. Their role is long-term, and is aimed at building open and transparent relationships so we can demonstrate our commitment to making improvements. This year, as an example of this, our River Liaison Managers have engaged all the river and coastal bathing groups in Wales known to us to identify where they swim and to understand where new bathing locations can be identified and potentially supported. During last summer, largely driven by CSO spills during storms on the south coast of England, we saw an increase in public interest in a very low number of short-duration events at 6 of our coastal outfalls at bathing beaches. Each instance saw our respective assets operate to a standard comparable to the latest EU requirements. I flag this to illustrate how sensitive society is becoming to any form of overflow and in this instance to show this is the case even when we match a recognised leading standard.

Ensuring we maintain the maximum transparency of our environmental activities is important and we continue to have one of the the highest levels of monitors on our overflows with over 99.5% coverage. We were among the first companies to make this information publicly available and in 2022 we made mapping information of our overflows available in the same way. In 2025 we intend to provide a public real-time data service showing overflow operation. In the meantime, we continue to provide real-time alerts for bathing beaches via the Surfers Against Sewage App service and have in place similar alerts with a number of bathing groups across Wales.

We have an investment programme of £840 million for wastewater infrastructure in AMP7. Ensuring that we engage and communicate how this is benefiting our customers and their environment is essential in demonstrating we are doing all we can to achieve continuous environmental improvement.

In May 2023, Water UK coordinated a sector-wide 're-set' in England which included an apology for the environmental performance of the sector and a commitment to accelerate investment in CSOs. Although we were not directly involved, because we are not affiliated to Water UK, we did use it as an opportunity to apologise and to reiterate our commitment to safeguarding the environment, and to share the plans outlined in Our Manifesto for Rivers in Wales (https://dwrcymru.com/rivermanifesto).

Our Performance

I have already outlined how challenging a year this has been for us and this has resulted in some impact on our overall performance. However, I am pleased that we achieved 4th place for water and sewerage companies in the Ofwat overall customer satisfaction ranking, C-MeX, this year, bearing in mind we experienced extreme weather events in the year which were particular to Wales. Similarly, we were encouraged to achieve the highest level of business customer satisfaction in the Consumer Council for Water assessment 'Testing the Waters'. The survey was conducted in 2022 and reported in 2023.

We have been encouraged by improvement in our water quality performance after a dip in 2021. Our bacteriological performance that year saw minor coliform failures at 6 treatment works and 14 service reservoirs. In 2022 this improved to 3 treatment works and 3 service reservoirs. This turnaround moves us back to the industry upper quartile for bacteriological performance, which we achieved for many years prior to 2021. However, while our overall Drinking Water Inspectorate (DWI) measure on the Compliance Risk Index has improved to 5.4 in 2022 compared to 9.77 in 2021, our water network quality, covering iron compliance and instances of discolouration, remains a challenge for us. This is influenced by the predominance of soft upland waters in our operating area and a high proportion of cast iron water mains in our network. We are investing over £150 million to improve network quality in AMP7 and this will be repeated in our PR24 plans.

While we have seen improvement in drinking water quality, our supply interruption performance has deteriorated. This is a challenging measure for us due to our topography, which results in a large number of discrete supply zones, (making it more difficult to move water between areas when there is, for example, a trunk main burst) and in the need for high operating pressures in our water network. FY 23 was also impacted by the freeze/thaw incident highlighted earlier in my statement. We have reported 44 customer minutes lost, largely as a result of the impact of the drought and freeze/thaw events in 2022.

Restatement of Regulatory Reporting for Prior Years

In last year's Annual Report and Accounts we disclosed that we were reviewing our reported performance data for leakage and per capita consumption. This review was necessary because our independent annual assurance processes identified potential issues with the application of the methodology used for calculating these measures in FY 21 and FY 22. The review concluded that these key measures have been inaccurately reported in those two financial years, with actual leakage being higher than reported during this period, and actual per capita consumption being lower than previously reported. The originally reported and restated data can be found on page 56.

This mistake should not have happened, and we apologise unreservedly. While our robust assurance process identified the issue, there were failures in our governance and management processes that should have identified the issue sooner. We have made changes to how we manage our leakage reduction activities and strengthened our reporting and governance processes; and we are investing an additional £54 million to identify and reduce leakage as quickly as possible. Every Welsh Water customer will receive £10 automatically credited to their account due to this error, as compensation for our misreporting and its effects.

On 25 May 2023 Ofwat announced it is launching an investigation into our reporting of leakage and per capita consumption. We have shared with Ofwat the findings of our internal investigations, the remedial actions we have taken and our customer redress proposals. The timing of the investigation is uncertain, but we will of course cooperate fully.

Our environmental performance has remained positive despite the challenging conditions linked to the summer drought commented on above. We expect to achieve a 2-star rating in the annual Environmental Performance Assessment, which is lower than our performance in 2022.

Despite the challenging summer, it was good to see our annual measures for wastewater treatment works compliance improve slightly to 98.49% from 98.32% in 2022 Our overall number of pollution incidents remained broadly the same as 2021, which is the 2nd lowest level of incidents for any company in England and Wales last year. Our environmental performance should be viewed in the context of the very difficult operating conditions touched on earlier, with higher-strength influent treated at our works, more blockages in our sewerage system due to low flows in them, and lower river levels meaning any incident had the potential to cause more harm than in normal conditions.

Our internal sewer flooding performance, (the worst service failure that our customers can experience), also improved, with 169 incidents compared to 201 in 2022. The unusually dry conditions over much of the year influenced this but it has been encouraging to see the development of our smart sewer network plan helping us target improved maintenance and to predict potential problems before they impact customers or cause pollution.

Retail performance in FY 23

In my report to you last year, I touched on the financial uncertainty that many of our customers were facing, and the situation has not improved in the 12 months since then. Despite these difficulties, we have not yet seen any deterioration in the overall ability of customers to pay their bills, and levels of arrears are very similar to last year. Our social tariff and financial assistance schemes are now supporting 129,000 households, a small increase over last year.

We recognise that the current cost-of-living crisis is very different to previous financial shocks. With unemployment levels at record lows, fewer customers are seeing their incomes reduced, but instead face rising household bills resulting in negative budgets. These customers are generally not served by typical financial assistance schemes and a different approach is needed. In response to this, we introduced in December 2022 an innovative scheme in Rhondda Cynon Taff and Denbighshire with the aim of helping working households with negative budgets. This scheme, named Cymuned, will be available more widely across our supply area later in 2023.

CHIEF EXECUTIVE OFFICER'S MESSAGE CONTINUED

Our ability to introduce this innovative support so quickly is testament to the strength of our network of partner organisations, now some 300 strong. This year we launched a new way of working with these partners via our mobile Community Hub, where the Welsh Water team, accompanied by organisations such as Warm Wales, local authorities, Job Centre Plus, visit locations across the country to speak to people about household bills, debt advice and accessibility of services. This has allowed us to speak to 4,000 people who otherwise might not contact us directly. It was really pleasing to get external recognition in February 2023 of the good work that we are doing to support customers in vulnerable circumstances, with our accreditation under BS 18477, 'Inclusive Service Provision'.

Moving onto our overall levels of customer service, despite the efforts of teams across the business, the loss of supply and low network pressure resulting from the severe drought in the summer, followed by the freeze/thaw event over the Christmas period, has impacted on satisfaction with our water service, highlighted by the 78% increase in complaints in this area.

Against our industry measure of household customer satisfaction, C-MeX, we have seen our performance maintained around the industry average, reflecting the improvement plans that we put in place over the last year. A key area of focus for us for the year ahead is to improve our online digital customer experience.

Capital programmes improve services and resilience for now and the future

The capital programme in Year 3 of AMP7 has invested around £400 million as we deliver against our regulatory and stakeholder commitments and maintain our asset base. We completed some significant schemes in the last financial year, including bringing online a newly constructed service reservoir at Pengarnddu; providing an additional 10ML/d of storage to improve the resilience of water supply to our customers in Merthyr Tydfil and the Aberdare Valley. We continue to invest to bring our impounding reservoirs up to the highest industry standards. We have completed works at Upper Carno in the year, with a new spillway and draw-off arrangements, and work at Nant Moel and Llandegfedd reservoir. We held an event for the formal opening of our new raw water pumping station at Prioress Mill, giving local customers and stakeholders the opportunity to see the improvements we are making in our asset base.

In our wastewater estate we are well underway with our programme of environmental improvements. In the year, we have completed a nutrient removal scheme at Weobley WWTW to reduce the level of phosphate entering the river Wye. We have commissioned a new CSO and storm screen on the river Usk to improve river water quality. We have completed a programme of safety works at our Cog Moors and Five Fords advanced sludge digester sites to improve gas safety. We have improved our resilience to the potential for sludge spills to the environment by completing schemes to bring our larger sludge centres into compliance with the Industrial Emissions Directive (IED) with schemes at Cardiff, Queensferry and Afan; and we have improved the performance of our wastewater treatment works through maintenance schemes to replace the inlets and screens at Ganol and Dolgellau.

We are making good progress on enhancing our visitor attractions with the new visitor centre sited on Llanishen and Lisvane Reservoirs, which is scheduled to open in the summer of 2023. We continue to make good progress on our net zero carbon strategy, specifically with renewable energy schemes, completing new solar installations at Chester and Llanelli and installing energy-efficient blowers at Cog Moors and Cardiff WWTW.

We take opportunities to improve performance seriously and over the past 12 months we have made good progress delivering the agenda set out in our refreshed Innovation Strategy. We have worked with over 100 academic and other institutions, technology specialists, and global innovation concerns to drive the innovation agenda forward. In 2022, we progressed 46 technology-related projects from a total of 179 proposals which were submitted to our web-based innovation portal. We have also been awarded funding for ,or are part of, innovation projects worth £35.7 million, via the Ofwat £200 million innovation fund. Our research programme, which includes our biodiversity projects and others targeted at informing regulatory and policy change, has so far in this AMP committed £3.3 million which is leveraged to £32 million by third-party investments, mostly from the EU LIFE fund, UK Research and Innovation (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 targets and Welsh Water 2050 strategy to ensure that our investment remains appropriately focused.

In our retail services work for customers, we have continued to grow our digital services in line with our Digital Strategy. Automation on our main billing forms continues to grow with around 302,000 webforms submitted last year: 73% of these were automated directly into our back end systems which is an 11% increase over last year's automation. We went live with our new upgraded 'moves' webform and a 'My Account' service for the main billing forms, which allows customers to log in to My Account and not need to re-enter further identification details when transacting with us, giving a more personalised and improved service with increased automation. We currently have 34% of our customers signed up to My Account. This year we have also rolled out our 'agent portal' service which allows agents to sign customers up to My Account while they are on calls with them. We are also very active in supporting Spring Innovation Ltd, the centre of excellence for innovation in the water sector which was formed in 2022. We hope to see the new company flourish and enable us to more efficiently undertake trials of treatment processes as well as share knowledge more effectively across the whole sector.

People

In FY 23 we achieved our best ever safety performance with a total of 5 reportable injuries and 18 less serious lost-time incidents. This continues a trend of progressive reduction over the last decade. Significant effort goes into achieving this high standard of safety performance and I am very grateful to our managers, our safety professionals and indeed all of our workforce for their dedication and contribution to these results. Our 'Safety Takes Every Person' (STEP) training programme is well established and continues to be used to engage our people in contemporary health, safety and wellbeing best practices. STEP also supports our safety culture and long-standing elements of our improvement plans, such as our quarterly executive-led 'Safety Days', the 'Take 5' personal risk assessment process and our monthly 'Safety Conversation' engagement plan; all of which are helping us further embed a safety-first mindset in our people and our contract partners.

Alongside our direct safety plan, we expend a lot of effort on occupational health and wellbeing. We have retained our RoSPA Gold Award and the Welsh Government Platinum Award for occupational health. Through the Covid-19 pandemic period we recognised the whole-life impact it had on our people and we have sustained our focus on mental wellbeing, with provision of free services such as our Employee Assistance Programme which is available to all colleagues. We have also recognised the impact of the cost-of-living crisis and have sought to implement support that especially helps those colleagues who may have some personal difficulties at this time.

In addition to enhancing our support services for colleagues during a period of economic difficulty, we acted earlier than usual to implement our pay deal for 2023. With the full support of our trade unions, in December 2022 a one-off cost-of-living payment of either £1,000 or £2,000 was made to all eligible colleagues (with the lower paid receiving the higher amount), and we committed to a 6.2% annual pay award effective from April 2023. At a time of wider industrial unrest it was rewarding to see us being able to agree a mutually fair settlement for the business and our people.

After a difficult year dealing with the drought and winter freeze/thaw, it was good to see the positive results of our most recent Employee Engagement Survey. We achieved an overall satisfaction score of 75% (up from 69% in 2021), with some other very positive highlights, including:

- 87% of our people are proud to work for Welsh Water.
- 80% would recommend working for the business.
- 98% understand their role in creating a safe work environment.
- 95% agree there is a strong emphasis on customer service at Welsh Water.

Looking Ahead

Although it has been a challenging year, we have continued to make good progress in developing our long-term plans, including a review in 2022 of our Welsh Water 2050 strategy. We wanted to ensure the key priorities are as relevant now as in 2018 when we originally identified them within our long-term view of the future. It will probably come as no surprise that key risks, such as climate change, have come more to the fore. This review is more broadly helping us settle on the pertinent elements of our draft PR24 plan covering the 2025 – 2030 regulatory period, where issues such as resilience to deal with future challenges are immensely important.

The Welsh Government has set up a dedicated forum for the current price review to ensure the right priorities are captured in the PR24 process (PR24 Forum). We have fully embraced this new structured approach and have welcomed the opportunity it has provided for early and regular dialogue with government and regulators. This engagement is set against a difficult backdrop on many fronts, such as the cost-of-living crisis, the demand for increased environmental investment and the risks that lie ahead of us, with climate change front of mind.

Within the business, our PR24 plan is progressing well. Our newly-formed Asset Planning team is now firmly established and is bringing increased rigour to our investment plan and our approach to delivery of our long-term goals. Along with guidance from our Executive Team, in our 3 main business areas – drinking water, waste water and retail activities – there is considerable constructive engagement within the organisation to develop a strong PR24 plan. We have also had regular interaction and input from our Board as we develop our plans.

We are constructing our PR24 plan with the three key pillars of Financeability, Affordability and Deliverability. These primary elements of the plan are being challenged and adapted to converge on a plan we will, as usual, share with stakeholders at an appropriate time. Using this as the foundation of the plan, we have in place all the fundamentals to submit a credible draft plan to Ofwat in October 2023. We are attempting to balance the external factors, linked to the cost-of-living crisis and the stakeholder driver for increased environmental investment, with the internal considerations of being able to finance and deliver the plan.

The lead-up to the submission of the draft PR24 plan in the autumn will undoubtedly require a continuation, arguably with more intensity, of the dialogue we have in place with the Welsh Government and our regulators. We are prepared for this and the most challenging area is likely to be the final scope of the National Environmental Plan (NEP), the capital investment requirement linked to our wastewater infrastructure. However, we are confident we will gain the support of the Welsh Government and other stakeholders to agree on a NEP we can all support.

The continued high media profile of sewage discharges will mean no let-up in the stakeholder and customer engagement we undertake on this matter across our operating area. We have developed our messaging over the last two years and have been grateful for the support of the Welsh Government. This underpins our strategy of focusing our investment on reducing phosphate pollution linked to our wastewater infrastructure as our critical path to improve river quality in Wales. This approach does not place the same level of focus as there is in England on overflows. We must be able to communicate this difference and especially the benefit to Wales of maintaining this approach; while at the same time being committed to reducing the impact of CSOs affordably and over an acceptable timescale. Maintaining a fully transparent and open approach on how we seek to improve the environment, how we report our environmental impact and how we act when things go wrong will all be essential elements of our plan for engagement with our customers and stakeholders.

Similarly, with an eye on the year ahead, I am pleased, for obvious reasons, to report that our water resources have recovered to normal levels over the recent winter and we are in a good position to face the summer ahead of us.

Peter Perry
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S REVIEW

"IN THESE ECONOMICALLY CHALLENGING TIMES OUR LIQUIDITY AND CREDITWORTHINESS REMAIN STRONG. WE ARE FULLY FUNDED TO THE END OF THE CURRENT AMP, ENABLING US TO INVEST FOR THE LONG TERM AND SUPPORT OUR VULNERABLE CUSTOMERS."

Mike Davis
Chief Financial Officer

Maintaining our investment-grade credit ratings and promoting our green agenda leave us well placed to raise funds at an appropriate time to support our future investment plans.

During the first two years of AMP7, the pandemic presented many challenges and, while the immediate impacts of Covid-19 have diminished, FY 23 has brought new challenges in the form of tough economic conditions. We have not been immune to rapidly rising inflation, driven largely by the war in Ukraine, and have seen significant increases in costs for energy, chemicals and materials, as well as higher interest charges.

We recognise that these are difficult times for our customers and we have continued to expand our range of support for those who are struggling to pay their bills. In FY 23 we contributed £12 million to provide tariff support to our customers.

Our balance sheet remains strong, with gearing at 58% and liquidity of £579 million. We are fully financed to the end of AMP7. Our financial forecast stress testing indicates that, while we are exposed to inflation and rising interest rates, we are well placed to withstand material cost shocks that could occur in the coming years. See going concern note on page 215 and our long-term viability assessment on page 100.

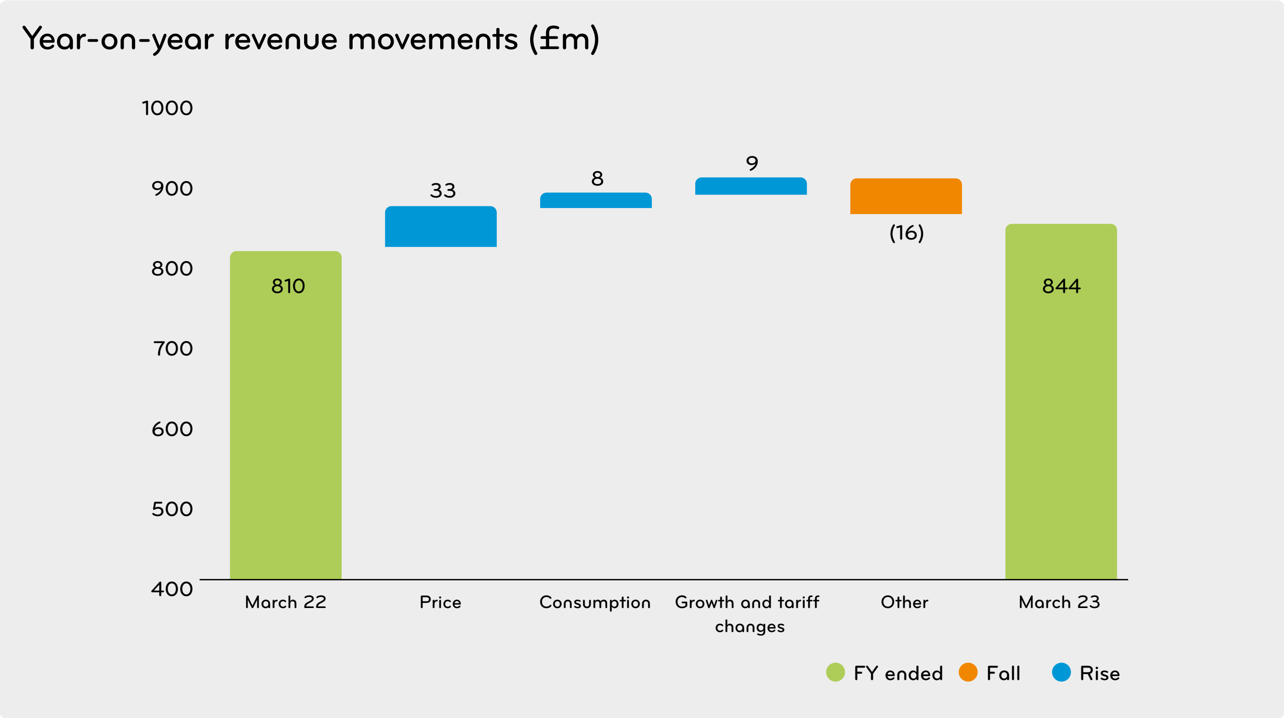
We have successfully retained our credit ratings at A3, A- and A from credit-rating agencies Moody's, S&P and Fitch respectively. These continue to be among the best in the UK utility sector.

Financial KPIs (see Glossary for definitions)

In £ millions unless otherwise indicated	FY 23	FY 22
Net debt (CTA basis)*	4,162	3,722
Regulatory capital value	7,161	6,460
Gearing	58%	58%
Adjusted interest cover ratio (AICR)	0.3x	1.0x
FFO/net debt	(3.7%)	3.4%

*Common terms agreement (CTA)

We monitor our financial performance using measures which focus on the covenants included in our whole-business securitisation documentation and on the measures required to preserve our credit ratings. Gearing remains low and one of the market leaders at 58%, well within covenant and credit rating thresholds. The pressure on our adjusted ICR is principally caused by sustained high inflation throughout the year; and, while we recognise pressures will persist throughout the remainder of AMP7, recovery is anticipated by AMP8. Both Moody's and S&P have confirmed our ratings during the year, with S&P placing us on a negative outlook citing high inflation weighing on the credit metrics of UK water and wastewater service providers, together with a large capital expenditure programme. Nevertheless, S&P expects our financial metrics will gradually recover by the end of the current AMP7 regulatory period.



Revenue

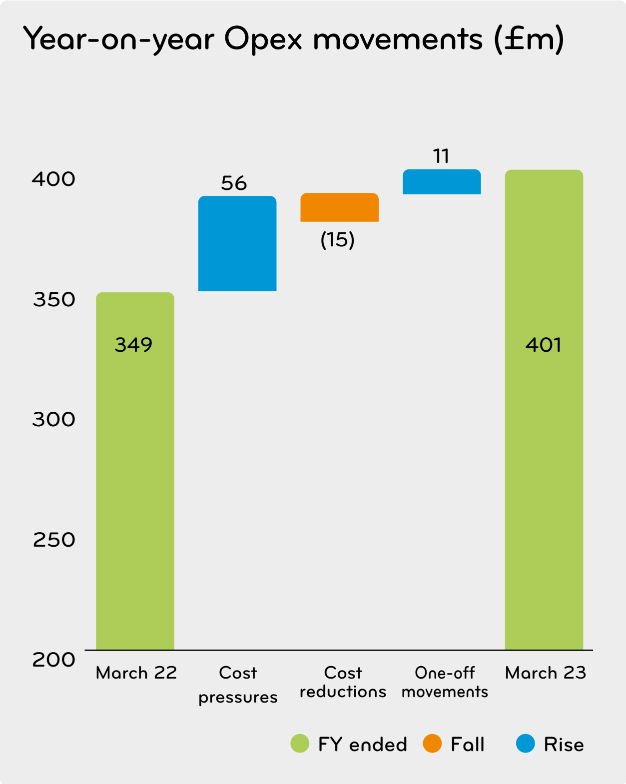
Our revenue mainly comes from the water and wastewater services we provide to customers. Our prices are set every five years by Ofwat's price review process and this, to a large extent, determines how much we can invest in our services and infrastructure.

Revenue in FY 23 was 4% higher than in FY 22, mainly due to price rises, which were in line with Ofwat's allowance but notably well below headline inflation in the period, partly offset by a £15 million reduction in respect of our restatements for leakage and Per Capita Consumption (PCC) data.

We are acutely aware of the pressures the current cost-of-living crisis is having on our customers. We continue to expand our range of customer assistance tariffs, with 129,000 customers now getting help to pay their bills..

Operating Expenditure (Opex)

99% of our cost base relates to regulated activity and is therefore funded as set out in Ofwat's price determination. In this way, inflationary increases are also funded, although there is a timing difference as costs are reflected in customer bills the year after the higher costs are incurred.



CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Energy

Our high levels of energy consumption have exposed us to the recent volatility in wholesale energy prices, although this has been partly mitigated by our power hedging policy and our self-generation capability. A combination of forward purchases, derivatives and exporting to grid of our self-generated electricity typically sees us around 90% hedged on electricity costs at the start of each financial year. Our electricity bill for FY 23 was £69 million but it would have been up to £155 million without hedging and our own renewable generation.

In early 2020, we forward purchased around 60% of our gas requirement for the five years to March 2025. The remainder is hedged by the export of biomethane from our gas-to-grid plant.

We continue to invest to increase our capacity to generate our own energy. In FY 23 we produced 22% of our total consumption requirement, and we aim to increase this to 35% by 2025. While we have mitigated much of the energy cost pressure to date, we have paused power hedging activity while underlying prices, and the costs of hedging, are high. We are currently reviewing our purchasing strategy for the next price review period to 2030.

Bad debt

Bad debt charges result from customers not paying their bills, because they are either unwilling or unable to do so. We offer a broad range of assistance to customers struggling to pay their bills, but it is inevitable that some of the bills we raise will not be paid.

In FY 23, bad debt charges rose by 4% year-on-year to £25 million. The main driver was a price increase (see 'Revenues' above). Our bad debt provision includes an estimate of the future effects of the cost-of-living crisis on the collection of debt outstanding at the year-end, equivalent to a further 1% fall in collections.

To help us focus on the challenges the current economic environment poses to our customers, we monitor closely a set of measures, including:

- The proportion of customers paying by direct debit.
- The number of customers we actively monitor on our debt management system.
- The percentage of customers on track with payment terms.
- The volume and value of receipts in advance.

These indicators have remained strong throughout the past year and we do not anticipate any significant deterioration in the short term. Our bad debt as a proportion of our revenue remained stable at c.3%.

Climate change

Climate change is having a significant effect on our business. In recent years, we have experienced extreme weather events which have had a material detrimental effect on our operations and required significant remedial expenditure. During the summer of 2022, the warmest since 1976, our operating area experienced a prolonged period of hot, dry weather. It meant we had to impose a temporary hosepipe ban in parts of Pembrokeshire and a small area of Carmarthenshire. We had to spend more on tankering and redoubled our efforts to minimise leakage at a total cost of £42 million this year. During winter, we also experienced a freeze/thaw event which led to additional maintenance costs and compensation of £3 million to customers for supply interruptions. See also our climate-related reporting on pages 74 to 89.

Leakage and per capita consumption restatement

We have restated performance data for leakage and per capita consumption which was reported to Ofwat for the financial years FY 21 and FY 22. On 25 May 2023, Ofwat announced an investigation into our reporting of leakage and per capita consumption. We have informed Ofwat that we intend to action a customer redress package of £29 million, representing approximately 3.7% of Welsh Water's regulatory revenue of £793 million in FY 22.

The redress package consists of two elements:

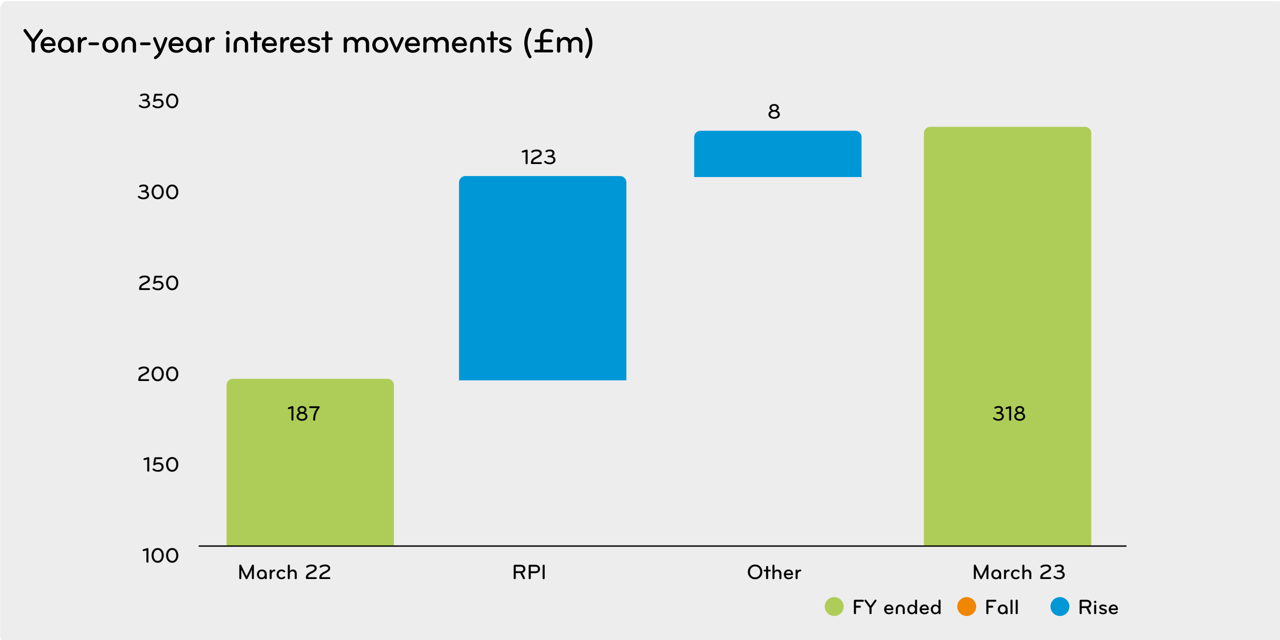
- Customer rebates of £15 million to be credited to customers' accounts as soon as possible in FY 24. With 1.4 million customers, the rebate will amount to just over £10 per customer.
- We have proposed that at PR24 we will voluntarily forego recovery of that element of regulatory overspend during FY 21 and FY 22 that is attributable to leakage expenditure. This amounts to £14 million.

Under normal circumstances, overspends during the AMP are partially recovered from customers at the next Price Control through an adjustment to the Regulated Capital Value (RCV). This would ordinarily allow 43% – amounting to £14 million – of this overspend to be recovered. The decision has been taken to forego these recoverable costs and the regulatory capital value will not be uplifted at the next Price Control.

In our FY 23 financial statements, we have provided for the £15 million to be refunded to customers in FY 23. The forgone overspend recovery of £14 million will manifest itself in a lower Regulatory Capital Value (RCV) at 1 April 2025 than would otherwise be the case. As it is not appropriate to set a provision in the financial statements for future changes to RCV, this element of the customer redress package is disclosed only in the notes to the financial statements.

We believe we are proposing an appropriate package of customer redress for our regulatory misreporting in FY 21 and FY 22, and its effects. However, the final decision rests with Ofwat and will not be known until their investigation is completed, the timing of which is uncertain.

Furthermore, we now expect to spend an additional £54 million in the remaining two years of the AMP (2024-2025) to reduce leakage as quickly as possible.



Underlying profit/(loss)

We define underlying profit/(loss) as profit/(loss) before taxation less fair value movements on derivative financial instruments, thus excluding the non-cash impact of market movements, which better reflects the elements within our control. Our underlying loss increased to £311 million compared to prior year (£102 million) principally caused by a year-on-year increase of 70% in finance costs to £318 million (FY 22: £187 million) due to higher indexation charges on our index-linked debt, the recognition of an exceptional charge of £31 million representing the award of pension increases in line with RPI and an increase in depreciation and amortisation, which rose by 5% to £347 million (FY 22:£329 million), as a result of revaluing the asset base to the regulatory capital value (see financial statement notes 7 and 8).

We use a range of financial instruments to help finance our operations. These include fixed-rate and index-linked bonds as well as fixed, variable and index-linked loans and finance leases. All of our index-linked debt is linked to Retail Price Index (RPI) inflation, which rose significantly during FY 23 from 9% in March 2022 to 14% by March 2023. Inflationary increases have added £123 million to our financing costs this year, of which we paid out £17 million in cash and £94 million has been accrued on the balance sheet and will be paid when the associated debt matures.

The total net finance expense of £304 million in the income statement on page 208 is higher than the £149 million net cash interest paid per the statement of cash flows on page 213. The difference is largely due to non-cash indexation charges £195 million, offset by £28 million of capitalised borrowing costs.

Interest rate management

Our primary financing objective is to secure the right amount of funding at the lowest cost. The more efficient our funding, the lower our customers' bills. We aim to have sector-leading credit ratings and gearing at around 60%, as well as considering the timing of financing activity.

Just over half of our debt, on a pre-hedged position, is index-linked to RPI inflation (31 March 2023: 54%, 31 March 2022: 51%) and this provides a natural hedge to our asset base (as measured by Ofwat's regulatory capital value) and our inflation-linked revenues. Including the impact of inflation, our average cost of debt for the year was 7.7% (FY 22: 5.0%).

Gains and losses on derivative financial instruments

We manage our interest rate exposure using derivative financial instruments. We have also swapped some of our floating-rate debt to fixed-rate debt and some of our fixed-rate debt to index-linked rates using 'swaps.' After taking into account the effect of these swaps, 84% of our debt is index-linked, with the remainder at a floating or fixed rate. We also use derivatives to hedge the cost of some of our power requirements. We do not undertake any speculative trading, which is specifically prohibited under our Treasury policy established by the Board.

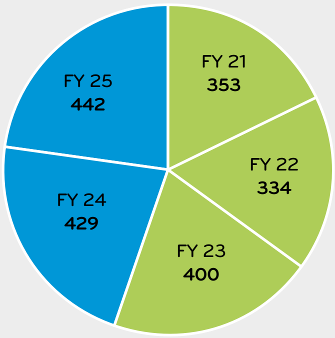
Unlike debt, which is included in 'borrowings' in the balance sheet, our swaps are classified as 'derivative financial instruments' under International Financial Reporting Standards and valued at fair market value at the balance sheet date. Fair values fluctuate in line with market movements, which can be volatile, and this can give rise to significant gains and losses in the income statement.

During FY 23, the movement in the value of swaps was a non-cash gain of £160 million (FY 22: loss of £114 million), driven mainly by changing market expectations of interest and inflation rates. See financial statements note 15 for further information.

We invested £400 million of capital in the year as part of our record £2.0 billion AMP7 planned investment programme.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Capital investment (£m)



During FY 23, we invested a total of £400 million in our water and wastewater assets. Over the five years to 2025, we will invest a record £2.0 billion to deliver improved resilience and environmental improvements in line with Ofwat's 2019 Final Determination (FD) and our other regulatory obligations. Our total investment is split between capital additions of £322 million (these are added to the balance sheet and depreciated over the assets' useful lives) and infrastructure renewals expenditure of £78 million (maintenance costs which are fully expensed to the income statement upon scheme completion).

We will invest an additional £100 million in river water quality improvements, most of which we plan to deliver during AMP7. This is available to us from the advantage of our Glas Cymru non-shareholder business structure.

Loss before tax

The Loss before tax was £151 million, a decrease of £64 million on last year (FY 22: £215 million), as a result of the factors outlined above.

Net debt

We fund our day-to-day operations and our capital investment programme from a combination of customer bills and borrowings from financial markets and institutions. Our net debt (total borrowings less cash and equivalents) on our common term agreement basis at 31 March 2023 amounted to £4,162 million, an increase of £440 million on the prior year. Almost 90% of this increase was caused by the indexation of RPI-linked debt.

We aim to ensure that enough funding is available to meet our forecast financial needs as well as having an adequate level of headroom for reasonably plausible contingencies.

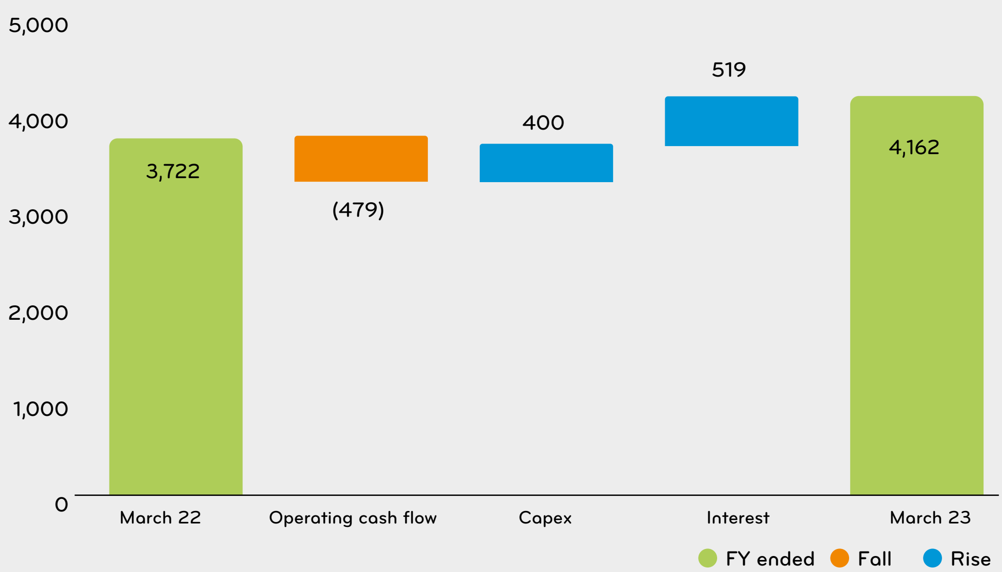
Our average debt maturity is relatively long, at 10.4 years (31 March 2022: 11.2 years), reflecting the long-term nature of our asset base. Under the terms of our whole business securitisation, no more than 20% of our debt can fall due within a rolling 24-month period. Details of our assessments of interest rate and inflation risk are provided in financial statements note 16.

We are now working on our refinancing strategy for AMP8, the five-year period from 2025 to 2030, during which we have around £2 billion of debt maturing.

Liquidity

At 31 March 2023, total liquidity stood at £579 million FY 22: £515 million), comprising cash and equivalents of £379 million and undrawn facilities of £200 million. We invest cash prudently, depositing for a maximum of three months, and only with highly rated banks and liquidity funds.

Year-on-year movement in net debt (£m)



We achieved an average deposit yield of 3.86% during the year, which compares favourably with the BlackRock ICS Sterling Liquidity Fund yield of 2.00%.

We also have bilateral revolving credit facilities of £200 million (all of which are currently undrawn) with a group of four key relationship banks. For further details, see financial statements note 16D.

Credit ratings

Our creditworthiness is assessed by three separate rating agencies, giving an independent external opinion on the quality of our debt. Our ratings (Moody's A3; S&P A-, and Fitch A) are among the highest in the UK utilities sector. Investment-grade credit ratings promote investor confidence and help us secure financing at the lowest cost, which in turn helps to keep customer bills as low as possible.

Among other requirements, our governing documents require us to maintain an investment grade-credit rating. We review all key indicators regularly to identify early visibility of risks and opportunities and to ensure we remain compliant with our borrowing covenants. We remain in frequent contact with our rating agencies.

In November 2022, S&P confirmed our Class B debt rating at A- and our Class C subordinated debt at BBB, and revised the outlook from stable to negative. The Class A bonds, which are subject to a financial guarantee from Assured Guaranty UK Ltd, are unaffected by this action. S&P cited the impact of inflation on the Group's index-linked debt portfolio and our high level of capital expenditure as the reasons for the change in outlook from stable to negative, but stated that they expect the relevant ratios to recover by the end of AMP7.

In February 2023, Moody's updated credit analysis confirmed the Class B debt at A3 and the Class C at Baa2, both with a stable outlook.

In March 2023, Fitch affirmed the Class B debt at A and Class C at BBB+, both with a stable outlook.

Gearing

UK water companies express their regulatory gearing as the ratio of net debt to regulatory capital value, to show a measure of the company's indebtedness relative to the value of the business recognised by Ofwat.

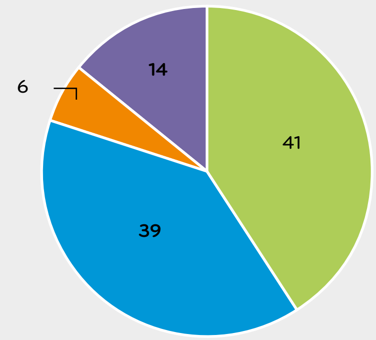
Since Glas Cymru was established in 2001 with gearing at 93%, we have consistently de-leveraged, i.e. reduced our proportionate level of debt, with gearing standing at 58% at 31 March 2023, in line with the Board's policy to maintain gearing at around 60%.

Under the terms of our whole-business securitisation structure, we must maintain gearing below 85%. We therefore have significant headroom to deal with emerging risks.

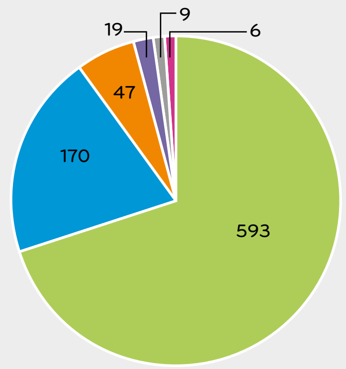
Dividends

As a company limited by guarantee, no dividends were paid during the year (FY 22: none). No intra-group dividends have been declared and surpluses in the regulated business have been retained for the benefit of our customers. For further details about our dividend policy see page 195.

What we spent in FY 23 (%)



Where the funding came from (£m)



Taxation

We aim for compliance and transparency in our tax affairs and hold the Fair Tax Mark accreditation. As an organisation with a large capital investment programme, we receive capital allowances. These have the effect of deferring some of our corporation tax liabilities to future periods and help to keep customers' bills lower.

Further details of our corporation tax and deferred tax charges are provided in financial statement notes 5 and 6, and our tax strategy is available at https://dwrcymru.com/taxstrategy.

We were not required to pay any corporation tax in FY 23. We pay all of our taxes when due and our total tax contribution, including business rates and employment and environmental taxes, amounted to £63 million.

Mike Davis
Chief Financial Officer

OUR SECTOR CONTEXT

The Water Sector

The Water Sector in England and Wales comprises 11 Water and Sewerage Companies (WASC) – Welsh Water is the sixth largest – and 9 Water Only Companies (WOC).

These companies provide water, sanitation and drainage services to more than 50 million household and non-household consumers in England and Wales every day.

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

Water in Wales

The Welsh Government has powers to introduce new legislation to the Senedd in respect of devolved policy areas such as water, environmental regulation, and flood defence.

The Senedd may also 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 the activities of Welsh Water. This applies across the whole of our operating area, including those parts in England, because powers are devolved in legislation on a 'wholly or mainly in Wales' basis.

The Welsh Government also works closely with the UK Government (the Department for Environment, Food and Rural Affairs), which sets the relevant policy framework for Water and Sewerage Companies and Water Only Companies in England.

Since the Government of Wales Act 2006, we have seen increasing divergence between the approaches of the Welsh Government and Defra in some key areas. They include:

- Competition for retail services for non-household customers
- Charges for new connections for developer customers
- Support for social tariffs

Regulatory Framework

Details of our regulators are set out in Appendix/glossary from page 250. In summary, our regulators cover:

- The Price Review framework – overseen by Ofwat.
- Environmental performance and compliance – overseen by Natural Resources Wales (NRW) and the Environment Agency (EA)
- Drinking water quality – overseen by the Drinking Water Inspectorate (DWI)
- Customer service issues – overseen by the Consumer Council for Water (CCW).
- Welsh language provision to customers – overseen by the Welsh Language Commissioner

We work closely with all our regulators, alongside our own Independent Challenge Group (see page 72), to establish key investment areas in each 5-year Asset Management Plan.

This helps us balance the short- and longer-term investment needs of the business against the affordability of customer bills in each period.

Each regulator publishes a report on Welsh Water's performance. Copies of these reports can be found on our website https://www.dwrcymru.com or on the relevant regulator's website.

The Price Review Process

Ofwat sets 5-yearly limits on the revenues companies can earn from customers through their bills, and the performance targets companies must achieve. The current 'AMP7' period covers 2020-25, as set out in the Final Determination.

Companies are currently developing their next 5-year Business Plan, set within a longer-term context, for submission to Ofwat under the current Price Review process, PR24. This will result in a Final Determination which will set out companies' commitments and funding requirements for 2025-30.

During the Price Review process, Ofwat undertakes a detailed review of companies' proposed ongoing costs, investment plans, and performance commitments. It also takes into account the requirements and expectations of the various regulators.

In Wales, this process is coordinated through the PR24 Forum, which is chaired by the Welsh Government and brings together all key regulators and companies. It sets strategic priorities and provides direction on the appropriate balance between the level of bills and long-term investment requirements.

The Future of the Water Sector

During 2022 we reviewed and updated our long-term strategy, Welsh Water 2050, in response to the events and developments of the last 5 years.

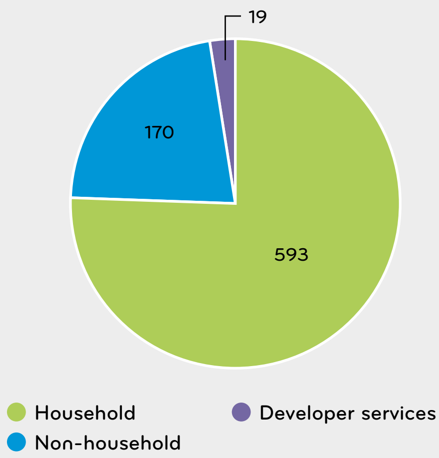
We share many of the same long-term challenges as the rest of the water sector in England and Wales.

In common with other water companies, we are anticipating the need for significant additional investment over the next 25 years to:

- Meet new regulatory requirements.
- Upgrade our legacy assets.
- Address the impacts of climate change.
- Improve the quality of rivers and coastal waters.

In Wales we are particularly concerned with changing rainfall patterns and how they impact our wastewater network performance. To address these challenges, we need to grasp every available opportunity to work more closely and effectively with others. In doing so, we gain influence over the outcomes we want to help deliver – including healthy rivers and seas, uncontaminated water sources, sustainable carbon emissions, and thriving communities.

Revenue by customer type (£m)



Who we Serve

Household customers

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

Business customers

We have around 110,000 business (or 'non-household') customers. They include everything from large industrial sites to small high-street businesses, agricultural businesses, local authorities and charities.

Unlike in England, all except the very largest sites are unable to switch their water retail service provider. We have always been determined to ensure our business customers have at least as good a service as is available in England, so we have dedicated teams providing a tailored service. We also closely monitor business satisfaction on a comparative basis.

Developer customers

We work with everyone from large housing developers to individual house builders, providing new water and sewerage connections, and supporting on-site 'self lay' providers in line with the standards and legislation in Wales.

It is important that our services meet the highest standards. It enables us to play our part in supporting economic development and growth in the communities we serve.

> Detail on the measures we use to track our services to these customer types, who have differing needs, are described on pages 48 to 66.

OUR SECTOR CONTEXT CONTINUED

How the business is responding to challenges

Key developments	Description	Our response
Climate change and long-term adaptation	We expect climate change to significantly affect our business, with changing weather patterns putting additional pressures on our services.	Climate change is central to our long-term plans, as evidenced in our Strategic Responses and our ESG objectives.
Extreme weather events	The driest summer since 1976, followed by a rapid freeze/thaw around the festive period, created huge operational challenges for the business. We expect the frequency and intensity of such events to increase as climate change accelerates.	Actions taken previously to bolster resilience allowed us to respond decisively to limit the disruption to our services and customers. Despite these actions, we know that customers in certain communities such as Cardigan and Trellech were significantly affected during December's freeze/thaw event. The many learnings from these events in the last year will be used to prepare for such events in future.
Economic conditions	Economic conditions have worsened significantly this year, putting pressure on many customers through the cost-of-living crisis, and on our operating and capital costs through increases in the cost of energy and materials.	We have increased our level of support to vulnerable and financially challenged customers, and in late 2022 introduced our new Community Fund (Cymuned) to help some of those previously excluded. The effects of economic conditions on our cost base, including higher finance costs, are monitored with scenario modelling to prepare our Long-Term Viability Statement and to assess our 'going concern' assumption. We will continue to use hedging strategies where appropriate and are currently reviewing this in our preparations for PR24.
River water quality and storm overflows	Public and media attention on these issues has continued to grow and the scrutiny of regulators, governments and water companies remains intense. Combined Storm Overflows are a legacy of decisions taken in Victorian times: resolving the problems they create will require substantial investment over decades.	Our Rivers Manifesto (see online at https://dwrcymru.com/rivermanifesto) recognises the need for increased investment in this area and sets out our plans for improvements. We have increased our efforts to communicate to customers and other stakeholders the complex nature of CSOs and related pollution. We are focused on reducing broader sources of ecological harm and not just the number of spills from CSOs, recognising that chemicals associated with food production are an important source of phosphorus and nutrient overload in our water courses. In conjunction with regulators and others we will ensure our investment, which ultimately affects customers' bills, targets those actions which will create the greatest benefit for the environment, our customers and the communities we serve.

Cog Moors Waste Water Treatment Works, Vale of Glamorgan

PLANNING FOR A BETTER FUTURE

Here we explain the main components of our planning framework. Pages 46 to 47 show how these accommodate our Strategic Themes to support achieving our Vision.

Long-term planning

Welsh Water 2050

Our long-term strategy Welsh Water 2050 was published in 2018 and was updated in 2022. It outlined the key challenges and opportunities for the business over the next 30 years and explains how we plan to respond to those challenges and opportunities to ensure a resilient and sustainable service over the long term.

Environment, Social and Governance (ESG) strategy

Our ESG strategy was reviewed and approved by the ESG Committee in February 2022 and is available to view at https://dwrcymru.com/esg. It includes 10 key objectives to support the focus on Environment, Social and Governance issues in the context of Welsh Water 2050.

> See page 106 to read more on our ESG objectives.

Long-term Delivery Strategy (LTDS)

All regulated water companies are now required by Ofwat to develop and publish a Long-Term Delivery Strategy. It will specify the investments required to meet the Company's ambitions for 2050, under a range of scenarios covering key future uncertainties. Our LTDS will be published alongside the PR24 Business Plan in October 2023.

> Progress on ESG strategy and Wellbeing commitments are described on pages 106 to 132.

Planning Components from Long Term to Short Term

Medium-term and short-term planning

PR19 Business Plan (AMP7 2020-2025)

An 'AMP' is an Asset Management Period. It is a 5-year period for business and investment planning aligning with the 5-yearly regulatory Price Reviews.

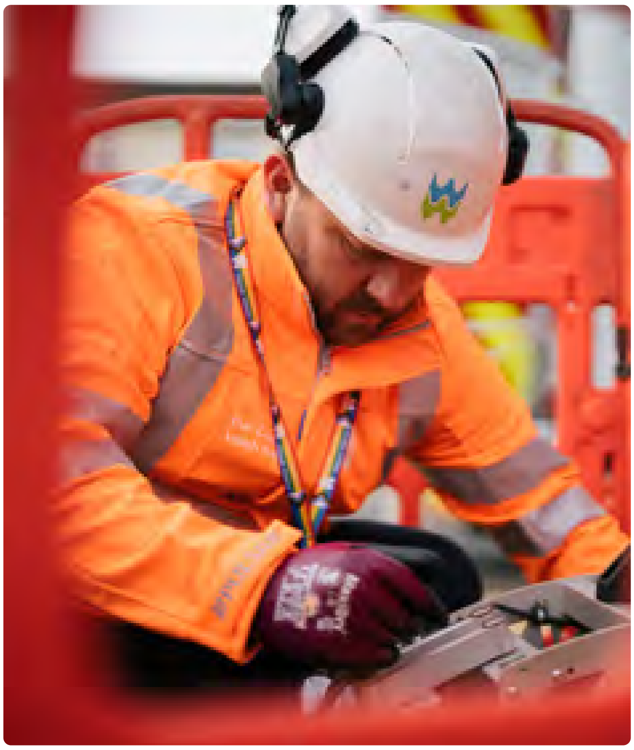
After consulting with customers and other stakeholders about their priorities we agreed with Ofwat at the last Price Review (PR19) a 5-year capital investment programme totalling £2.0 billion. We have 56 specific performance and delivery targets that form part of our regulatory commitment to maintain and improve services to customers and the environment, grouped under 8 wider 'outcomes' (as shown in the diagram on page 48).

PR24 Business Plan (AMP8 2025-2030)

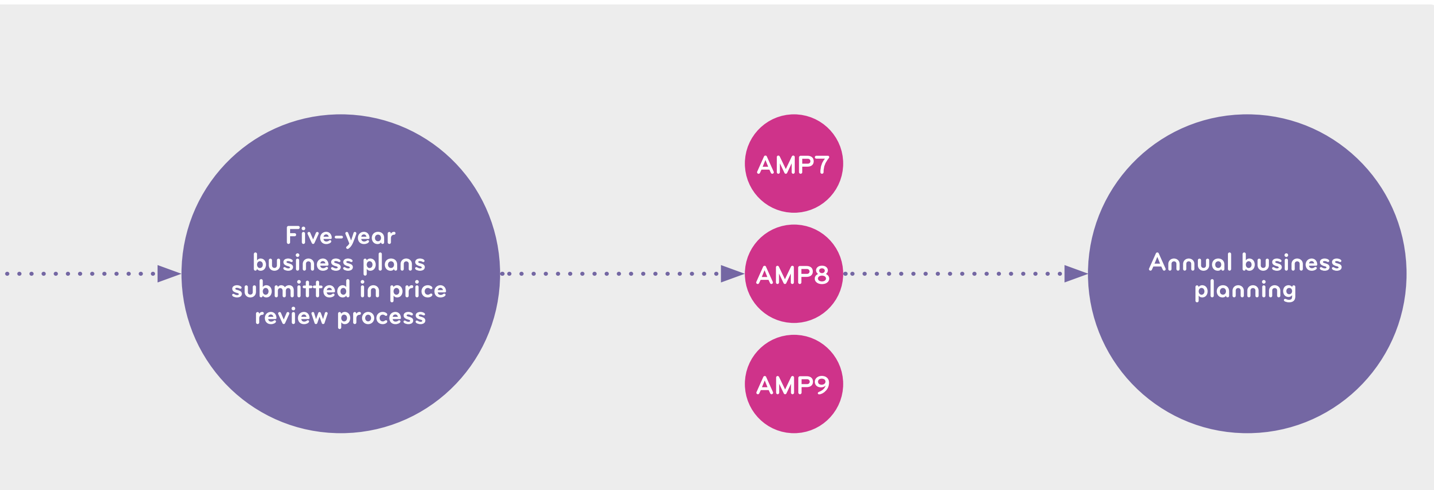
We are currently preparing our next 5-year business plan to cover AMP8, from 2025-30. This will be aligned with the first 5 years of the Long-Term Delivery Strategy to 2050.

Annual Business Plans

Alongside our longer-term plans and 5-year Business Plans we prepare internally an annual business plan which we use to monitor and focus on short-term activity.



> Progress reporting against medium-term and short-term plans and our progress toward Welsh Water 2050 are discussed on pages 48 to 67.



OUR STRATEGY

The diagram below summarises our planning framework and our Strategic Themes. In the column for each Strategic Theme are selected objectives and strategic responses. These are not exhaustive, and we expand on them on pages 48 to 67 in our commentary on performance.

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

Our Vision is supported by our 4 Strategic Themes and our enablers

Water

Short and medium-term objectives

- Improve tap water quality compliance
- Minimise supply interruptions
- Reduce tap water discolouration incidents ('acceptability' contacts)

Welsh Water 2050 strategic responses

- Safeguarding clean drinking water through catchment management
- Enough water for all
- Improving the reliability of drinking water supply systems
- Protecting our critical water supply assets
- Achieving acceptable water quality for all customers
- Towards a lead-free Wales
- Smart water system management

Sustainabilty ESG objectives

- Adapting our assets and services to mitigate climate change risk
- Engaging with our customers

> Read the performance review on pages 50 to 53.

Environment

Short and medium-term objectives

- Reduce leakage
- Help decrease consumption
- Minimise pollution incidents
- Improve river water quality

Welsh Water 2050 strategic responses

- Supporting ecosystems and biodiversity
- Using nature to reduce flood risk and pollution
- Cleaner rivers and beaches
- Protecting our critical wastewater assets
- Achieving net zero carbon emissions by 2040 and promoting a circular economy

Sustainabilty ESG objectives

- Long-term planning and sustainability
- Achieving our net zero carbon strategy
- Adapting our assets and services to mitigate climate change risks
- Adapting to future challenges

> Read the performance review on pages 54 to 59.

Supported and enabled by Financing and strong governance

Customers

- Reduce complaints
- Maintain industry-leading customer service
- Minimise sewer flooding

- Addressing our 'worst-served' customers
- Employer of choice
- Leading-edge customer service

- Ensuring affordability
- Engaging with our customers

> Read the performance review on pages 60 to 63.

Communities

- Support those most in need
- Engage with communities on key projects
- Deliver water education programmes

- Working with customers and communities
- Ensuring affordability of services delivered to customers
- Supporting customers in vulnerable circumstances

- Working to create tangible benefits in the communities we serve
- Attracting and retaining a diverse workforce to reflect our communities

> Read the performance review on pages 64 to 67.

PERFORMANCE

INTRODUCTION

In the following section, we summarise how we are progressing with the delivery of our objectives by examining our current performance in AMP7 (2020-25) and our long-term plans for progress towards Welsh Water 2050.

How we measure our current performance (AMP7)

This 5-year programme involves approximately £2.0 billion of capital investment. It is focused on improving performance and a commitment to reducing bills in real terms over the 5-year period, with average bills rising below the level of the CPIH measure of inflation.

After consulting with customers and stakeholders about their priorities, we developed an ambitious and balanced business plan that was submitted to Ofwat in 2018. Ofwat's Final Determination (FD) for PR19 set out the company's targets for the 56 measurable Performance Commitments (PC) included in our plan, arranged under 8 outcome areas. These outcome commitments and how they align to our 4 Strategic Themes are shown below.

The 56 PCs comprise:

- 25 financial PCs – these have either rewards or penalties attached depending on whether we meet the FD target.
- 25 'reputational' PCs – no reward/penalty is applicable, but we strive to meet the target set for the year.
- 6 investment delivery PCs – with penalties both for late delivery during the AMP and non-delivery at the end of the AMP of certain investment programmes 'ring-fenced' under the FD.

Delivery of these PCs will lead to benefits for our customers, communities and our environment.

> Read the review of our performance on pages 49 to 67.

A comprehensive report on all 56 performance targets is contained in our Annual Performance Report at https://dwrcymru.com/annualperformancereport

We have set out the eight outcome areas below and aligned these to our four strategic themes:

Llanelli Waste Water Treatment Works

PERFORMANCE: WATER

PERFORMANCE IN FY 23

This year has been especially challenging with particularly intense extreme weather events affecting performance. Despite this, we have performed well in terms of unplanned outage PC, meeting our targets and made good steps in recovering our drinking water quality which had been a challenge in 2021. We have also seen improvements in our acceptability of drinking water PC, although we will still be subject to penalty for this measure.

2022 was the driest year since 1976 and July's severe heatwave saw temperatures in Wales soar to a record high of 37.1°C. This was followed by another heatwave in August, with Natural Resources Wales declaring Wales in drought and the Welsh Government convening their Drought Liaison Group. As a consequence of the very dry weather, we introduced a Temporary Use Ban across part of our operating area in Pembrokeshire to protect water resources supplying 60,000 households served by our Llys y Fran reservoir. This was the first time in over 30 years that we have applied restrictions to our customers.

The drought and extreme heat had impacts on a number of our PCs:

- Supply Interruptions and Leakage – the dry soil increased the number of bursts on our pipes, particularly our cement pipelines in west and mid Wales.
- Acceptability (discolouration and taste) of drinking water – significant challenges were caused by high flows in the network and in treating poorer raw water quality in some reservoirs that had dropped to record low levels.

The impact on our supply interruptions PC was then compounded by the 'freeze/thaw' event in December. Temperatures in Wales dipped to the lowest levels since 2010 and were below freezing for around a week before rapidly returning to above zero overnight. This significantly impacted our supply interruptions target due to the number of pipe bursts caused by the rapid change in temperature, and also our leakage performance where we experienced widespread bursts across our network and our customers' private supply pipes. As a result, a small number of customers across Ceredigion, mid-Wales and Herefordshire lost supply for a number of days while our teams worked hard to restore their supply.

AMP7 Performance Commitments Outcome FY 23: Water

Performance Commitment	FY 23	FD target FY 23	FY 22	Status v Target	Reward/ (penalty) £m
Water quality compliance (CRI) Measures risk arising from treated water compliance failures	**5.40**	0	9.77	Ofwat target missed	(1.659)
Supply interruptions Average minutes:seconds for which customers are without water supply	**44:31**	05:45	16:17	Ofwat target missed	(10.370)
Acceptability of drinking water Complaints about taste, odour or clarity per 1,000 population	**2.35**	1.91	2.44	Ofwat target missed	(1.059)
Unplanned outages % Measure temporary loss of water abstraction and treatment activities	**1.07**	2.34	0.55	Ofwat Target met or exceeded	£0.000
Lead pipes replaced Reduction in number of lead pipes in the network	**1,731**	4,200	1,410	Ofwat target missed	End of AMP ODI

KEY ▲ Ofwat Target met or exceeded ● Ofwat target missed

Further details of PC measures and the units of measurement are included in the Appendices from page 250.

CRI will remain provisional until official publication by the Drinking Water Inspectorate in July.

Following a review of our measures for Supply Interruptions and Lead pipes replaced we are now restating our historical position with values for FY 22 changing from 16:12 to 16:17 and 1,462 to 1,410 respectively.

Plan for the future

We have plans in place to improve our performance on these PCs. This includes the Drinking Water Recovery Plan (DWRP) to recover the under-performance from FY 22 for our water quality compliance score (CRI), with the aim of achieving upper quartile industry performance. The main focus is on installation of bypasses on tanks that have not been cleaned within the last 10 years, and moving all other tanks onto cleaning cycles not exceeding 5 years. We are also undertaking targeted flushing based on a more intensive sampling programme to reduce iron failures, which is a legacy risk from our long lengths of cast iron pipes.

To improve our performance for acceptability of drinking water, we are optimising treatment works to remove more manganese from our soft upland waters; replacing cast iron pipes which can cause discolouration incidents, and cleaning our network through our 'zonal studies' programme.

Improving our supply interruption performance is a challenge due to the topography of Wales. Customers are often served by a single trunk main with high operating pressure in our rural networks where there is no alternative supply. This can result in complex engineering repairs that take longer to fix than most of our more urban pipe networks, because there is limited opportunity to use alternative supplies to keep customers connected. To mitigate the impacts of supply interruptions, our 40-strong tanker fleet is one of the sector's largest.

To help improve our response times to interruptions we are making organisational changes to centralise our response to bursts out of hours and to optimise the location of our locally based response teams. This move to a more responsive 24/7 operation aims to reduce the time taken to mobilise our tankers to provide temporary supplies; and for our repair teams to respond; and to allow water to be brought in from other pipelines where possible. Our longer-term plans are to move to more predictive capability based on our SMART Networks programme, to improve our incident response times even further.

PERFORMANCE: WATER CONTINUED

PROGRESS TO WELSH WATER 2050

We are on track in progressing most of our Strategic Responses related to tackling future challenges around drinking water, as shown in the table opposite. However, risks are growing in some areas, and future investment requirements are subject to considerable uncertainty, particularly as regards the potential introduction of more stringent water quality standards.

We continue to believe that acting in raw water catchments and working collaboratively with partners is the most effective and beneficial way of addressing the threats to raw water quality.

We then need to ensure we have sufficient capacity and capability to store raw water, treat it and distribute it to our customers, even in drought conditions. Growing domestic tourism, when overlaid on the changing climate, poses a challenge for our water resources planning. Like all water companies, every 5 years we produce an updated Water Resources Management Plan as the basis for ensuring sufficient supplies over the long term. The plan incorporates the latest climate change and customer demand forecasts. A long-term prioritised programme of surveying our dam structures is underway, working with our regulators, to ensure they are resilient against climate change and meet new regulatory requirements.

We are developing plans for a major new treatment works in south-east Wales to replace 3 older works. This will increase our water supply network resilience in the area, as well as improving efficiency. This is part of a long-term plan to build more flexibility and integration into our water treatment and supply systems. Alongside this, we are reviewing the levels of protection of our critical water assets against current and emerging threats, particularly from climate change.

In terms of customer service levels, as noted above, we have a current challenge in terms of the number of customer contacts relating to discoloured tap water. Welsh Water 2050 set out a long-term goal of achieving 0.8-1.3 contacts per 1,000 customers, through a targeted replacement of cast iron mains. In the current period, efforts are focused instead on the quality of raw water and manganese removal but in future periods we expect to have to accelerate mains replacement.

Our lead supply pipe replacement programme, after a slow start due to the Covid-19 pandemic, is now progressing well. However, we will need to refine and accelerate our approach to get close to replacing the majority of customer lead supply pipes by 2050.

Welsh Water 2050: Water

Strategic Response	Status	Comment
Safeguarding clean drinking water through catchment management	▲	Ongoing work needed to develop approach to tackle emerging contaminants.
Enough water for all	▲	Our Water Resources Management Plan sets out our plan to ensure demand is balanced with supply.
Improving the reliability of drinking water supply systems	▲	Drier summers mean we need to provide greater flexibility to move water between supply zones to increase resilience.
Protecting our critical water supply assets	▲	Risks such as flooding and cyberattacks growing - we are enhancing our long-term risk analysis and management capability.
Achieving acceptable water quality for all customers	●	Acceleration of mains replacement is needed, but we also need to identify innovations to tackle discolouration in the longer term.
Towards a lead-free Wales	●	Requires increase in rate of replacement and lower costs.
Smart water system management	▲	Ongoing need to upgrade as older operational technology discontinued. Plan also to take advantage of new opportunities from technological development, including smart meters.

KEY ▲ On track ● At risk

Our plan for those strategic responses not currently on track

Strategic Response 5: achieving acceptable water quality for all customers

'Acceptability' of water refers to incidents of discolouration, odour or taste abnormalities, measured by the number of related contacts we receive from customers. Our performance in this area lags most of the industry. Our primary challenge involves discolouration from deposits accumulating in old cast iron mains pipes, which can then be released into drinking water.

This is a complex area on which we are working closely with the Drinking Water Inspectorate. They 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, such as removal of manganese at source through improving performance at our treatment works. Downsteam, we are increasing the frequency of our pipe cleaning activity. Ultimately, however, replacement of mains pipes is likely to be a major part of the long-term solution. This is costly, and the main constraint is therefore affordability, which depends on the outcome of the assessment of the costs allowable by the price control process to be recovered through customer bills. All these activities will need to be delivered to continue to improve performance.

Strategic Response 6: towards a 'lead-free Wales'

This is an unusual Strategic Response in that it goes beyond our core functions, by 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, given the close association with our own duties to provide safe drinking water. 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. However, the challenge is not just about cost – as we progress we are learning about customer attitudes, about how to deliver the programme effectively alongside other customer benefits, and about how to minimise disruption to customers. We will therefore keep this Strategic Response under review, and maintain a continuing dialogue with the Welsh Government and the Drinking Water Inspectorate about the long-term aspiration.

PERFORMANCE: ENVIRONMENT

PERFORMANCE IN FY 23

Our performance held up relatively well, being only marginally down on the previous year, considering the intensity of the extreme weather events we experienced in FY 23.

The impact of lower rainfall in the dry and hot summer was to:

- increase the volume of burst water distribution pipes (which are particularly susceptible to dry ground conditions) caused by soil shrinkage, creating an increased volume of leakage,
- increase the volume of water consumed by customers, particularly in those areas most affected by the hot and dry conditions, and
- reduce the level of river water, impacting on pollution events.

We also experienced a significant freeze/thaw event in December that caused significant increases in leakage due to the number of burst water distribution pipes. The number of bursts increased in our cement-lined asbestos cement (AC) pipes across our rural areas of mid and west Wales. These bursts present a particular challenge to repair due to the difficulties in accessing remote areas, and the need for the pipes to be fully cut out without an alternative water supply due to the lack of network interconnectivity.

The weather events have been material factors in contributing to us not achieving the Final Determination targets for leakage, per capita consumption and pollution incidents.

In FY 23, we experienced 8 Treatment Works Compliance failures across our estate of 596 permit-holding works: 2 more failures than in FY 22 (6). Notwithstanding this, 3 of the failures during FY 23 were technical breaches at our peak flow equivalent treatment (PFET) works where there was no actual environmental impact but we failed to meet the requirements of the permit. We continue to focus on improving our processes to achieve full compliance.

During FY 23, we have completed a review of our reporting methodology for leakage and per capita consumption. This has resulted in an increase in leakage and a reduction in our PCC when compared to the originally reported data. We have restated our data on these measures for FY 21 and FY 22. For further details on the restatement, including compensation we propose to pay to customers, please see page 56 to 57.

Cardiff Waste Water Treatment Works

AMP7 Performance Commitments Outcome in FY 23: Environment

Performance Commitment	FY 23	FD target FY 23	FY 22	Status v Target	Reward/ (penalty) £m
Treatment works compliance % Percentage compliance with discharge permits	**98.49**	100	98.32	Ofwat target missed	(0.357)
Pollution incidents Number of incidents per 10,000 km of sewer	**24.55**	23.00	22.90	Ofwat target missed	(0.333)
Leakage % 3-year average reduction in leakage volume	**-11.5**	7.3	-7.3	Ofwat target missed	(9.927)
Per capita consumption % 3-year average reduction in PCC	**-6.2**	3.0	-5.6	Ofwat target missed	End of AMP ODI

KEY ▲ Ofwat Target met or exceeded ● Ofwat target missed

Leakage penalty includes £-4.486 million in respect of FY 23 performance.

Further details of PC measures and the units of measurement are included in the Appendices from page 250.

Treatment works compliance and pollution incidents will remain provisional until we receive confirmation from National Resources Wales.

Plan for the future

Regarding pollution incidents, we continue to focus our efforts on how we reduce the levels of the most harmful pollutants in our rivers and have published Our Manifesto for Rivers https://dwrcymru.com/rivermanifesto to set out how we will achieve this. This includes our commitment to address Combined Storm Overflows (CSOs), prioritising those that impact on river quality, or are an aesthetic concern.

Using the storm overflow assessments framework (SOAF) we have started to evaluate the impact of over 800 of our 2,300 CSOs during this AMP and have already completed this assessment on the special areas of conservation rivers, following which we have set a clear investment plan for how we will improve the most impactful discharges during AMP7. Also during AMP7, we have increased the number of Event Duration Monitors (EDM) so that 99.5% of our CSO assets are monitored for when they spill. This data is provided to environmental regulators, and we also provide real-time spill information for key bathing waters to interested parties ,including Surfers Against Sewage and the Rivers Trust. In this way our stakeholders are kept informed. We also use this information to formulate our investment plans. Our assessment framework and better information will enable us to make informed investment decisions over the remainder of AMP7 and AMP8, where our plans include an investment of £400million in improvement to CSOs.

We have increased the level of leakage-reduction resources in our plans to target reduced leakage from both trunk mains and smaller leaks over the coming 2 years. For minor leaks, we will increase our detection and repair teams, who will focus on repairing the damage caused to our network by the winter freeze/thaw event.

We are also increasing the level of investment in our 'upstream losses' project that targets large trunk mains, and will do this in 3 stages:

i. targeting leaks through data and metering,

ii. detecting leaks on site with a variety of techniques, and

iii. repairing leaks using the latest technology.

While we are confident in our processes to target and repair leaks, our progress may be impeded by health and safety considerations, particularly when working with highly pressurised large diameter pipes; the potential impact on water quality; and future weather events that could either prevent us from working or require us to refocus resources to ensure our customers are not affected.

Reduction of per capita consumption in the long-term requires us to influence the consumption behaviour of our customers, and to develop more efficient household water distribution systems. We will achieve these outcomes by:

- Increasing the number of meters that customers have, because our existing data shows that customers on meters tend to consume less water.
- Developing a behavioural change campaign that explains the links between the water our customers consume and the environment around them, including the carbon footprint and costs to them. It is essential to our strategy that we increase awareness, providing our customers with the information they need to consider the role they need to play.
- Advocating changes to building regulations that move towards grey water harvesting and more efficient customer-side supply systems.
- Promoting the introduction of labelling white goods with their water efficiency to provide customers with the right information to make informed decisions about the efficiency of household appliances.

Our internal business plan projects an improvement in performance of Leakage, Per capita consumption, Treatment works compliance and Pollution incidents over the coming 12 months. These improvements will mean that we achieve the Final Determination targets in FY 24.

PERFORMANCE: ENVIRONMENT CONTINUED

Restatement of Leakage and Per Capita Consumption performance data

Welsh Water's Annual Report and Accounts published in 2022 noted that the leakage and per capita consumption data was subject to an ongoing review.

As part of our annual data assurance process, the data used in our Annual Performance Report to Ofwat is subject to a thorough review by an independent external assurance specialist company. In May 2021, as part of the preparation of our Annual Performance Report to Ofwat, the year-end assurance processes identified some non-material issues with the reporting of leakage and per capita consumption, and Welsh Water's Regulation Team requested that these issues be the subject of a 'deep dive' in 2021-22.

An independent report was provided to Welsh Water in March 2022 which identified two areas of non-compliance with the prescribed methodology for reporting leakage and PCC. These findings were corroborated by a second independent review which was completed in December 2022 and recommended improvements to the robustness of the Company's reporting of Leakage and PCC performance.

The reviews concluded that leakage had been understated for FY 21 and FY 22 and that per capita consumption had been overstated for the same periods. The tables below show the data as originally published and our restated position that has been shared with Ofwat.

Per Capita Consumption (PCC) Restatement

Per capita consumption (L/h/d) in year	FY 21	FY 22
Previously reported PCC	176.0	174.7
Restated PCC	160.9	154.8

Leakage Restatement

Leakage (ML/d) in year	FY 21	FY 22
Previously reported Leakage	163.6	157.4
Restated Leakage	232.7	240.3

Comparative data for other water companies across England and Wales can be found at discoverwater.co.uk.

While the Company's robust assurance process identified the issue, there were failures in governance and management processes that should have identified the issue sooner. Changes have been made to how leakage reduction activities are managed, and reporting and governance processes have been strengthened, including the creation of a Leakage Oversight Committee of the Board. Furthermore, an additional £54 million has been allocated to reduce leakage further. All customers will be credited with £10 to their accounts due to this misreporting and its effects.

On 25 May Ofwat announced it is launching an investigation into our reporting of leakage and per capita consumption. We have shared with Ofwat the findings of our internal investigations, the remedial actions we have taken and our customer redress proposals. We will of course cooperate fully with the investigation.

Other sections of this Annual Report which refer to the Restatement of Leakage and PCC performance data

PERFORMANCE: ENVIRONMENT CONTINUED

PROGRESS TO WELSH WATER 2050

Our key long-term challenge in this area is two fold. First, adapting our assets to the impacts of climate change and urban creep. Second, mitigating the potential impact on customers, and on water quality in our waterways and bathing waters. In response, our long-term strategy includes rolling out more sustainable drainage in major conurbations, thereby reducing the inflow of surface water into combined sewers. This requires us to work in partnership with local authorities, Highways Agency and private owners of drainage systems such as large supermarkets. Our progress in the current AMP has been disappointing as we have had to respond to more urgent priorities, such as river water quality (see below). The cost of these solutions also remains high, and additional funding will need to be made available to the local authorities in particular so that they are able to upgrade their asset base which feeds surface water into the combined sewerage system.

Our customers, regulators and the media have increasingly focused on the operation of Combined Storm Overflows and their impact on river water quality. Our 2050 strategic response of cleaner goals and rivers is 'at risk', due to population growth, changing land use, climate change and diffuse sources of pollution. Our Manifesto for Rivers in Wales sets out clearly how, over coming AMPs, we will improve our assets to reduce their impacts on our rivers. This can be found online at https://dwrcymru.com/rivermanifesto.

We are also preparing to publish our first Drainage and Wastewater Management Plan (DWMP), which is a comprehensive long-term planning framework covering both sewage treatment and drainage. It will set out some of the key approaches and frameworks we will use to improve wastewater management. We will need to model the impact of the changing climate in detail, and to develop a long-term investment plan to upgrade our assets to accommodate the effects of climate change, and reduce the polluting impacts of storm discharges in particular.

As set out within our strategic update and principal risks, climate change is a significant risk to the business, putting pressure on the resilience of our critical water and wastewater treatment works, particularly due to a growing flood risk. We are taking action in the current period to improve resilience against power outages, and updating our business continuity plans. We are also reviewing flooding risks and developing a long-term plan to protect critical assets on a prioritised basis.

In 2020 we published our Net Zero Strategy, and we are making progress consistent with our plan to achieve 'net zero' on all embedded and operational carbon emissions by 2040. We are improving our understanding of the impact of fugitive emissions from wastewater treatment processes, though this remains an area of uncertainty. Maintaining progress depends largely on the success of our application for funding to support the required investment at PR24.

Caban Coch Reservoir, Elan Valley

Welsh Water 2050: Environment

Strategic Response	Status	Comment
Supporting ecosystems and biodiversity	▲ On track	Opportunities to do more, with appropriate funding and partner support.
Using nature to reduce flood risk and pollution	● At risk	River water quality is a key concern requiring sustainable solutions. We are actively working with Government to help develop new policy to support change.
Cleaner rivers and beaches	● At risk	Need to increase investment and find more effective collaborative approaches, particularly to encourage further adoption of Sustainable Urban Drainage Solutions (SUDs).
Protecting our critical wastewater assets	▲ On track	Flood risks are growing as a result of climate change.
Achieving net zero carbon emissions by 2040 and promoting a circular economy	▲ On track	Increasing investment will be needed through the PR24 process. AMP8 investments will also increase our scope 3 carbon footprint, presenting further challenges.

KEY ▲ On track ● At risk

Our plan for those Strategic Responses not currently on track

Strategic Response 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-friendly solutions to the problem of excess surface water run-off, that would otherwise require a carbon-intensive solution. However, this approach takes time to develop and implement, and the costs are very significant. Our aim is to apply in due course this same approach to other urban areas in Wales, to help adapt to the changing climate by slowing and reducing the run-off into combined sewers which can lead to flooding and pollution during heavy rainfall.

In considering how to implement this approach more broadly we need to address the challenges of cost and affordability, and balance these against the other pressures on our investment plan, and against customer affordability. We know, however, that these schemes deliver benefits beyond the primary objective of reducing run-off, including biodiversity, carbon reduction and mental health benefits. The development of an accepted method of valuing such benefits, through the 'multi-capitals' or 'natural capital accounting' approach, will help us work with partners to build a case for such investment in the longer term.

Strategic Response 16: cleaner rivers and beaches

This year saw greatly increased attention from the public, regulators and government over the health of rivers across the UK, with the River Wye prominent among them. We would like to see faster progress in improving river health in Wales, but this is a complex issue where water companies are just one of a number of important contributors to the situation, and where we are operating with imperfect information on the causes and effects of pollution.

Tackling this issue will require significant investment, and an approach to the problem which is joined up with regulators and other stakeholders, well-informed, long-term, and focused on what matters most - the actual impact on the environment. This is the approach we are taking, working alongside the Welsh Government, Natural Resources Wales and others. We are committed to working collaboratively, both to address problems where our assets pose a risk to the environment, and to trial more flexible regulatory approaches that facilitate the right actions and efficient delivery of outcomes over the long term.

PERFORMANCE: CUSTOMERS

PERFORMANCE IN FY 23

Without doubt, this has been a challenging year for customers. The cost-of-living crisis has significantly affected our customers and their ability to pay. There have also been impacts from major weather events in both the summer and winter.

In spite of these challenges, we maintained customer satisfaction performance in FY 23, improving our performance against the C-MeX measure from 5th place in FY 22 to 4th place in FY 23. We expect to remain in the upper quartile of the C-MeX table during FY 24 and will strive to improve our performance every year.

Disappointingly, we have not met our target for total complaints, reflecting the challenges we have faced in the period, including the drought, the freeze/thaw event and delays in meter installations due to high demand. Against this we are seeing the benefits of improvements we have made to adviser training and development, new technology such as Track My Job; and a reduction in complaints associated with debt recovery and chasing updates

We have maintained our support for customers in need. This year, we have continued to increase the number of customers receiving Priority Services and we have already delivered against target for the full AMP last year (3 years earlier than planned).

Customers consider Sewer Flooding as the worst service failure. We are pleased to have seen a much-improved performance this year where we have exceeded our target and received a £2 million reward as a result. The prolonged period of warm weather in the summer of 2022 was a key driver in the improved performance. We anticipate continuing to improve in this area, but to a lesser degree in FY 24.

For the second year in a row, we met our targets for reducing sewer collapses. We also made good progress in identifying obstructions and defects before they become service failures.

Our performance in D-MeX declined slightly from last year, with a ranking of 13th. The support and services we provide all of our developer customers remains a priority for the Company and is critical to supporting the broader economy. Our D-MeX score is not directly comparable with those of other water companies due to regulatory divergence as noted on page 60.

While we performed well on Business Customer Satisfaction, scoring 4.4/5, this is just below our FD target and has resulted in a small penalty.

Overall, customers are still finding our bills affordable, and we have not seen a material change in payment rates.

Vulnerable Customer Event, Newport

AMP7 Performance Commitments Outcome in FY 23: Customers

Performance Commitment	FY 23	FD target FY 23	FY 22	Status v Target	Reward/ (penalty) £m
Internal sewer flooding Number of incidents per 10,000 connections	**1.14**	1.58	1.36	▲	1.880
Sewer collapses Number of collapses per 1,000 km of sewer	**6.68**	7.20	6.71	▲	0.000
Total complaints Household customer complaints per 10,000 connections	**49.9**	Upper quartile	28.2	●	(0.030)
Company level of bad debt % uncollected revenue as a proportion of total revenue billed	**2.9**	2.1	2.4	●	Reputational
C-MeX Ofwat's comparative assessment of customer satisfaction	**4th**	N/A	5th	▲	2.191
D-MeX Ofwat's measure of customer service for new connection customers	**13th**	N/A	12th	●	1.156
Business customer satisfaction Score out of 5 based on business customer surveys	**4.4**	4.5	4.4	●	(0.125)
Priority services for customers in vulnerable circumstances Proportion of households on our Priority Services Register	**10.4**	5.6	8.1	▲	Reputational

KEY ▲ Ofwat Target met or exceeded ● Ofwat target missed

Further details of PC measures and the units of measurement are included in the Appendices from page 250.

Plan for the future

We are aiming to drive better performance across our retail business through our new IT strategy. It will expand our digital services and deliver a much-improved customer experience.

For D-MeX, we have a challenge with improving our performance because the legal and regulatory arrangements for water and wastewater services to developer customers in Wales are materially different to those in place for water companies wholly or mainly in England. As a result, our D-MeX performance is not directly comparable to that of other companies. However, we delivered upper quartile performance on the quantitative component of this measure, and we continue to drive year-on-year improvements in the quality of service delivered. We are currently advocating refinements to D-MeX as part of PR24 so that future performance and comparisons reflect the differences in regulatory regimes between Wales and England.

Tenby Town Centre

PERFORMANCE: CUSTOMERS CONTINUED

PROGRESS TO WELSH WATER 2050

We expect recent demographic trends to continue until 2050, including an ageing population. This underlines the importance of our vulnerable customer strategy. Welsh Water 2050 explains how we are responding to this challenge, working effectively with partners and other service providers to give appropriate and effective support to customers in vulnerable circumstances.

We have a small number of customers who suffer repeated or longstanding issues with their level of service. We are committed to tackling these issues over the long term, though there is likely to be a hard core of issues where no cost-effective solution currently exists. In the meantime, we have a Water Fair scheme to ensure that customers who fall into the 'worst-served' category for water or for wastewater are not charged for that service.

The key long-term trend we need to respond to in terms of customer service is growing customer expectations, as rapid innovation occurs in other retail and service sectors. We are investing significantly to implement new digital services.

All of our objectives need to be achieved at an affordable cost to customers, particularly those struggling to pay their bills. This tension is particularly acute now as customers are impacted by the cost-of-living crisis, and the war in Ukraine is likely to mean they will see high energy prices for some time to come. Whatever the pace of investment to 2050, we will continue to drive cost efficiency through research, innovation and effective partnerships. We will also continue to monitor the design, targeting and reach of our social tariffs to mitigate the impact of any future bill rises on the most financially vulnerable customers.

Vulnerable Customer Event, Newport

Welsh Water 2050: Customers

Strategic Response	Status	Comment
Ensuring affordability of services delivered to customers	At risk	Cost-of-living crisis and uncertainty around future household bills. Likely future water bill increases.
Supporting customers in vulnerable circumstances	On track	Increased emphasis since pandemic.
Addressing our 'worst-served' customers	At risk	At risk due to climate change. Some required interventions disproportionately costly.
Leading-edge customer service	On track	Rapidly moving picture. Customer expectations rising.

KEY On track At risk

Our plan for those strategic responses not currently on track

Strategic Response 8: ensuring the affordability of services delivered to customers

While we continue to deliver a sector-leading range of social tariffs to support customers who are struggling to pay their water bills, we have to consider that our objective of ensuring the affordability of services over the long term is at risk in the current environment. Inflation has reached a 30-year high, driven largely by rising energy bills, and this is putting domestic finances under extreme pressure for many. While inflation is expected to fall over 2023, household bills will remain high, and affordability of our services will become difficult for more people than before. Not only are we going to see more people needing support if the forecasted increase in unemployment (Bank of England) materialises, but higher bills and housing costs are resulting in more households experiencing financial distress. These customers are typically 'under-served' when it comes to many financial assistance schemes. In response, we introduced in December 2022 our new Community Fund (Cymuned), which is aimed at helping worst-served customers. and will be made more widely available in 2023. We have also increased the capacity of our existing social tariff scheme. We will continue working closely with government and other stakeholders to examine how we balance our investment priorities with keeping bills as low as possible.

Strategic Response 10: addressing our 'worst-served' customers

We are maintaining the principle that all customers deserve a good level of service, and will work 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 other important investment requirements. In our wastewater services, climate change is tending to increase repeat flooding events and is working against our target. Therefore, we are faced with making limited progress in this area currently given the investment needed to address the challenges we face in ensuring a good service across our customer base as a whole. We will continue to engage with customers and stakeholders on striking an appropriate balance between competing priorities.

PERFORMANCE: COMMUNITIES

PERFORMANCE IN FY 23

We are performing very well in terms of km of river improved and expect to receive a reward of £1.4 million. 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.

In Community Education, we are now past the impact that the pandemic had on our recent performance. This year, we have seen significant improvement and have met our ambitious target to reach c.80,000 children and young people through our education programme in FY 23. This is both through our outreach programme and at our education centre in Cilfynydd.

In 2022 we saw c.739,000 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. We also have two sites where recreational access has been improved at Lliw and Swiss Valley Reservoirs, also in the west.

There has been no increase in demand for financial assistance over 2022, and the number of households on one of our social tariffs is largely unchanged, with the number of applications lower than we expected.

We are also performing well on safety, with a reduced number of reportable serious injuries in FY 23.

Throughout the year, there has been a continued focus from our colleagues and contractors to manage health and safety risks and identify improvements to prevent injuries and ill health. We have a target to reduce the number of reportable injuries by 1 year each year during AMP7.

Current performance is ahead of target, but due to the small numbers of incidents involved, there are no plans to further tighten these. We will continue to deliver against our AMP7 Health and Safety strategy and improvement plans.

Vulnerable Customer Event, Newport

AMP7 Performance Commitments Outcome in FY 23: Communities

Performance Commitment	FY 23	FD target FY 23	FY 22	Status v Target	Reward/ (penalty) £m
Vulnerable customers on social tariffs Household customers on our social tariffs	**128,531**	133,000	127,247	●	Reputational
Km of river improved Total length improved by our actions	**122**	25	94	▲	End of AMP ODI
Community education Number of participants in our Education Programmes	**80,194**	73,000	45,655	▲	£0.014
Visitors to recreational facilities Total number of visitors	**739,294**	720,000	842,701	▲	£0.019
Reportable injuries Injuries reported to HSE under RIDDOR	**5**	7	9	▲	Reputational

KEY ▲ Ofwat Target met or exceeded ● Ofwat target missed

Further details of PC measures and the units of measurement are included in the Appendices from page 250.

Km of river improved will remain provisional until we receive confirmation from Natural Resources Wales (NRW)

Plan for the future

We continue to enhance and develop the services and support we provide to our customers and communities. This includes expanding the reach of our affordability support, notably with our innovative Cymuned (Community) Fund to help those struggling to pay. This is being combined with an expansion of our data-sharing arrangements to improve identification of customers needing financial assistance.

ECONOMIC IMPACT ASSESSMENT

Our wider economic contribution to the Welsh Community

As one of the largest private companies based in Wales, our impact reaches beyond the provision of our core services of supplying safe, clean water and the treatment of wastewater. We contribute greatly to the health of the Welsh economy and offer significant employment opportunities. In March 2023, Cardiff University completed a report on the impact of Welsh Water on the Welsh economy, following up a similar report published in 2013. The report estimated the economic impact of direct and indirect employment generated by our operations, the value added to the Welsh economy and the amount of the Company's expenditure retained in Wales.

The report shows:

- Welsh Water is responsible for more than £1 billion of output/expenditure in Wales each year
- Welsh Water supports over 9,100 (including direct and indirect) jobs in Wales
- Every £1 million of Welsh Water's direct gross value added (GVA) supports a further £1.27 million of GVA elsewhere in the economy
- 62% of Welsh Water's supply chain expenditure is within Wales – a significant increase on the approximately 41% estimated in 2013.

The report concludes that "Welsh Water anchors other anchor companies in Wales".

While our contribution to the Welsh economy is significant, we will continue to look for opportunities to boost it further, including through the development of our Sustainable Procurement Policy (see page 111).

PERFORMANCE: COMMUNITIES CONTINUED

PROGRESS TO WELSH WATER 2050

To provide great performance and excellent customer service over the long term, we need to work with, not just for, customers and communities. Our Welsh Water 2050 strategy involves co-creating solutions, sharing knowledge, and supporting initiatives to reduce water use and sewer misuse, and provide wider benefits for communities and the environment. We are already working in this way but will need to deepen and broaden our activity over the long term.

Two key elements of our engagement strategy are our education programmes and our visitor centres. Both were impacted heavily by the pandemic, but have recovered and are seeing significant expansion of activity. These activities help underpin customer trust, something that we track quantitatively in regular surveys. Customer trust in 2022 was 7.75/10 based on the Consumer Council for Water's survey. It is vital that we retain customer trust over the long term despite the challenges we face, and the current threats to the reputation of water companies with regard to environmental performance.

We work with and in communities in many other ways, including as an employer. To meet our 2050 objectives, we will need to retain our status as a great employer. Being an employer of choice means continually challenging ourselves to meet the highest standards and finding new ways to ensure our teams are motivated and have the resources to deliver great performance for our customers and the environment. This is particularly challenging in the current cost-of-living crisis, with high inflation and widespread labour shortages. However, we have a strategy aimed at becoming the best employer in Wales, and are confident that we can continue to attract the necessary skills and talent to help strengthen our links back into communities.

Welsh Water 2050: Communities

Strategic Response	Status	Comment
Working with customers and communities	▲	N/A
Employer of choice	▲	N/A

KEY ▲ On track ● At risk

Our plan for those strategic responses not currently on track

N/A – our strategic responses for Communities are currently on track.

COMMUNITY ENGAGEMENT

We invest over £1 million per day in our services, with a lot of work undertaken directly in the communities we serve.

This work can be intrusive and prolonged, which is why we always try to explain to customers and stakeholders why we are undertaking the work, so that we can keep them informed, help manage expectations and address any queries.

We also appreciate that our communities can sometimes be concerned about the work that we need to do and its impact on local amenities. This has included our scheme to build a partially below ground pumping station in Llandaff North (Cardiff) to support local housing development and our plans to build a new water treatment works in Merthyr Tydfil. We will continue to engage with these communities, to demonstrate that our plans are designed to have the least possible impact on the local surroundings.

> "WE ALWAYS EXPLAIN TO CUSTOMERS AND STAKEHOLDERS WHY WE ARE UNDERTAKING WORK, SO THAT WE CAN KEEP THEM INFORMED AND ADDRESS ANY QUERIES."

Taff Trail River Clean event

THE VALUE OF GOOD ENGAGEMENT WITH STAKEHOLDERS

Royal Welsh Show 2022, Builth Wells

Mutually beneficial relationships

We aim to establish and maintain with all our stakeholder groups mutually beneficial relationships based on our values of openness, honesty and trust.

This is achieved through an ongoing engagement strategy which is overseen by our ESG Committee, which reviews and monitors progress with our engagement plans. This is presented in the form of a Stakeholder Matrix which is organised by our Communications team who, alongside members of the Executive Team, are responsible for handling relationships with our key stakeholders including Welsh Government and our regulators, to maintain a positive 2-way dialogue to help implement our business plans and support the wider "Team Wales" policies where appropriate.

A high level analysis of what matters to our stakeholders is shown on pages 02 to 03 in the overview to this report.
The infographic and the more detailed analysis on pages 68 to 70 describe our stakeholder engagement programme in FY 23 and illustrate the different stakeholder groups with whom we engage.

Financial and Investors

Objective: To maintain a positive and transparent relationship on our performance and plans in order to maintain strong credit ratings and lower financing costs.

Our people

Objective: To motivate and support our people to continuously improve our customer service, operational and environmental performance and to empower an open and safe workforce that works for the benefit of customers both today and in the future.

Customers, Communities and Society

Objective: To earn the trust of our customers every day and to make a positive contribution to the communities of which we are a part.

Environment and Future Generations

Objective: To collaborate to improve our shared environment, and minimise the impact of our activities on the environment. Planning with sustainability at the heart of everything

Suppliers and Contractors

Objective: To engage and collaborate with suppliers that support our ethos and the achievement of common ESG goals thereby ensuring the deliverability of our plans for the future

Industry and Business Groups

Objective: To work together to achieve common goals that add public value and address social and community issues

Regulators and Government

Objective: To maintain a positive, open and transparent 2-way dialogue that will help gain support for our business plans and wider 'Team Wales' policies where appropriate

STAKEHOLDER ENGAGEMENT DURING THE YEAR

Stakeholder group	Their interest	Our objective	What we engaged on
Financial and Investors	Secure and dependable investment with positive ESG agenda	To ensure financing is available when needed at an appropriate cost and in accordance with our ESG Investment Policy	Company financial and operational performance, risks and potential mitigating actions
Our People	Employment with a trusted secure employer that does the right thing for customers, communities and the environment	To continuously improve our customer service, operational and environmental performance. To motivate, support and empower an open and safe workforce that works for the benefit of customers both today and in the future	Business updates, performance, decisions and plans. To gain input into the safe and efficient day-to-day operation of the business and future business planning. Safety and wellbeing, including mental health initiatives and wellbeing champions across the business
Customers, Communities and Society	A dependable and trustworthy company that works in the interests of its customers, community and environment	To earn the trust of our customers every day. To influence behaviour to e.g. reduce consumption, not add inappropriate items to waste water. To impart understanding of our operating activities and plans to deliver against their, and our, objectives	Long-term objectives and delivery strategy; future plans; capital investment work that is being conducted in their area; resolving problems and general queries; to raise the profile of our work in their communities and the benefits we bring; to maintain an appropriate profile and positive reputation, so that they will be willing to work with us on common challenges such as water efficiency; to educate the public on the water cycle and the environment to better inform them of the challenges we face and how they can be addressed
Regulators and Government	Efficient high-performing company that adds wider social and environmental value	To gain their input into and agreement for our business plans and support our wider 'Team Wales' policies where appropriate. To understand and influence policy direction	Operational, reputational, legislative and performance requirements and associated matters; future plans and policy decisions/proposals
Industry and Business Groups	To collaborate on common goals that support the needs of their members and their organisations' objectives	To work together to help the Company achieve its objectives and add value to the communities within which we operate	Future plans; collaborative projects
Suppliers and Contractors	To meet their clients' needs: to improve their own reputation and support their own corporate ESG goals	To engage and collaborate with suppliers that support our ethos and share common ESG goals, thereby ensuring the deliverability of our plans for the future	Provision of services to and for our customers (or to us), including capital investment projects and business as usual operational services; our expectations of their company and employees in terms of the services they provide, the performance they achieve, and the manner in which they deliver it (e.g. health and safety, customer service etc.)
Environment & Future Generations	To protect and enhance the environment and tackle the challenges associated with climate change	To gain insight on the wider environmental agenda; to gain support and constructive challenge on future plans; to develop collaborative and innovative approaches/projects; to improve and defend the reputation of the Company's commitment to the environment	Environmental performance, challenges and plans; collaboration projects; research

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 to, among other matters:

- the likely consequences of any decision in the long term.
- the interests of the company's employees.
- the need to foster the company's business relationships with suppliers, customers and others.
- the impact of the company's operations on the community and the environment.
- 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 the year. For further information, please see the Governance Report on pages 133 to 197.

Engagement with our stakeholders plays a vital role in our decision making, allowing boardroom discussions to consider their interests and the impact on them of our decisions. While we aim to maintain a diverse range of skills, backgrounds, and experiences on the Board, we also value hearing directly from our stakeholders throughout the year. The Board continues to seek new ways of engaging with the varying perspectives of our Customer and Communities stakeholder groups, including Developer Services and Suppliers.

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

As a customer-led business, addressing the long-term 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.

Customer engagement

The customer voice is represented through the Independent Challenge Group (ICG). See page 72 for further information on the ICG.

Board members attended a Customer Immersion Day in June 2022 to gain insight into our customers' priorities as part of our PR24 preparation, and an online Community Research Forum with our customers on the subject of Combined Storm Overflows in March 2023.

Stakeholder engagement

The Board regularly hears directly from our principal stakeholders, including our regulators, through their attendance at Board meetings. The views of regulators are gathered both directly through invitations to join our Board and Quality and Safety Committee (QSC) 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 FY 23, the QSC heard directly from some of the Directors of Natural Resources Wales (June 2022) and the Chief Inspector of the Drinking Water Inspectorate (March 2023).

The Chair and the Wales Chair of the Consumer Council for Water (CCW) attended the Board's meeting in December 2022.

The Chair, and the Chief Executive of Ofwat, together with the Wales Director and the Senior Director of Strategy and Planning, attended the September 2022 meeting of the Board.

The Board heard directly from the Chair of the Board of Trustees of the Company's pension fund in November 2022.

Supplier engagement

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 any procurement or key supplier issues. This helps ensure that the services provided to customers, and the delivery of our investment schemes, and the provision of other goods and services, are in line with our expectations and company values. Board members also meet regularly with representatives of contractors working on our Capital Projects programme when attending site visits. We have a Supplier Payment Policy and we are a signatory of the UK Government Prompt Payment Code (see page 111 for details).

Employee engagement

The Board promotes inclusivity and supports developing each individual to their full potential. Regular updates on health and safety, 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 relevant Committee meetings. There are also regular updates from the Executive Team on discussions with the recognised trade unions, through the Senior Negotiating team, and in relation to employee engagement surveys and the action plan agreed by the Executive Team in response to colleague feedback from the survey.

The Chair of the Board and Non-Executive Directors regularly meet with groups of colleagues from all business areas. Notes of the topics discussed at these meetings are taken and shared with other members of the Board at the next Board meeting. These colleague meetings are typically held remotely, enabling a wider geographic spread of colleagues. Separate meetings are arranged with managers across the business, which have also been held remotely, but during 2023 we restarted holding informal managers' lunches with the Board.

S172 STATEMENT CONTINUED

Engagement with Glas Members

The role of Glas Members is set out on pages 136 and 148 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 9-year term). The Board meets with our 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 the Company Secretary's report to the Board at each Board Meeting.

Engagement with the Independent Challenge Group (ICG)

The ICG 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. The Chair of ICG attended the PR24 Customer Insight agenda item at the Board's Strategy Day held in November 2022.

Engagement with the Independent Environmental Advisory Panel (IEAP)

The Panel includes representatives from environmental non-governmental organisations (NGOs), academics and third sector organisations. One of the independent Environmental Advisers to the Board's Quality and Safety Committee (QSC) attends meetings of the IEAP, and reports back to the QSC on issues of relevance to the Committee.

Engagement with Glas Cymru investors

During FY 22 we held meetings with our bond investors via video conference, but in July 2022 we convened 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 on with the Treasury team.

The role of the Executive Team

The Dŵr Cymru Executive Team, which is led by the Chief Executive and includes the Chief Financial Officer, is responsible for the operational management of the Group. The Team is designated as senior management for the purpose of the UK Corporate Governance Code but not for the purposes of section 414C(8) of the Companies Act 2006. The Executive Team comprises the senior functional management roles and those with responsibility for interacting with the Company's principal stakeholders.

Our Managing Directors for Water, Waste Water and Retail (Household Customers) attend all Board meetings.

From 6 February 2023 Nicola Foreman replaced Nicola Williams as Group Company Secretary and as a Member of 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 Executive Team for Board approval include information on relevant stakeholder considerations to be discussed as part of the debate when making decisions. This is 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.

This includes making decisions about the long-term. As is very much aligned to our Purpose, the decisions the Board makes now will have long-term implications for our customers and communities now and for generations to come. This is particularly true in relation to the long-term availability of water which is impacted by the environment, climate change and the demographics and usage habits of the communities in which we serve. The Board receives regular updates on long-term trends and considers long-term strategies for carbon and energy, water, and waste water management resource planning.

Through direct engagement with employees through employee engagement sessions, informal meetings with managers and by conducting operational site visits (see page 70 for more details) the Board is able to see and experience first hand how our culture and values are applied across the business. Maintaining an effective culture within Welsh Water is a key component to support the delivery of our strategies and the Board's decision making to promote the long-term success of the Company. Read more on our culture and values on page 04 and 05 of this report.

Board decision-making in relation to our stakeholders during FY 23

Decision	Discussion topics	Action taken following Board decision as a result of stakeholder feedback
River Water Quality	Response to public concern about sewage pollution: River Quality Improvement Plan with a focus on how we reduce the levels of the most harmful pollutants in our rivers	Publication of our Manifesto for Rivers to set out how we will achieve this. This includes our commitment to address CSOs, prioritising those that impact on river quality, or are an aesthetic concern Development of our first Drainage and Wastewater Management Plan and the scale of environmental investment plan that is deliverable, financeable and affordable by customers in the next and subsequent AMPs determined
	First Minister's Phosphorus Summit (July 2022).	Board attended the Summit and contributed to the Action Plan agreed at Summit. Our outline PR24 Investment Plan was shared with NRW and the PR24, Forum led by Welsh Government River Quality Ambassadors were appointed to collaborate with community interest groups on river water quality
	Customer Research: Community Research Forum on the subject of CSOs	Feedback from this online Community Research Forum with our customers on the subject of CSOs held in March 2023 will support our ongoing CSO strategy
	Additional funding in AMP7 and focus of enhancement investment planned for PR24	£100 million additional investment was approved by the Board as Return of Value, given the Company's not-for-shareholder status
Cost-of-Living Increases	Supporting our customers through our vulnerable customer strategy	Social tariffs reviewed given uncertainty of cost-of-living increases, including support to people in work not eligible for this support but who may be impacted. This resulted in the launch of our Cymuned (Community) scheme, the only one of its kind in the sector
	Supporting our colleagues	Executive Team negotiations with trade unions in respect of a one-off cost-of-living payment of either £1,000 or £2,000 to eligible colleagues in December 2022, the lower paid receiving the higher amount, and a 6.2% pay increase to most of our colleagues from April 2023
PR24 Planning	Customer engagement: Customer Immersion Insight Session	The Board's Insight into our customers' priorities it gained by attending this immersion session will be used as part of our PR24 planning
Baglan Energy Park power switch-off	To work closely with Welsh Government and other affected organisations to prevent and minimise the impact and disruption to power supply and risk of flooding which would impact our customers	We supported the Welsh Government led action to prevent the official receiver from switching off the private wire network until a new long-term electrical network was constructed. New electricity connections were completed minimising potential disruption to Welsh Water's operations
Leakage reporting	Misreporting of leakage and per capital consumption during FY 21 and FY 22 identified in May 2022	Independent third party reviews undertaken. Need for restatement declared to Ofwat. Redress package for customers put in place pending outcome of Ofwat investigation. Restatement of leakage and per capita consumption in FY 23 financial statements. Oversight by newly established Leakage Oversight Committee of the Board

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

1. Our TCFD disclosures

Compliance statement

Having considered the four TCFD recommendations and the 11 recommended disclosures as well as the 'Guidance for all sectors' as set out in section C of 'Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures', October 2021, here we provide our full TCFD disclosure which is consistent with these recommendations and disclosures with the exception of Metrics and Targets. Please refer to the below table for detail on this year's disclosures and their locations within this report.

Climate change represents one of the biggest challenges we face as a business, and we are committed to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), providing transparency to our stakeholders. This is the second annual disclosure of our climate change risks, providing an update on our separate TCFD report published in 2022. The information provided in this section demonstrates how we have embedded climate change into our strategy, governance and risk management process, and how we are committed to monitoring our progress with appropriate metrics. In line with our 2050 mission, we aim to become a world-class, resilient, and sustainable water service for future generations. Tackling the risk of climate change is critical to our success in this endeavour.

We will continue to develop our approach to managing climate risk and its impact on our business, illustrated by progress in the last year (table below), building on the commitments that we made in our 2022 TCFD report.

	Summary and primary disclosure	Links to relevant documents containing further detail
Governance	**Section 3 of our TCFD disclosure**	
a. Describe the Board's oversight of climate-related risks and opportunities b. Describe management's role in assessing and managing climate-related risks and opportunities	We have described our Board and management's role to be compliant with the recommendations.	> Annual Report and Accounts 2023 (this report): • TCFD page 84, and • Strategic Report, Governance of Sustainability, pages 108 to 111 • Governance framework, page 133 > Welsh Water 2050 > Our Plan PR19 Business Plan 2020-2025 > ESG Strategy (page 133) > ESG Terms of Reference > Compliance Code
Strategy	**Section 2 of our TCFD disclosure**	
a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term b. Describe the impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	We have described climate related risks over three time horizons relevant to our business: to 2030, 2050, 2100. We have assessed the impacts of the climate-related risks and opportunities in line with our broader enterprise risk management system, to assess these against our strategy and financial planning. We have assessed risk to enable us to describe the resilience of our climate change impacts under a number of scenarios.	> Annual Report and Accounts 2023 (this report) • TCFD pages 80 to 84 > Welsh Water 2050 > Our Plan PR19 Business Plan 2020-2025 > Making time for Nature 2020 > Our Journey to Net Zero > Final Drought Plan 2020 > Drainage and Wastewater Management Plan (Published in 2022) > Water Framework Directive Schemes > Final Water Resources Management Plan 2019 > Draft Water Resources Management Plan 2024

	Summary and primary disclosure	Links to relevant documents containing further detail
Risk Management	**Section 4 of our TCFD disclosure**	
a. Describe the organisation's processes for identifying and assessing climate-related risks b. Describe the organisation's processes for managing climate-related risks c. Describe how the processes for identifying, assessing, and managing climate-related risks are integrated into the organisations overall risk management	Our approach to identifying, assessing and managing climate-related risk is described. We set out how this is integrated into our wider enterprise risk management approach.	> Annual Report and Accounts 2023 (this report): • TCFD page 85 • Our Approach to Risk Management pages 90 to 99 > Welsh Water 2050 > Our Plan PR19 Business Plan 2020-2025 > Final Water Resources Management Plan 2019 > Draft Water Resources Management Plan 2024 > Drainage and Wastewater Management Plan
Metrics and Targets		
d. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes e. Disclose Scope 1, 2 and (if appropriate) 3 greenhouse gas (GHG) emissions and related risks f. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Metrics relevant to the organisation's strategy and risk management processes are listed. Emissions are also disclosed, including scope 3 emissions. Targets for managing climate-related risks and opportunities are disclosed. Further detail will become available as new plans and strategies are published later in 2023. Performance against these targets are reported in our Annual Report.	> Annual Report and Accounts 2023 (this report): • Strategic Report: Performance, pages 50 to 66 • Strategic Report: Sustainability Progress, pages 112 to 128 • Achieving Our Net Zero Carbon Strategy (ESG Objective 2): Scope 1, 2 and 3 Emissions page 120; Net Zero Drivers, page 120 > Our Journey to Net Zero. > Carbon Accounting Workbook > Wellbeing Commitments 2020

TCFD CONTINUED

	2022 commitment	FY 23 Progress
Governance	Establish clear mechanisms to ensure Board and Executive-level oversight of and management responsibility for climate-related risks.	We have integrated the oversight of climate-related risks into existing governance processes; our TCFD risks are reported to our Board's ESG Committee which meets on a quarterly basis with formal risk reviews every 6 months.
Strategy	Undertake business-wide gap analysis of our climate strategy, including adaptation and mitigation.	Based on gaps identified, we have: • Published our draft Water Resources Management Plan 2024[1] • Developed a Climate Change Planning Policy, which improves our climate readiness by defining planning assumptions, scenario testing requirements and expectations for adaptive planning. We have several strategic documents under development (to be published in 2023): • Our Drainage and Wastewater Management Plan • Our Long-Term Delivery Strategy • Our Climate Change Adaptation Report
Risk management	Leverage existing enterprise risk management processes to ensure integrated management and ownership of specific climate-related financial risks and opportunities into operational and strategic adaptive planning.	In addition to integrating climate-related risks in our Enterprise Risk Management (ERM) framework (see TCFD risk management section), we have refined our processes for identifying, scoring and prioritising climate-related risks. This has provided a more detailed appraisal of the climate-related financial risks compared to our last report and supports the development of mitigation plans and the case for interventions where these risks are impending. Adaptation requirements are considered further in our Climate Change Adaptation Report, and are a key consideration in our strategic plans, including our submission for PR24.
Metrics and targets	Define multi-capital metrics to incorporate a broader range of environmental and social costs and benefits into our investment decisions and reporting, and improve resilience to physical and transition impacts of climate change.	During AMP7 we have developed an approach to integration of multi-capitals into our decision making that is on par with best practice in the sector. This should enable us to optimise our investment programme to deliver wider social and environmental benefits through our climate-change adaptation action. It allows us to incorporate social costs into investment.

1 Draft Water Resources Management Plan 2024 | Dŵr Cymru Welsh Water (https://dwrcymru.com/dwrmp2024)

CLIMATE CHANGE RISK MODELLING TO INFORM STRATEGY

Aligned with the regional Water Resources West plan, our WRMP assesses future water supply under the 'most likely' scenario (RCP 6.0), and 'stress tests' this against RCP 2.6 (low) and RCP 8.5 (high). It is important that we understand and analyse our water resources within these climate extremes, as we are already managing extreme events.

Through our WRMP we have developed an ambitious, long-term demand management strategy that recognises the need to take action to reduce leakage and help customers use water wisely. Through this activity, we expect to have sufficient water resources to be able to continue to supply water to our customers in the long term across all climate change scenarios. You can read more on our WRMP on page 47 (ESG report objective 1)

2. Strategy

2.1 Our approach to scenarios, analysis and modelling to inform long-term strategies and plans

We have developed scenarios, and used scenario analysis to assess the resilience of our organisation and its strategy to different futures, covering both underlying physical adaptation risks and transition risks to net zero.

We apply scenario analysis across our main services (water, wastewater, biosolids and energy), considering asset lifecycles and planning horizons. Review over short and longer time horizons helps us understand our profile of risks over time, recognising, for example, that transition risk needs to be considered in the short term (e.g. consideration of retiring assets early vs locking in emissions with investments), and physical risk is more significant in the longer term.

Our new Climate Change Planning Policy (2023) outlines our commitment to consider climate change scenarios in our long-term strategies and plans, including the WRMP and DWMP. These plans assess the long-term risk to specific assets and systems and optimise adaptation interventions to ensure we achieve our ambitions for customer service and environmental performance, as adaptive plans, under a range of climate scenarios. This is, in part, driven by regulatory expectations from Ofwat, and is summarised below.

	RCP 2.6	RCP 6.0	RCP 8.5
Long-term delivery strategy (LTDS)	Quantitative and qualitative assessment used to develop preferred pathway	Regulatory requirements do not require strategy against an RCP 6.0	Quantitative and qualitative assessment
Water Resources Management Plan (WRMP)	Modelling used to inform LTDS	Modelling used to develop preferred investment plan	Modelling used to develop stress-tested scenario
Drainage and Wastewater Management Plan (DWMP)[2]	Modelling used to inform LTDS	Modelling against equivalent scenario used to develop preferred investment plan	Modelling against equivalent scenario used to develop stress tests
Climate Adaptation Report	Not relevant as focus on adaptation in scenarios of significant further climate change (i.e. worse than RCP 2.6)	Quantitative and qualitative assessment	Quantitative and qualitative assessment
Net zero carbon commitments	Assessment of requirements to align with meeting this pathway	Net zero ambitions most relevant for fast transition scenario	Net zero ambitions most relevant for fast transition scenario

2 Our DWMP 2023 includes modelling at an individual sub-catchment level. The next iteration of the plan will be more detailed and include UKCP18 data which was not developed in time for this year's plan.

2.2 Climate change scenarios

Physical risks	Transition risks
Risks resulting from climatic events and hazards, which can be acute (e.g. a major storm or heatwave), or chronic (e.g. rising sea levels, extended drought).	Risks stemming from transitioning to a net zero economy. These can also be acute (e.g. legislation change), or chronic (e.g. societal behaviour change over time).

We set out our risks under five scenarios, based on the IPCC Representative Concentration pathways (RCPs) 2.6, 6.0 and 8.5. The choice of scenarios is based on a mix of our understanding of climate science and its applicability to our business planning cycles. For more detail, please see each specific scenario.

	RCP 2.6	RCP 6.0	RCP 8.5
2100:	1.5 degrees	2–4 degrees	4+ degrees

TCFD CONTINUED

Transition risk scenarios

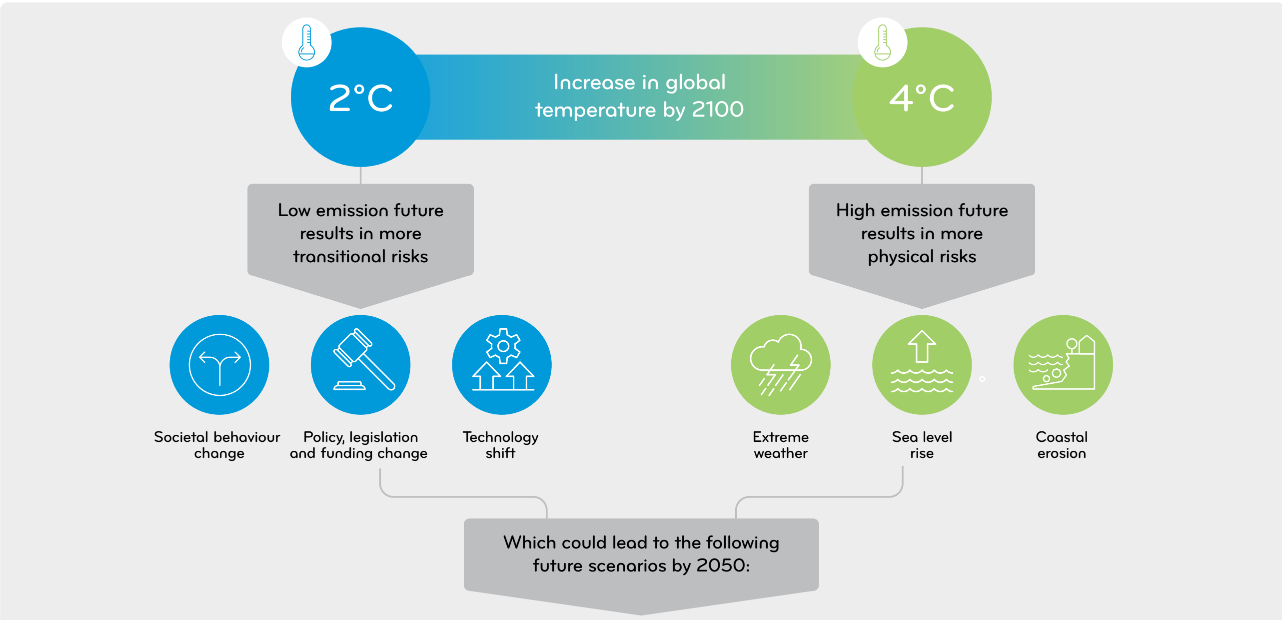
Accelerated net zero (RCP 2.6 in 2030[3])	Delayed and disorderly (RCP 8.5 in 2050[5])
The world is on track to limit warming to 1.5 degrees. This means significant political action realigns economies and society: • UK and Welsh Government policy and regulation incentivises significant reductions in greenhouse gas (GHG) emissions[4] before 2030 • Technological developments are made at speed, fossil fuel intensive items are made redundant, impractical or too costly to operate and replaced by nature-based solutions and efficient technology • Social behaviour sets expectations of businesses, and the licence to operate is tied to delivery of net zero commitments. The value of water is acknowledged and costs are more easily accepted by customers	After decades of inactivity, there is a charge to decarbonise after missing 2050 targets. This means: • Governments and society are sent into a state of urgency to act, leading to policy and legislation change, generating huge costs for emitting GHGs and incentivising immediate emissions reductions • Technological developments are fast, but supply chains are heavily constrained • Society reacts strongly to climate change impacts and is supportive of climate action. Customers, however, are less willing to accept costs of previous inaction

Transition risk drivers:

Regulatory and policy

Technological

Societal



Rapid and Orderly transition	Delayed and Disorderly transition
Physical climate impacts are not underestimated, but the focus is on a rapid transition to a low carbon future.	Reacting to more severe physical climate impacts takes precedence over the transition to a low carbon future.
Government, regulators, and other sectors demonstrate the unity of purpose, strong leadership, and collaboration, with an underlying emphasis on nature-based solutions.	Government, regulators, and other sectors work at cross purposes and in isolation, with an emphasis on education rather than unified action.
Society realises the value of water, with water and waste recycling being socially acceptable and preferred.	The increasing cost of water services is considered unacceptable, with growth in social inequalities and concerns over affordability
A shift in technology is aligned with a focus on nature-based solutions, and smart technologies enable efficient water distribution, use, and treatment.	Focus on engineering technologies has reduced emphasis on the natural environment, assets are stranded, investment is misdirected and new technologies are taking longer to operationalise.

Physical risk scenarios

Unpredictable weather (RCP 8.5 in 2030[6])	**Tempestuous climates (RCP 8.5 in 2050[9])**	**Catastrophic storms (RCP 8.5 in 2100[11])**
The world has not done enough to limit warming and is on track for a 4 degree rise. There are increasing occurrences of severe weather.	The world is still not taking action, and has missed 2050 emissions targets. The climate is now stormy with unprecedented extremes.	The world has failed to choose a low carbon future and catastrophic storms regularly take lives and damage livelihoods.
We expect that, in 2030:	We expect that, in 2050:	We expect that, in 2100:
• Winter rainfall[7] will have increased by 6% • Summer rainfall[1] will be down 9% and average summer temperature[1] will have increased by 1.4 degrees • Average sea level[1] will have risen by 0.11–0.2m	• Winter rainfall[10] will have increased by 12% • Summer rainfall[3] will be down 21% and average summer temperature[3] will have increased by 2.6 degrees • Average sea level[2] will have risen by 0.2–0.39m	• Winter rainfall[12] will have increased by 22% • Summer rainfall[4] will be down 36% and average summer temperature[4] will have increased by 8 degrees • Average sea level[2] will have risen by 0.51–1.13m

1 Draft Water Resources Management Plan 2024 | Dŵr Cymru Welsh Water (https://dwrcymru.com)
2 Our DWMP 2023 includes modelling at an individual sub-catchment level. The next iteration of the plan will be more detailed and include UKCP18 data which was not developed in time for this year's plan.
3 2030 has been chosen as the period to 2030 has been cast as the 'decade of action' globally for climate and sustainability action. It also represents the end of the next regulatory price review period for water companies.
4 There are six greenhouse emissions covered by the Kyoto Protocol – carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF_6). We often use the shorthand 'carbon' or CO_2e to refer to all of them collectively
5 We plan ahead to 2050 in our long-term strategy, Welsh Water 2050, as well as our other regulatory planning documents. It also represents the date to achieve net zero, cast in legislation.
6 2030 the end of the next regulatory price review period for water companies, and climate change will already be experienced in the form of more extreme weather patterns.
7 Using UKCP18 data 50th percentile change for time horizon 2030–2049: metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/research/ukcp/ukcp18-key-results.xlsx
8 Using UKCP18 data for 5th and 95th percentile change for sea level rise for Cardiff under RCP8.5 in 2030, 2050 and 2100: metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/research/ukcp/ukcp18-key-results.xlsx
9 We plan ahead to 2050 in our long-term strategy, Welsh Water 2050, as well as our other regulatory planning documents. It also represents the date that climate projections RCP 6.0 and RCP 8.5 begin to significantly diverge.
10 Using UKCP18 data 50th percentile change for time horizons 2050–2069: metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/research/ukcp/ukcp18-key-results.xlsx
11 Assets that we have in place, or are planning for now, will still be around in 2100. This also represents the extent of the long-term climate projection data available.
12 Using UKCP18 data 50th percentile change for time horizons 2080–2099: metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/research/ukcp/ukcp18-key-results.xlsx

Physical hazards driving risk:

Flood and storms

Drought and hot weather

Sea level rise

TCFD CONTINUED

2.3 Risks and opportunities

This section outlines our top 5 physical and transition risks, and key opportunities. For more detail on scoring and risk-specific mitigations, please see appendix of this report.

Primary risks: Transition

Driver	Risk
Technological	T1 Inaccuracy of emissions reporting There is a risk that actual emissions are different to those reported. This uncertainty results in under or over investment in mitigation activities, and exposes the organisation to financial impacts associated with the price controls for emitting GHGs.
	T2 Insufficient new technologies available and adopted There is a risk that our technological capabilities to support the transition are insufficient to mitigate residual emissions and manage future challenges, e.g. disposal of biosolids, and abating process emissions.
Regulatory and policy	T3 Financial impact of extended emissions trading and carbon tax There is a risk that there is increased legislative and regulatory pressure to enter into emissions trading schemes or the enforcement of carbon tax, leading to significant costs.
	T4 Speed of transition raises costs and competition for resources in supply chain There is a risk that policy forces companies to transition at the same time, causing competition for the same resources. Furthermore, the supply chain does not yet have the technological solutions to mitigate residual emissions (e.g. process emissions).
	T5 Regulatory targets related to embodied carbon are incompatible with the regulatory targets from the NEP There is a risk that regulatory tensions between NEP and embodied carbon lead to a failure to meet either targets, resulting in reputation damage and/or negative environmental impact.

Primary risks: Physical

Driver	Risk
Extreme weather events – flood and storms	P1 Inundation of sewer networks in high rainfall events There is a risk of sewer inundation during periods of increased rainfall intensity or duration, leading to a flooding event (internal/external flooding, Combined Storm Overflow (CSO) discharge).
Extreme weather events – drought and hot weather	P2 Climate change impact on drinking water quality There is a risk that extreme weather conditions, including drought conditions, increases in rainfall intensity, more extreme wet/dry cycles and other indirect causes, change the composition of raw inlet water to treatment plants, changing chemical treatment regimes and the ability to treat the same volume of water.
	P3 Increase in customer demand under hot conditions There is a risk that customers require more water under hot conditions, limiting planned reductions in per capita consumption (PCC) to meet local supply/demand restrictions.

Driver	Risk
Extreme weather events – flood and storms	P4 Risk to our assets during extreme weather events There is a risk that our assets (e.g. treatment works, pumping stations, pipework) are flooded during high rainfall events, leading to an inability to supply customers or risk of environmental harm due to loss of treatment capability.
	P5 Risk to infrastructure supply chains during extreme weather events There is a risk that other infrastructure systems may be damaged or disrupted through the direct impact of extreme weather events (e.g. telecoms, transport or energy infrastructure). This can cause disruption to our own systems and can lead to an inability to supply our customers and present a risk of environmental harm due to loss of treatment capability.

Primary risks: opportunities

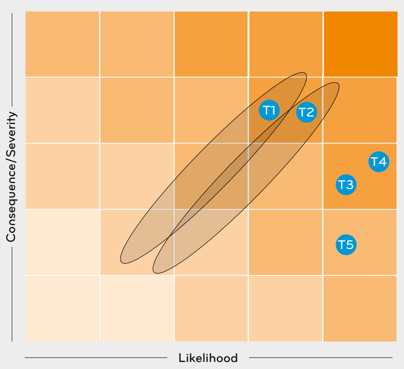
Driver	Opportunity
Technology shift	O1 Development and deployment of innovative technology We have an opportunity to develop and deploy innovative new technologies in order to improve our service now and meet future climate challenges.
Policy, legislation, funding change	O2 Implementation of circular economy principles There is an opportunity to implement circular economy principles, with the co-benefit of reducing associated carbon emissions. Such practice could also create social and economic wellbeing.
	O3 Support for the development of new laws and regulations We have an opportunity to continue to support 'Team Wales', the Welsh Government and other key stakeholders with positive legislative, policy and regulatory change, e.g. on the development of nutrient trading, biodiversity, and carbon trading in river catchments; the provision of WQ modelling; environmental sampling and data gathering; and advice on new regulations to improve sustainability in our sector. Such an approach would optimise the use of available resources in Wales.
	O4 Use of sustainable procurement to capitalise on the green economy There is an opportunity to use our Sustainable Procurement Policy (2023), supported by our environmental stakeholder community, to support Wales' green economy, including for example through local direct wire Power Purchase Agreements or Corporate Power Purchase Agreements.

Risk summary

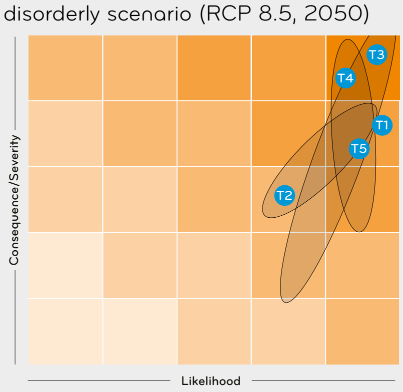
Our risks have been assessed against a scale aligned with our Enterprise Risk Management system, adapted to enable us to assess risk in the longer term. Please see page 90 for further details. We can confirm that based on this indicative view, these risks do not present a material risk to the overall operation of our business.

TCFD CONTINUED

Top **unmitigated** risks under accelerated net zero scenario (RCP2.6, 2030)



Top **unmitigated** risks under delayed and disorderly scenario (RCP 8.5, 2050)



KEY

- T1 Inaccuracy of emissions reporting
- T2 Insufficient technologies available and adopted
- T3 Financial impact of extended emissions trading and carbon tax
- T4 Speed of transition raises costs and competition for resources in supply chain
- T5 Regulatory targets related to embodied carbon are incompatible with the regulatory targets from the NEP

Likelihood

Policy, legislation, and funding change: From 'Change in government structure required for this change' (low) to 'Discussions about bringing in this policy' (high).

Technology shift: From 'No known discussions about this technology (low)' to 'Technology trials are currently in progress (high)'.

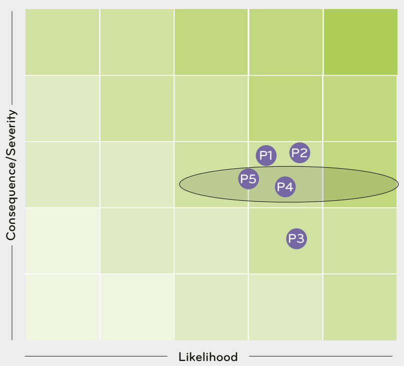
Societal behaviour change: From 'No examples of these behaviours seen anywhere' (low) to 'Evidence of pockets of behaviour in Welsh Water's areas' (high).

Consequence/Severity

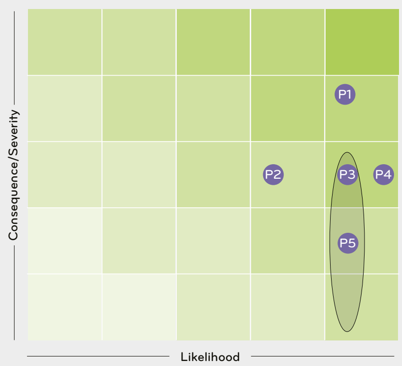
The consequence thresholds and risk rating matrix are scored against Operational, Reputational and/or Financial risks in accordance with the Welsh Water ERM framework.

Displays the range of outcomes due to uncertainty.

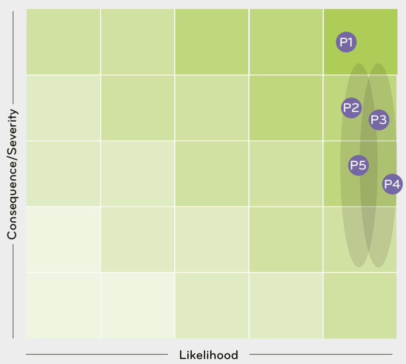
Top **unmitigated** risks under inclement weather scenario (RCP 8.5, 2030)



Top **unmitigated** risks under stormy climates scenario (RCP 8.5, 2050)



Top **unmitigated** risks under catastrophic storms scenario (RCP 8.5, 2100)



KEY

- P1 Inundation of sewer networks in high rainfall events
- P2 Climate change impact on drinking water quality
- P3 Increase in customer demand under hot conditions
- P4 Risk to our assets during extreme weather events
- P5 Risk to infrastructure supply chains during extreme weather events

Likelihood

Physical risk: From < 1-in-100-year event (low) to 1-in-1-year event (high).

Consequence/Severity

The consequence thresholds and risk rating matrix are scored against Operational, Reputational and/or Financial risks in accordance with the Welsh Water ERM framework.

Displays the range of outcomes due to uncertainty.

2.4 Strategic mitigations

Our Welsh Water 2050 vision details 18 strategic responses which highlight and respond to the accelerating impact of climate change, alongside other long-term trends and challenges. In March 2022 we reviewed our approach and progress against each of these responses, and from page 48 of this report, you can see a performance assessment for these responses under each of our strategic themes.

Below, we highlight those strategic activities that respond directly to our most significant climate change risks and opportunities. These are being integrated into our next business plan (for 2025-2030).

Strategic theme	Key planned mitigations	Responds to risks
Water	• Catchment management, in particular replicating the approach used in Brecon Beacons mega-catchment • Cwm Taf water treatment works • Raw water quality monitoring and modelling programme • Leakage reduction programme to reduce leakage to 75/85 Ml/d by 2050 • Per capita consumption reduction programme to reach 100/110 l/h/day by 2050 • Tackling pinch points within the network to improve supply at times of peak demand • Use of technology to develop a smarter network to monitor and react to local supply issues more effectively	P2 P3
Environment	• Delivery of the Drainage and Wastewater Management Plan – increasing sewer capacity and delivery of sustainable drainage solutions, building on £140 million spent in AMP7 on CSO and nutrient impacts to improve river health • National Environment Plan targets and programme of work • Reduction Programme to reduce our fugitive emissions by 50% • Intention to increase biomethane/biohydrogen production programme to produce 120GWh per year (see page 132 on hydrogen innovation) • Sewer network sensor technology and continued use of Event Duration Monitoring (EDM) to provide greater visibility on CSOs that are frequently spilling • Research and piloting programme to explore the use of circular economy in different parts of the business	T1 P1 P4 O2
Customers	• Engagement with the National Infrastructure Commission for Wales on the interdependencies with key infrastructure providers such as power and transport to understand the system implications • 'Stop the Block' campaign to educate customers on the harm of wet wipes • Smart meter technology innovations (see page 130) to support customers to reduce consumption • Supply interruption – resilience work on avoiding downtime	P5 O1

Communities	• Participation in local resilience forums, including work to improve multi-agency planning
	• Collaborative innovation programmes, including £35.7 million via the Ofwat innovation fund and partnerships with up to 100 academic and other institutions
	• Sustainable Procurement Policy to strengthen supply chains and reduce scope 3 emissions
	• Strategic planning considers:
	  • Adaptive pathways and scenario testing within our LTDS to invest responsibly in line with our understanding of risk
	  • Service measure framework development and use, based on our good practice multi capitals approach to make the case for blue/green solutions to reduce carbon impacts of interventions and contribute to Sustainable Management of Natural Resources
		T2
		T3
		T4
		T5
		O3

TCFD CONTINUED

A note on the risks to delivery of our strategic mitigations

There is a risk that the regulatory framework as currently set out will not support funding for the adaptation and mitigation investments we need to deliver, as summarised above. There is also a risk that Government decisions will drive policy to improve water quality without reference to the carbon consequences of such decision making, driving scope 3 emissions up in particular.

We will optimise our activity within the regulatory regime under which we operate and the surrounding market conditions for accessing capital, and will seek the support of key partners and stakeholders to obtain sufficient investments to reach climate safety.

3. Governance

3.1 Summary

Climate change is integral to our governance, through both our Board and management.

The Board	Reviews risks related to climate change on a regular basis, including papers on a range of service and climate-related topics, which support understanding of emerging climate-related risks and issues.
ESG Committee	Develops and oversees the Group's ESG Strategy. Monitors performance against the Company's ESG targets and key performance indicators. Regularly reviews climate-related risks. Approves the approach to TCFD disclosures. Review papers on a range of service and climate-related topics, which support understanding of emerging climate-related risks and issues.
Executive Committee members	CEO: has ultimate responsibility for the group's preparedness for adapting to climate change and driving our mitigation strategy. CRO: has executive responsibility for risk management governance including the identification, management and proper reporting of climate-related risks and opportunities. Managing Directors for Water and Waste Services: have responsibility for the implementation of climate change response and the implementation of adaptation plans. Along with the other members of the executive team, they are tasked with managing the risks and mitigating actions, for example by ensuring the company has the necessary resources and skilled people in place to achieve its climate-related objectives.

3.2 Board oversight of climate-related risk and opportunities

Climate change represents one of the biggest challenges we face as a business and impacts our strategic themes. Our primary vehicle for oversighting climate risk and opportunities is through the Board's Environmental Social Governance (ESG) Committee, which meets on a quarterly basis and formally reviews risks every 6 months. More on the ESG Committee's role, objectives and activities can be found within the ESG Committee's report on page 170. Verbal and written updates are issued to the Board after each ESG Committee meeting, and every Director has access to the minutes and papers discussed. In addition, the Board and the Executive Committee receive detailed updates on strategic and emerging risks every 6 months, 2 of these risks being climate-related (adaptation and carbon targets) and summary risk updates on a monthly basis.

Sustainability and associated activities are overseen by the ESG Committee, on behalf of the Board, to ensure that they are aligned with, and integrated into, our broader business purpose and strategy. This reflects our mission from Welsh Water 2050: 'to become a world-class, resilient, and sustainable water company water service for the benefit of future generations'. The strategy section of this TCFD report has outlined specific risks and opportunities we see as the most impactful against this mission. Page 106 of this reports outlines our ESG strategy objectives.

1. long-term planning and sustainability,
2. achieving our net zero carbon strategy, and
3. adapting our assets and services to mitigate climate change risks,

along with subsidiary 'focus areas' and 'measures', which are monitored quarterly by the ESG Committee.

3.3 Management's role

Our Climate Change Planning Policy sets out management's role with regards to climate change as follows:

- the CEO has ultimate responsibility for the Group's preparedness for adapting to climate change and driving our mitigation strategy,
- the CRO has executive responsibility for risk management governance, including the identification, management and proper reporting of climate-related risks and opportunities, and

- Managing Directors for Water and Waste Services have responsibility for the implementation of climate change responses and the implementation of adaptation plans. Along with the other members of the Executive Team, they are tasked with managing the risks and mitigating actions, for example by ensuring the Company has the necessary financial resources and skilled people are in place to achieve its climate-related objectives.

ESG Committee and Board risk reports are reviewed by the Executive Team, who ensure that climate change risks are identified and appropriate mitigation planned and implemented to achieve sustainability, net zero, and adaptation of strategic objectives. The ESG Committee and the Board also review papers on a wide range of service and climate-related topics, which support understanding of emerging climate-related risks and issues.

Following Executive review, strategic risk and monthly management reports are produced for each of the Board meetings and ESG risk reports are reviewed by the ESG Committee on a 6-monthly basis, with quarterly updates. The Executive Team reviews and develops investment proposals and the delivery strategy for PR24 which is underpinned by assessments of a range of possible future climate scenarios. A high-level summary of these scenarios can be seen in the strategy section. Subject to the conclusion of PR24, and in accordance with Ofwat's expectations for long-term delivery strategies, we aim to establish a robust plan that is adaptable to the uncertainties of climate change for water resources and services, and for drainage and wastewater services.

To maximise the value of the investment programme, and provide independent oversight of specific environmental strategies, we have continued to use the Independent Environmental Advisory Panel (IEAP). For example, this year the IEAP has advised on our Biodiversity Action Plan, which responds to the nature emergency declared in Wales and sets out our roadmap for reporting via the Taskforce on Nature-related Financial Disclosures (TNFD) requirements in 2024.

We have also reviewed the priority of our mitigation measures, responding to NRW's identification of 'Net-Zero' investment as a part of the National Environment Plan for AMP8. Our target for net zero, (under Environment Sustainability ESG Objective 1) will be updated this year in line with the best in the sector.

Finally, this year we have developed and approved our Climate Change Planning Policy, a document that outlines our approach to incorporate the IPCC Representative Concentration Pathways into all long-term strategies and plans, and, where relevant, include scenario testing and adaptive planning. It also outlines our commitment to produce a Climate Change Adaptation Report to highlight key climate risks and mitigations, and update this every 5 years in line with National Adaptation Planning timeframes. This is due to be next published early this summer.

4. Risk management

4.1 Climate change risk management integration

We manage climate change risks in accordance with our Enterprise Risk Management process, with ownership and reporting led by our ESG Committee. More detail on the ERM process, including roles and responsibilities can be found on pages 90 to 99 of this report.

4.2 Climate change risk prioritisation

To inform this year's TCFD reporting, we reviewed and re-prioritised our risks based on the latest climate science and industry best practice.

We developed 5 scenarios that represent sufficient diversity to explore the potential climate change that we might be exposed to over different time horizons. Based on UKCP18 data, these are plausible scenarios and we have used these as a starting point to explore relevant climate change impacts and anticipated policy and technology changes. These scenarios are explained in more detail in the strategy section.

In assessing the risks under each RCP and under each time horizon, we considered the unmitigated risk for our organisation, excluding future planned mitigations. We consider our unmitigated position to understand how severe our position would be in alternative futures, recognising that over the long term most planned mitigations are subject to uncertainty and constraints and are not the same as completed mitigation.

After we identified scenarios and risk drivers, we produced a long list of risks by mapping asset categories against each of the drivers, to ensure we captured a wide range of risks across our asset base. We assessed risk consequence and likelihood, following our ERM process, with enhancements made to allow us to better analyse under the uncertainties and timescales relating to climate change. By scoring and reporting climate change risks within the same ERM framework as all other risks, we enable the Executive and Board to assess risk priorities and significance, using risk score and appetite values, supporting an objective assessment by the Board of risks and priorities.

We then assessed and prioritised these risks through a series of workshops to identify the top 5 physical and transition risks and opportunities. We've also looked to identify the key strategic mitigations that respond to one or more of these risks.

TCFD CONTINUED

5. Metrics and targets

Managing our risks is underpinned by frequent monitoring of our metrics and targets related to decarbonisation and adaptation. As a water company we have to meet a number of reporting obligations for our regulators, common to all water companies in England and Wales, and we also publish other useful information for stakeholders in this Annual Report.

Our metrics and targets can be used to measure our progress in mitigating our risks and by virtue achieving our climate change targets. We have assessed the materiality of relevant cross-industry climate-related metrics and targets in order to produce a set of relevant targets, goals and metrics. We have assessed the materiality of relevant cross-industry climate-related metrics and targets in order to produce a set of relevant targets, goals and metrics.

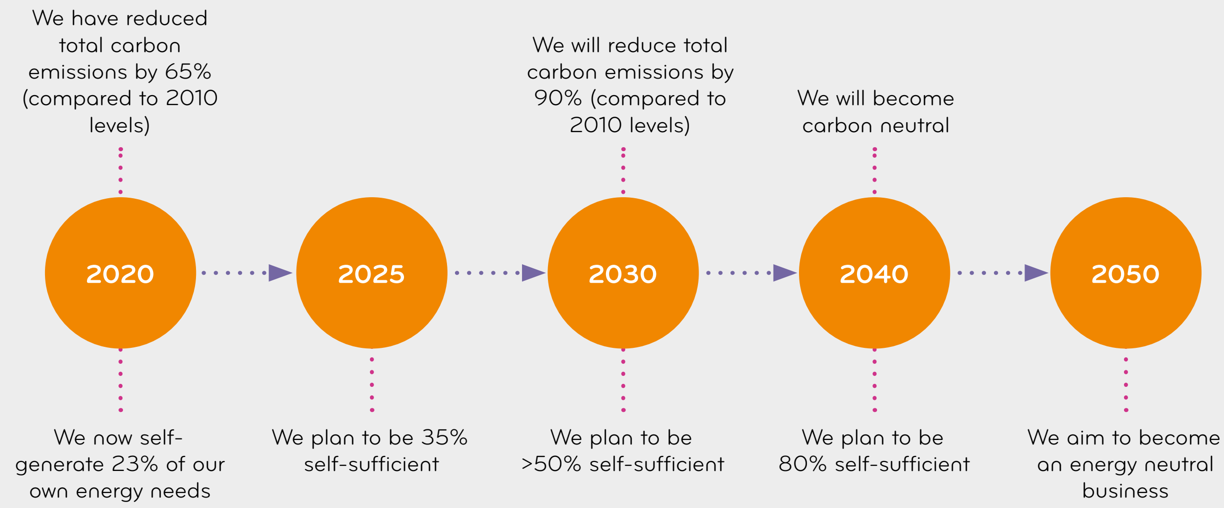
5.1 Our goals and targets

Net zero

In 2021 we committed to net zero 2040. This will transform our organisation and we have set out a number of milestones and targets to help us achieve this with a focus on increasing our energy self-sufficiency, investing in science and research to transform our water and wastewater services, and reducing our energy demand.

As set out on pages 120 to 121, in striving to achieve this commitment we have already made considerable progress to reduce our emissions which have dropped by 65% since 2010. We have invested in renewable energy generation and energy efficiency with a portfolio consisting of over 70 assets, including hydroelectric power, combined heat and power (CHP) engines, solar and wind, creating enough electricity for over 25% of our needs – the equivalent of more than 25,000 homes.

Our Goals



Targets to 2025

- 35% energy self-sufficiency – 22% achieved in 2022/23
- 33% reduction in intensity of embodied carbon for individual projects compared to the 2020/21 baseline year
- 7 litres per person per day (pppd) reduction in water consumption

Targets to 2030

- 50% reduction in fugitive N_2O emissions compared to the 2020/21 baseline year
- 50% energy self-sufficiency
- Triple biomethane/biohydrogen production compared to 2020/21 baseline year
- 50% reduction in embodied carbon versus conventional project solutions compared to 2020/21 baseline year
- Target 100/110 litres pppd consumption
- Leakage reduced to 75/85 MLD

Targets beyond 2030

- Convert largest N_2O emitters to reactor type treatment
- Zero emissions vehicle fleet
- 90% reduction in embedded carbon by 2040 compared to the 2020/21 baseline year
- Use carbon capture usage and storage to capture 8,000 tCO_2e per year

Risk	Relevant metrics and reporting
T1 Inaccuracy of emissions reporting. There is a risk that actual emissions are different than those reported. This uncertainty results in under or over investment in mitigation activities, and exposes the organisation to financial impacts associated with the price controls for emitting GHGs.	Completeness of scope 1, 2 and 3 emissions.
T2 Inability to adopt new technologies at pace. There is a risk that our technological capabilities to support the transition are insufficient to mitigate residual emissions and manage future challenges, e.g. disposal of biosolids, and abating process emissions.	Annual reporting on innovation progress (see page 129 of this report).
T3 Financial impact of extended emissions trading and carbon tax. There is a risk that there is increased legislative and regulatory pressure to enter into emissions trading schemes or the enforcement of carbon tax, leading to significant costs.	Scope 1, 2 and 3 emissions (see page 120 of this report).
T4 Speed of transition raises costs and competition for resources in supply chain. There is a risk that policy forces companies to transition at the same time, causing competition for the same resources. Furthermore, the supply chain does not yet have the technological solutions to mitigate residual emissions (e.g. process emissions).	Scope 1, 2 and 3 emissions (see page 120 of this report).
T5 Regulatory targets related to embodied carbon are incompatible with the regulatory targets from the NEP. There is a risk that regulatory tensions between NEP and embodied carbon lead to a failure to meet either targets, resulting in reputation damage and/or negative environmental impact.	Scope 1, 2 and 3 emissions (see page 120 of this report). Reporting against ESG objective 8: adapting to future challenges (page 109).

Opportunity	Relevant metrics and reporting
O1 Development and deployment of innovative technology. We have an opportunity to develop and deploy innovative new technologies in order to improve our service now and meet future climate challenges.	Annual reporting on innovation progress (see page 129 of this report).
O2 Implementation of circular economy principles. There is an opportunity to implement circular economy principles, with the co-benefit of reducing associated carbon emissions. Such practice could also create social and economic wellbeing locally in Wales.	Reporting against progress on Welsh Water 2050 Strategic Response 18 (see pages 48 to 67).
O3 Support for the development of new laws and regulations. We have an opportunity to continue to support 'Team Wales', the Welsh Government and other key stakeholders with positive legislative, policy and regulatory change, e.g. on the development of nutrient, biodiversity, and carbon trading in river catchments; the provision of WQ modelling; environmental sampling and data gathering; advice on new regulations to improve sustainability in our sector. Such an approach would optimise the use of available resources in Wales.	Reporting against performance on ESG objective 10 (Working Collaboratively, page 108) and on stakeholder engagement (annual report pages 68 to 70).
O4 Use of sustainable procurement to capitalise on the green economy. There is an opportunity to use our Sustainable Procurement Policy (2023), supported by our environmental stakeholder community, to support Wales' green economy, including for example through local direct wire Power Purchase Agreements or Corporate Power Purchase Agreements.	Reporting on the 'Governance' of ESG: see pages 108 to 109.

TCFD CONTINUED

Physical climate risk and resilience

We have set targets which address the physical risks we have identified. Our Drainage and Wastewater Management Plan, and Water Resources Management Plan, which are updated this year, set out our plans to mitigate the greatest physical risks of climate change. Additionally, we are incentivised to achieve targets, known as Performance Commitments, by our regulator which are complementary to mitigating the physical risks of climate change. These will be updated using the Long-Term Delivery Strategy we have developed which sets out our delivery plan over the next 25 years, and will come into force in the next 5-year regulatory period starting in 2025.

Risk	Relevant metrics and reporting
P1 Inundation of sewer networks in high rainfall events. There is a risk of sewer inundation during periods of increased rainfall intensity or duration, leading to a flooding event (internal/external flooding, Combined Storm Overflow discharge).	Performance Commitment En3: Pollution incidents (Per 10,000km of sewer) and Rt1: Internal sewer flooding (per 10,000 sewer connections).
P2 Climate change impact on drinking water quality. There is a risk that extreme weather conditions including drought conditions, increases in rainfall intensity, more extreme wet/dry cycles and other indirect causes, change the composition of raw inlet water to treatment plants, changing chemical treatment regimes and the ability to treat the same volume of water.	Performance Commitment Wt1: Water quality compliance (CRI), Wt2: Water supply interruptions and Wt3 Acceptability of drinking water.
P3 Increase in customer demand under hot conditions. There is a risk that customers require more water under hot conditions, limiting planned reductions in Per Capita Consumption to meet local supply/demand restrictions.	Performance Commitment En5: Per Capita Consumption (% reduction) – 3-year average and Wt2: Water supply interruptions.
P4 Risk to our assets during extreme weather events. There is a risk that our assets (e.g. treatment works, pumping stations, pipework) are flooded during high rainfall events, leading to an inability to supply customers or risk of environmental harm due to loss of treatment capability.	Performance Commitment Wt2: Water supply interruptions, Wt5: Unplanned outage % and En1: Treatment works compliance %.
P5 Risk to infrastructure supply chains during extreme weather events. There is a risk that other infrastructure systems may be damaged or disrupted through the direct impact of extreme weather events (e.g. telecoms, transport or energy infrastructure). This can cause disruption to our own systems and can lead to an inability to supply our customers and present a risk of environmental harm due to loss of treatment capability.	Performance Commitment En1: Treatment works compliance %, En3: Pollution incidents (Per 10,000km of sewer) and Wt2: Water supply interruptions.

5.2 Metrics and progress

Our greenhouse gas (GHG) emissions are reported using the water industry Carbon Accounting Workbook (CAW) managed by UK Water Industry Research. This is updated annually to accommodate new emissions factors and techniques in emissions reporting and is relied upon by the water sector to report its emissions to regulators and government. In addition to using this reporting tool our data is audited annually to ISO 14064 carbon reporting standard.

Our GHG emissions data can be found on page 120 of this report.

You can find our progress against our current performance commitments and our long-term strategy on pages 48 to 67 of this report.

6. Next steps

We recognise that we are on a jousrney of assessing and managing climate risks for our business and our plans will evolve. As such, we have identified a number of next steps, which we will continue to take forward over the coming year.

	We will...
Strategy	• Complete a climate adaptation report (in progress) to articulate our strategy, which outlines our approach to monitor and mitigate priority risks. • Further develop our mitigation and adaptation strategies (in line with our strategic mitigations identified above) and delivery plans in the context of PR24. DWMP and WRMP published during 2024, outcomes of consultations in 2023. • Further develop our scenarios for analysing our risks to accommodate tipping points and greater levels of political and climatic disorder, in line with TCFD guidance on scenario analysis[1].
Governance	• Enhance our monitoring of climate risks, recognising that there is ongoing work to develop our Long-term Delivery Strategy, that will set out trigger points, and further work on transition risks. • Building on our existing robust corporate and ESG risk governance, we will develop our governance mapping to ensure improvements to risk monitoring and trigger points have line of sight to Board.

Risk management	• Continue to evolve our risk management process for climate-related risks. In particular, we will:
	  • Develop our approach to the financial quantification of risk by March 2024. We will use the multi-capitals approach as part of our improvements to better understand and deal with risk.
	  • Continue to feed our risk analysis into our strategy and planning work in a clear and consistent way.
	• Embed our recently approved Climate Change Planning Policy to improve our long-term strategic plans for water resources and drainage, integrating climate change analysis to shape our investment and operational approaches.

Metrics and targets	• Continue to develop short and medium term targets for the upcoming price review. • Continue to develop our approach to measuring and reporting scope 3 emissions. • Identify metrics for ongoing monitoring or progress to mitigate our risks and reach our targets.

1 https://www.tcfdhub.org/scenario-analysis/

OUR APPROACH TO RISK MANAGEMENT

Managing Risk to meet our Customer Commitments

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

Our strategic themes:

Water	Safe high-quality and reliable drinking water
Customers	Excellent customer service
Environment	Safeguarding the environment
Communities	Supporting the future of communities

Enterprise Risk Management Process:

Our Enterprise Risk Management Framework provides the structure for the business to anticipate and report threats to meeting these customer commitments and to respond effectively when risks materialise. This framework includes:

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

Our Enterprise Risk Management Framework

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

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

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

Third Line

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

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

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

Risk appetite

Our risk appetite is defined in the Group strategic risk objectives which are reviewed and approved by the Board. They align to our strategic themes (Water, Environment, Customers and Communities (see pages 06 to 07) and are used to support risk-aware decision making.

1.1 Overarching Risk Objective

The Group recognises that continuing to fulfil the Company's primary purpose, of providing essential services to 3.1 million people across its supply area and minimising its impact on the environment, depends on having sufficient funds to invest for the long-term. Achieving lower-cost financing requires the Group to protect its reputation and the integrity of its relationship with customers and other stakeholders. As part of this, its appetite is for a generally low level of risk related to performance and customer service, allowing for some innovative solutions to deliver the best longer-term value for customers and the wider community.

1.2 Strategic Risk Objectives

i. Provide high quality and better value drinking water and environmental services to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.

ii. Invest in our assets and people in the best interests of our customers. The Group will invest funds efficiently and effectively in the asset infrastructure to ensure best value for current and future customers. It will also work to attract and retain appropriate skills and resource to ensure high levels of customer service.

iii. Stable/efficient access to funding and liquidity. The Group plans to meet both planned and unexpected cash outflow requirements that arise. Stress testing for unexpected events will take place prior to plan approval.

iv. Maintain stakeholder confidence. The Group has no appetite for material risks which would result in reputational damage or adverse health and safety conditions for any internal or external stakeholders.

Developments during the year – climate change-related risks

We continue to integrate understanding of the impacts of climate change into our ERM processes, alongside the embedding of climate scenarios within strategic planning. Risks of failing to adapt to climate change or meet carbon targets are regularly reviewed by the Board. A more detailed suite of ESG and climate-change-related risks receive further focus at the ESG Committee of the Board (see page 84).

OUR APPROACH TO RISK MANAGEMENT CONTINUED

Roles in relation to Enterprise Risk Management framework

Role of the Board

- Oversee the Group's system of governance, including an integrated ERM framework.
- Review and place reliance on the work of the Audit Committee in its review of the effectiveness of the ERM framework and associated processes.
- Define and agree a clear, documented risk appetite.
- Carry out an in-depth review of strategic and emerging risks twice a year, ensuring they are managed in line with our overall risk appetite.
- At each Board meeting, review the Executive Team's overview of strategic and emerging risks which may affect the business.

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 and emerging risks before each Board meeting and support the Chief Risk Officer (CRO) to prepare reports to the Board that highlight key changes.
- To review a summary quarterly report on business risk registers, and consider whether any action is required, reassessing strategic risks in light of this report.
- To oversee the effective operation of the ERM Framework, and supporting risk management processes.
- To recommend risk appetite for Board approval.

Role of Internal Audit

- Internal Audit must satisfy itself that the system of risk management is operating effectively within business operations to identify and manage the risks the business is exposed to.
- Internal Audit must ensure that the defined risk mitigation actions are operating effectively to reduce gross risk to the required risk appetite level.

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 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. It will also provide a recommendation to the 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 assessment of the first and second lines of defence.

Role of the CRO

- Owner of the Group's risk management processes, managing the framework for effective enterprise risk management (ERM), ensuring the flow of risk information throughout the organisation.
- To prepare reports for each Board meeting, highlighting key changes to strategic and emerging risks based on Executive Team discussions.
- To prepare a summary quarterly report on business risk registers and highlight key risk changes for review by the Executive Team.

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, update their Risk Register, define a risk owner and escalate these through their team leader.

Role of the Group Chief Executive Officer

- Under delegated authority from the Board, the Group Chief Executive Officer is responsible for proposing the strategic risk assessments, including risk appetite, to the Board and Audit Committee. The Board considers these proposals, 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. This ensures effective internal control of business operations, informs decision making on financial and operational planning, and assists in achieving objectives and targets.

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 a director or head of service, depending on the scope of the register. Risk owners for Project Risks will normally be the project manager. 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 to robustly 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.

The ERM framework defines risk management roles establishing ownership of risk management processes, reporting and oversight.

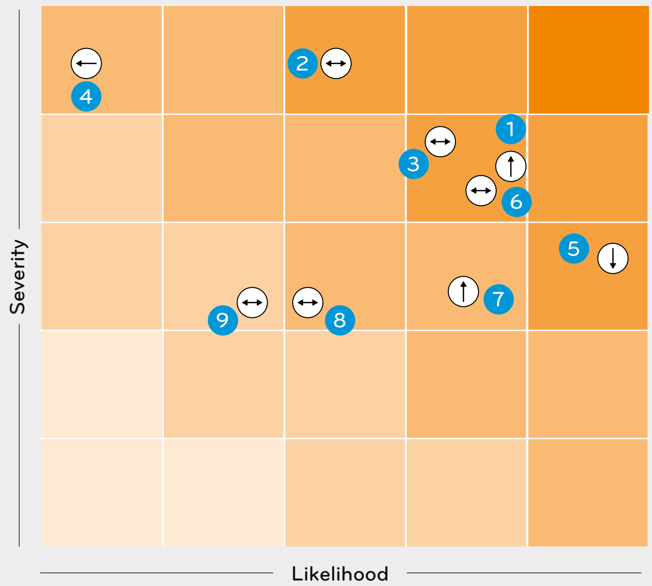
Principal risks faced by the Group

We carefully assess principal risks for their likelihood and the potential severity of damage caused to customer, reputational and financial impacts. We also give consideration to the mitigating actions and controls we apply.

Our profile of residual risk, accounting for these mitigating actions, has broadly increased in 2022. This reflects increasing stakeholder focus on environmental performance, alongside continued elevated risk from key areas such as cyber, climate impacts on resilience and the broad effects of the economic downturn.

Conversely, the health and safety risk likelihood score reduced in the year, reflecting continued positive risk indicator trends. However, the Board and Executive Team recognise there is no room for complacency, and maintain the utmost focus on this risk.

Summary of principal residual risks faced by the Group



KEY

1. Environmental performance and reputation
2. Business continuity
3. Climate change impacts and transition risks
4. Health and safety major incident
5. Cyber, information and operational technology (IT and OT)
6. Performance and costs
7. Loss of trust, particularly by our customers
8. People talent and diversity
9. Finance risk and customers' ability to pay

Risk Trend – Indication of current exposure, relative to prior year:

- Decreased
- Stable
- Increased

OUR APPROACH TO RISK MANAGEMENT CONTINUED

Principal risk and severity	Potential impact	Mitigation
1 Environmental Performance and Reputation	The risk of failing to manage our impacts on the environment and meet standards; and to respond to stakeholders' concerns regarding environmental issues and climate change, leading to loss of trust from stakeholders and inadequate planning for the future.	Key operational activities that impact on the environment are controlled using management systems certified to ISO 14001. We monitor local, national and global environmental concerns and industry responses. This helps ensure that ongoing activities minimise environmental impacts, that we optimise investments to improve resilience to climate change and that we meet other environmental aims (e.g. carbon targets and biodiversity). We publish data on combined storm overflow discharges to ensure transparency and we work closely with Independent Environmental Advisory Panel members, including environment NGO representatives, together with regulators, governments, and organisations such as Surfers Against Sewage.
2 Business continuity	The failure of strategic assets, workforce, corporate systems, supply chain provision or external events leading to the inability to deliver essential service provision of clean and safe drinking water, environmental protection or cash collection.	We regularly test our business continuity plans against our Security and Emergency Measures (Water and Sewerage Undertakers and Water Supply Licensees) Direction (SEMD) requirements and carry out exercises covering key disruption risks (e.g. power, cyber and weather-related incidents). Our Incident Response Manual and Incident Command Structure provide our framework to respond effectively to events which threaten our continuity of service. This structure is supported by Business Continuity Plans covering key incidents (e.g. fuel, power, drought, flood and winter events) and wider industry support through the Water UK Platinum Incident Management, which coordinates mutual aid across businesses.
3 Climate change impacts and transition risks	The risk of failing to mitigate/adapt to accelerated climate change, leading to our infrastructure being overwhelmed by weather events in a part of our operating area; or significantly damaging multiple assets, impacting 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 to ensure we invest appropriately to build resilience and to be able to respond robustly to ensure service provision despite those impacts.

Changes over the period	**Risk trend FY 23**
Our customers' views on the environment have changed significantly in the past few years, reflecting concerns about the environmental emergency the world is facing, and interest in more local issues such as river water quality. Awareness of how our systems operate has increased and expectations have changed. We do not shy away from the fact that our operations can have an impact on the environment, and our focus is on being transparent and using our data to drive improvements and to target our investments to have the greatest benefit. We have continued to work in partnership with community groups, the IEAP, government and regulators to understand environmental concerns and agree priorities for current and future investment. On river water quality, and CSOs specifically, we have worked with the Welsh Government River Water Taskforce, Nutrient Management Boards and other similar groups to develop our plans, reflected in Our Manifesto for rivers in Wales (see online at https://dwrcymru.com/rivermanifesto) In addition to our existing plan to spend over £800 million in wastewater assets in AMP7, we have committed in 2022 an additional £140 million investment in river water quality and CSOs. We have also worked with the Welsh Government and other stakeholders to develop a long-term river nutrient strategy with an aim to ensure future investments maximise environmental improvements. We also recognise our responsibility to respond to the climate emergency – see page 109. See sections on TCFD from page 74 and our net zero carbon strategy from page 120.	↑
During 2022, our operational teams have experienced significant pressure at times, including the impacts of drought and freeze/thaw events. We have also continued to see disruption in some key supply chains, such as fuel, essential chemicals and carbon dioxide. We have maintained a focus on resourcing and supply chain within our Crisis Management team, monitoring absence and supply chain issues. We recognise that the Ukraine conflict may continue to generate risks to fuel and supply chains, and have put a focus on key supplies and power blackouts in planning and testing activities.	↔
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. We have reviewed our adaptation risks through to 2100 with the support of Arup, reflected in our TCFD disclosure (see page 74) and in a Climate Adaptation Report that will be published in the 2023. We consider 3 main climate scenarios (benign, most likely and adverse) and have assessed the risks to essential services (see TCFD from page 74). In addition, we are developing adaptive plans to 2050 as part of AMP8 planning and in accordance with guidance from Ofwat, which will ensure our plans are able to adapt, given the uncertainty in the scale of climate change and its impacts. We are committed to climate change mitigation: during 2021 we launched our 'Journey to Net Zero' strategy to achieve net zero carbon by 2040 (for further information please see page 120).	↔

KEY ↓ Decreased ↔ Stable ↑ Increased

OUR APPROACH TO RISK MANAGEMENT CONTINUED

Principal risk and severity	Potential impact	Mitigation
4 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. Although we do everything in our power to avoid personal injury of any sort, their occurrence raises the risk of prosecution, potential for fines and criminal prosecutions against individual Directors, and loss of reputation. This could occur as a result of failure to establish and/or implement safe assets, safe working practices or suitable contractor management arrangements in accordance with legal requirements and best practice.	The Chief Executive Officer is the responsible Board director and the Board reviews monthly updates and quarterly reports on health, safety and wellbeing issues and performance. The Health and Safety Executive (HSE)/Institute of Directors' (IOD) 'Leading H&S' guidance is used as a 'directing' framework. We use leading and lagging indicators to closely manage risk and performance. 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.
5 Cyber, information and operational technology (IT and OT)	A major loss or disruption to an IT or OT 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 awareness of cyber threats. Our teams ensure resilience of both IT and OT services, and, since 2021-22, have continued an elevated focus and resource on cybersecurity detect, protect and respond capabilities. The Board Technology Committee oversees digital risk in the business and provides focused scrutiny at the Board level.
6 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.	The Board approves operational strategies and improvement plans to meet AMP7 performance commitments. Cost performance reporting and discussion is undertaken monthly by the Executive Team. The Board also reviews performance against the cost plan at each meeting. Financial plans are reviewed and approved by the Board annually. The Executive Team tracks change projects throughout the Company to improve performance and meet cost efficiency targets. These are reported to Executive meetings each month. We continue to work with our Data Science team to use innovation such as smart technology to deliver our services more efficiently and to measure our performance.
7 Loss of trust, particularly by our customers	Failing to earn the trust and confidence of our customers risks a loss in customer confidence in our services. As a monopoly supplier of essential public services, we are subject to a high level of scrutiny by, and direction from, government and regulators.	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.

Changes over the period	**Risk trend FY 23**
We keep health, safety and wellbeing issues under close review, with a weekly update to the Executive Team's Crisis Management team. In FY 23 we retained our RoSPA Gold Award for Health and the Welsh Government Platinum Corporate Health Standard. The health and safety risk likelihood score was reduced in the year reflecting continued positive risk indicator trends. However, the Board and Executive recognise there is no room for complacency, and maintain the utmost focus on this risk.	↓
In the context of global geopolitical events, the water industry is a target for cyberattacks, and we have seen an increase in the volume and sophistication of phishing emails, ransomware and distributed denial-of-service (DDoS) attacks. Despite this, we consider our residual risk has marginally reduced, reflecting the implementation of a wide range of infrastructure and control improvements. Notably, we have moved our infrastructure onto an evergreen cloud platform where upgrades and patching are an integral part of the core service. We have also focused on developing colleagues' cyber awareness, and have introduced RedFlag which is another key preventative control. We have also continued to assess, strengthen and test our estate, through increased threat intelligence gathering on known security threats, and the establishment of the Hybrid Security Operations Centre (HSOC). We focus on test activities which have included Purple Team activities and exercises with other agencies. We were one of the few commercial organisations to be invited to participate in the NATO Marvel cyber exercise, in which we achieved a top decile ranking for our defence capability.	↓
While we have achieved strong performance this year on some important measures, such as C-MeX, Ofwat's key customer service measure, we recognise our performance in some other areas has been disappointing, falling behind our targets on water supply interruptions, water compliance and leakage. We have a recovery plan in place (for more detail, please see page 18 (Chief Executive Officer's message) and pages 46 to 53 for our Performance Table). Cost performance remained a focus in FY 23 with ongoing delivery of programmes to optimise maintenance and construction costs. However, during FY 23 we experienced higher than planned costs due to issues such as rising energy costs, wider inflationary pressure on construction costs and weather events (see page 34). Ongoing global events are expected to continue to put pressure on supply costs over the next year.	↔
Customer research from the Edelman Trust Barometer suggests that trust has deteriorated across most sectors in the year. Similarly, research from Ofwat suggests trust in the water sector has fallen, although we remain one of the most trusted companies. In light of increasing cost of living and environmental pressures, we recognise that we need to continue to work hard to maintain customer confidence in our ability to balance affordability with the need for investment to reduce our environmental impact and maintain services for the future.	↑

KEY ↓ Decreased ↔ Stable ↑ Increased

OUR APPROACH TO RISK MANAGEMENT CONTINUED

Principal risk and severity	Potential impact	Mitigation
8 People: talent and diversity	The risk that we will fail to attract or retain talent to support all areas of our business; and/or We fail to improve the diversity of our workforce in order to better represent the communities that we serve.	A 5-year Human Resources (HR) Strategy (launched in 2021) aims for us to be acknowledged as the best employer in Wales. Central to that is supporting colleague development and ensuring our recruitment supports a diverse and inclusion workforce. We report on our Gender Pay Gap to the Board's Remuneration Committee (see page 173). For information about our work to improve diversity and inclusion in our workforce please see page 128.
9 Finance risk and customers' ability to pay	The risk that the wider economic situation means customers struggle to pay their water bills and/or our ability to obtain finance from third parties is impacted. They could be reflected in increased bad debt costs, loss of confidence from investors and ultimately increased borrowing costs. Key factors include rising commodity costs above revenue and investor appetite to invest in Welsh Water under Finance risk and customers' ability to pay.	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 around 129,000 customers with a combination of social tariffs and other forms of financial assistance. We continue to monitor closely the wider economic environment, particularly in light of wider economic uncertainty and the impacts of the war in Ukraine. We closely monitor and forecast debt ratios and funding requirements.

Emerging risks faced by the Group

Emerging risks feature in monthly Executive Team risk updates to the Board and are discussed in depth by the Board twice each year.

Emerging risk	Potential impact	Mitigation
Public health (micropollutants in drinking water and plastics in wastewater)	The risk of public concern around micropollutants – chemicals and microplastics – in drinking water and treated wastewater leading to possible onward impacts on treatment processes that may affect our carbon targets.	We are following developments in environmental regulation, including the planned implementation of the Drinking Water Directive in England and Wales, and supporting research by the UK Water Industry Research body (UKWIR) and others into the potential risks. Our focus on catchment management will, over time, help reduce our 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.
Legislative divergence	This is a risk of increased costs from complying with water and environment obligations that may diverge in England and Wales.	We recognise some areas of potential divergence, particularly covering waste treatment and CSO spill requirements. Our focus in these areas is to work with our stakeholders to develop solutions that best serve our customers' interests. We are actively supporting many interest groups. Our focus remains on developing transparency through the introduction of river water quality monitoring and on the monitoring and reporting of flow compliance.

Changes over the period	Risk trend FY 23
We have managed the shift to a 'hybrid' model for office colleagues with colleague feedback, turnover rates and recruitment KPIs indicating this has been successful and we remain attractive to external applicants. We have recognised the challenges for some colleagues generated by cost-of-living pressures, responding with a winter payment to colleagues and an increase in annual pay awards. Colleague turnover remained low at c.1 % throughout FY 23.	↔
We are monitoring cash collection metrics and debt lead indicators to identify any significant increase in customers who are struggling to pay their water bills. To date, we have seen limited impacts. Continued weakness in the economy and relatively high inflation has been factored into the Company's 2023-24 business plan, which demonstrates high levels of cash liquidity. We have maintained a significant cash balance and have increased short-term liquidity through revolving credit facilities. We closely monitor our credit ratios and funding requirements, and our business plans target the maintenance of a strong credit rating. We prepare to raise new debt well in advance of when it is required so that we can take advantage of periods when market liquidity is strong. We are currently reviewing our investment plans for 2025-30 and recognise that key investment needs to support environmental objectives and service resilience may impact longer-term finance requirements.	↔

Changes over the period	Risk trend
There is continued media interest and a growing research focus on 'forever chemicals' and a requirement from our regulator, the Drinking Water Inspectorate (DWI), to analyse water for the presence of PFAS (perfluoroalkyl and polyfluoroalkyl substances). To date, our monitoring has not identified these in our water abstraction sources which we use to provide drinking water.	↑
Our Drainage and Wastewater Management Plans, which we have published for consultation, will highlight to all parties the approach we wish to take to affordably transition our drainage and sewerage services to manage river water quality and develop resilience to climate change. We are working with the Better River Water Quality Task Force in Wales to agree both the pace and nature of required improvements based on environmental need.	↔

KEY ↓ Decreased ↔ Stable ↑ Increased

LONG-TERM VIABILITY STATEMENT

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

This assessment considers the Group's longer term prospects to ensure that the business is able to withstand various severe but plausible scenarios and to continue its operations, access to financing arrangements and delivering critical customer services should such scenarios arise. Based on this viability assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the 7-year period to March 2030.

Our business and regulatory environment

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 Group 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 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 carry out their essential services. Ofwat meets this obligation by setting price controls for each 5-year Asset Management Period (AMP), 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 AMP 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.

Resilience of the Group

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 2 decades we have steadily reduced gearing from 93% to 58%, and as a result we have a high level of financial reserves (£1,527 million) and robust credit quality. At 31 March 2023, total liquidity stood at £579 million (FY 22: £515 million) comprising cash and cash equivalents of £379 million and undrawn credit facilities of £200 million with a Group of 4 relationship banks (see financial statements note 16 D for further details. We invest cash prudently, depositing for a maximum of 3 months with highly rated banks and liquidity funds. The Group is fully financed to the end of AMP7 and has a proven track record of being able to raise new finance in most market conditions; and expects to continue to do so into the future.

Basis of our approach

As custodians of a long-term business, ensuring viability is ingrained in our risk management and planning processes. The Board undertakes a detailed assessment of the Group's risk management processes, which are detailed on pages 90 to 99. The Board challenge the identification and assessment of risks on a biannual 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 5-10 year horizon.

Assessment period

Regulatory price reviews occur on a 5 yearly basis, with the current AMP7 period running to 31 March 2025. Medium-term planning considers both the current and next price control period, to facilitate smooth transitions between price control periods. The Board considers a number of factors in determining the period covered by the assessment with 7 years the most appropriate forward-looking period over which to assess our ongoing financial viability. 7 years have been selected as it covers the remainder of the current AMP period to 2025, and the next AMP period to 2030.

Key assumptions underpinning the assessment

When considering the Group's prospects in the medium term, it is necessary to make certain assumptions. The assumptions used in the viability assessment are as follows:

- The Group is able to continue to access debt finance and capital markets;
- The current regulatory and statutory framework does not substantively change in the period covered by this assessment;
- Historical evidence and the evaluation of similar events observed in the market have been used to inform the potential impact of modelled scenarios;
- The severe but plausible scenario is based upon the Board's view of each principal risk's post-mitigation likelihood and severity, as set out below; and
- The aggregate impact if all adverse events occurred at once, not considering each principal risk's post-mitigation likelihood and severity, would not exceed the additional mitigations available to management.

Governance

We have in place an established process to assess the Group's prospects which is performed annually by senior management. The results of the assessment are considered by the Audit Committee, which reviews and recommends the Long-Term Viability Statement to the Board, where it is then in turn reviewed by the Directors for approval.

Principal risks and type of stress tests applied

We have mapped out the type of stress tests applied to each respective principal risk noted in our risk management section on pages 90 to 99.

	Principal risks		**Type of financial stress tests applied in isolation and in combined scenarios**
1	Environmental performance and reputation	a	• Penalties for an environmental breach and rectification costs of £25 million occurring once during the forecast period, with an increase in total expenditure (totex) of £65 million from increased environmental regulation.
		b	• Penalties of £20 million per annum for breaching quality controls for 3 years and deterioration in customer satisfaction ratings.
2	Business continuity		• An increase in totex of £12 million, in the first 3 years of the forecast, responding to prolonged pressures in the macroeconomic environment. • A sustained high and low inflation environment impacting our finance costs and gearing ratios.
3	Climate change impacts and transition risks		• An average increase in totex of £10 million per annum occurring every other year due to major weather-related events. • ODI penalties of £15 million resulting from asset failures relating to weather-related events over a prolonged period.
4	Health and safety major incident		• A one-off health and safety major incident in 1 year of the forecasted period of £4 million.
5	Cyber information and operational technology		• A penalty and rectification cost of £65 million occurring twice during the forecast period.
6	Performance and costs		• Penalties of £10 million per annum as a result of failing to achieve ODI performance measures set by Ofwat. • Average increase in totex of £30 million per year during AMP8 to improve performance.
7	Loss of trust, particularly by our customers		• Penalties of £15 million occurring in AMP8 of the forecasted period for deterioration in Customer Satisfaction performance.
8	People talent and diversity		• An average increase in totex of £3 million in each year during AMP8 reflecting the failure to attract or retain talent to support all areas of our business and finite resources in the market.
9	Finance risk and customers' ability to pay		• An average increase in totex of £12 million in the first 3 years of the forecast, including an increase in bad debts.
10	Public health (micropollutants in drinking water and plastics in wastewater)		• Penalties of £5 million per annum for breaching quality controls for 3 years.
11	Legislative divergence		• We have not stress tested this emerging risk but have incorporated exposure in our underlying financial plan.

The potential impact without mitigation of the aforementioned risk scenarios is also detailed within our risk management section (see pages 90 to 99).

LONG-TERM VIABILITY STATEMENT CONTINUED

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 93 to 99. Any cash flow impacts noted below is after considering these mitigating actions. We have also adjusted our core inflation assumptions to run these scenarios in both high and low inflationary environments.

We have identified what we consider to be the most severe, yet ultimately plausible, negative scenario as a means of gauging the overall level of headroom that exists in what we believe is a challenging yet deliverable plan. We know that some of our combined scenarios are unlikely to occur in practice, however they are useful in determining the overall level of resilience and 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 has 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.

Principal risk scenarios	**Risk combinations and type of stress applied Page 101**	**Post-risk mitigation impact on cash flows in £ million**	**Further financial mitigating actions Page 103**
1. Cost-of-living crisis and economic downturn High inflation in the short-term, pushing the economy into a prolonged recession with low GDP growth, leading to cost pressures into the next AMP period and pressures on cash collection rates from customers impacting on our bad debt charge.	2, 9	118	1, 3, 4, 5, 7
2. 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.	1b, 3	115	4, 5, 6
3. 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.	1, 10	165	2, 3, 4, 5
4. Cybersecurity 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 recent strength of our IT services.	5	130	2, 4, 6
5. Failures to achieve performance commitments and non-compliance with regulations Penalties from failing to achieve our price review performance commitments set by Ofwat, National Resource Wales and Drinking Water Inspectorate, including key business risks, more stretching efficiency targets, limited progress towards WW2050, asset resilience and net zero carbon, resulting in fines from regulatory/legal bodies.	6, 7	235	1, 2, 3, 4, 5, 6
6. Health and safety major incident A fatality occurring because of corporate negligence.	4	4	
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 to weigh their financial impact.	Formulaic multiplier of all scenarios based on likelihood	575	1, 2, 3, 4, 5, 6, 7

Principal risk scenarios	Risk combinations and type of stress applied Page 101	Post-risk mitigation impact on cash flows in £ million	Further financial mitigating actions Page 103
Reverse scenario testing Total financial impact resulting in a sub investment grade credit rating, leading to a breach in our covenant and loss of licence.		774	

Mitigating 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. When selecting mitigation actions in response to our principal risk scenarios, we would consider the balance of all stakeholder interests and would prioritise mitigating actions that would not lead to a breach of our commitments to customers.

	Mitigating actions considered normal business considerations	Considerations	Incorporated in our financial plan
1	Engage with ratings agencies and banks	While ratings agencies and banks apply standard calculations as part of their ratings and covenant assessments, judgement is also available. Where a rating threshold or a covenant threshold is breached, a downgrade might not always be applied. A temporary covenant waiver might be granted if the relevant stakeholders consider the situation to be temporary and likely to reverse in the near future.	Not applicable
2	Treasury management – extension of revolving credit facilities	In the interim of cash flow problems, we would utilise and seek to extend our revolving credit facilities.	Yes
3	Cost reduction in discretionary spend programme	We would review discretionary expenditure to identify costs that could be avoided or reduced without a detrimental impact to key stakeholders, specifically customer service.	Yes
4	Reprofile capital programme	We would seek to reprofile our capital programme to smooth the impact of risk scenarios on our cash flows and smooth the effect on key performance ratios over a number of years.	No

We engage with rating agencies and our banks on a regular basis. We will continue to liaise with the rating agencies on macroeconomic pressures and present our financial plan and recoverability strategies detailing our forecasted recovery to stable performance at the commencement of AMP8.

We routinely evaluate our treasury management strategy, assessing our predicted cash requirements in future years and funding sources. We aim to ensure that enough funding is available to meet our forecast financial needs as well as having an adequate level of headroom for reasonably plausible contingencies. We are in a strong position with access to a wide range of capital markets and close relationships with our banks, where, if required, we would look to extend our revolving credit facilities to provide short-term relief until our refinancing strategy is completed during AMP8.

We continually review our operational and capital expenditure programmes to ensure they not only provide the means for us to meet the needs of our customers, but also financial stability for our organisation. We have developed cost efficiency projects, which have been built into our financial plan, targeting discretionary spend programmes over the remaining AMP period without detrimentally impacting our performance metrics, including customers service.

We recognise the importance of our capital programme in improving our assets to deliver customer needs, such as reduced leakage. We do not consider there to be a present threat on our capital investment programme that would require a reprofiling to meet cash flow needs.

LONG-TERM VIABILITY STATEMENT CONTINUED

	Further mitigating actions available outside normal business considerations	Considerations	Incorporated in our financial plan
5	Cost reduction to non-regulatory programmes	In only the most extreme circumstances, we would look to reduce our expenditure down to cover only our regulatory and legislative requirements.	No
6	Close out derivative financial instruments in asset positions	We have a number of derivative financial assets, such as swaps, which can be closed out with the agreement of the counterparty, generating cash in the short term.	No
7	Consider issuance of new funding sources	The Group has access to a wide range of capital markets and maintains a diverse range of funding sources. The Group is also in a positive liquidity and gearing position which would be attractive should we seek to issue new sources of funding. Issuing new debt would raise cash flows in the short term but would detrimentally impact gearing and potentially expose the Group to more expensive debt in the long term.	No

We acknowledge the additional mitigating actions available to us and recognise the importance of evaluating each option in detail to ensure we meet our stakeholder expectations. As the Group is in a positive liquidity and gearing position, along with developing a strong recovery plan in the short and medium term, we have not had to evaluate these further mitigating actions and they therefore do not feature in our financial plan or long-term viability assessment.

Outlook

The level of stretch in the severely adverse but plausible scenario assumes £575 million of unplanned expenditure over the forecast period (equivalent to an average annual totex overspend of around 5%). In addition, we have modelled temporary sustained inflation at 10% for the end of 2023/24, reducing gradually to 3% by 2027-28 for the remainder of the period.

Over the period under review, a significant proportion of our debt falls due for refinancing. Under all scenarios considered, the Group would remain solvent and therefore believe we will retain our access to sufficient funds in normal market conditions.

We conducted a reverse stress test on our financial plan to identify the deterioration required in our financial performance that would result in a sub investment grade credit rating, leading to a breach in our covenant and loss of licence. The likelihood of a trigger event would occur in AMP7 where current market shocks are placing pressures on operating costs. We identified operating expenditure would need to increase by 24% in AMP7 from our core plan to result in a sub-investment grade credit rating, which is an additional 92% 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.

Conclusion

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

The Board considers that the risk management and forecasting controls in place are robust and that the 2023 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.

Crai Reservoir, Brecon

SUSTAINABILITY PROGRESS

Consistent with the rest of this report, we present our sustainability progress through the lens of our strategic themes as set out below and as shown in the introduction section on sustainability on pages 18 to 19.

Our approach to sustainability goes hand in-hand with our ESG strategy https://dwrcymru.com/esg. Our 10 ESG objectives are summarised below together with the strategic themes they most closely support and a reference to further commentary. For more detail on these objectives, see online at https://dwrcymru.com/esg.

ESG objective no	Summary objective	Strategic theme most closely supported	For further commentary see page
1	Long-term planning	Water	112
2	Net zero carbon	Environment	120
3	Adapting assets and services	Water	113
4	Tangible benefit for communities	Communities	124
5	Affordability	Communities	127
6	Engaging with customers	Customers	122
7	Diverse workforce	Communities	128
8	Adapting to future challenges	Environment	109
9	Demonstrating accountability	Environment	108
10	Working collaboratively	Environment	108

How our strategic themes align to UN SDGs and Wellbeing Goals

Strategic themes	UN SDGs	Wellbeing goals
Water	6 CLEAN WATER AND SANITATION	• a globally responsible Wales • a resilient Wales • a healthier Wales
Environment	6 CLEAN WATER AND SANITATION 13 CLIMATE ACTION 15 LIFE ON LAND	• a globally responsible Wales • a resilient Wales • a healthier Wales
Customers	1 NO POVERTY	• a prosperous Wales • a more equal Wales • a Wales of vibrant culture and thriving language
Communities	4 QUALITY EDUCATION 8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES	• a prosperous Wales • a Wales of cohesive communities

> Read more about sustainability on pages 108 to 128

Supported and enabled by governance of sustainability

Adapting to future challenges → **Demonstrating accountability** → **Working collaboratively**

> Read more on page 109

> Read more on page 108

> Read more on page 108

Innovation contibutes to our ability to respond more effectively to a wide range of sustainability challenges. See page 129 to 132 for our approach to innovation and recent examples.

GOVERNANCE OF SUSTAINABILITY

Sustainability is part of the fabric of everything we do. Ensuring it is governed effectively is of key importance to the Company and the Board. To that end, our Environment, Social and Governance Committee completed its second year of oversight over the strategy we have developed to achieve our sustainability and environmental objectives, and in particular our roadmap to deliver full net zero carbon by 2040 (https://dwrcymru.com/netzero).

Key challenges being reviewed by the Committee this past year include how to address both fugitive emissions from waste water treatment processes, and embedded carbon, in particular in the steel and concrete we use to convey and treat flows of clean and waste water. To understand how best to tackle fugitive emissions, we are now monitoring nitrous oxide emissions at 4 of our largest wastewater treatment works and undertaking various other innovation and research initiatives. Further innovation will certainly be needed in our supply chain to tackle embedded carbon but, usefully, there are already lower carbon alternatives being produced. We are now in the process of finalising our first sustainable procurement policy which will be rolled out shortly in the business and with our suppliers.

Our ESG strategy, including 10 ESG objectives, was reviewed and approved by the ESG Committee in February 2022, and is available to view at https://dwrcymru.com/esg. These 10 objectives are aligned to our strategic themes as shown in Our Strategy on pages 38 to 39 and on page 89.

Three of our 10 ESG objectives relate specifically to governance of sustainability and are explained below.

Demonstrating Accountability – ESG Objective 9

Given our clear company Purpose, which was incorporated into our corporate constitution through our Articles of Association in 2019, we are 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. The increased focus on ESG issues and growing interest from bondholder investors about our activities in these areas led us to establish the ESG Committee as a committee of the Board in 2021.

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 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 second year of Task Force on Climate-related Disclosures to ensure these issues are fully integrated into our long-term planning and strategy. As well as TCFD reporting, we anticipate the release of Taskforce on Nature-related Disclosures reporting guidelines in September 2023, and will be reviewing these to see if and how we might make use of them to improve our corporate governance arrangements for biodiversity specifically, and also to mitigate the business' other environmental footprints.

Working Collaboratively – ESG Objective 10

One of the prevalent features in Wales is our ability to work in close partnerships, as is required in the case of public bodies by the Well-being of Future Generations (Wales) Act.

The Act requires public bodies to demonstrate in their decision making the impact that they could have on people living in Wales in the future as well as in the present. This is to show that they are acting in accordance with the sustainable development principle, as defined in the Act. The Act directly supports 5 ways of working which are all compatible with our Vision and views on sustainability, albeit we are not a public body as defined under the Act. These are:

- To carry out sustainable development – intrinsic to the nature of our business and vision.
- Thinking for the long-term – avoiding short-termism and considering how decisions will impact on the wellbeing of future as well as current generations.
- Prevention – acting early and with others to tackle the root cause of problems before they arise or get worse to bring about better outcomes for individuals, public bodies and society as a whole.
- Integration – ensuring that the full range of consequences of an action are considered so that activity in one area of work can be shaped to complement, rather than undermine, activities in others.
- Collaboration – working with others, so that as many objectives as possible can be met with the resources and expertise available.
- And – not trying to solve problems alone but understanding the benefits of involving as wide a range of people as possible in helping shape the decisions and services that will affect their lives.

Adapting to Future Challenges – ESG Objective 8

In 2022 we refreshed Welsh Water 2050 and published our review at https://corporate.dwrcymru.com/en/about-us/our-plans

Welsh Water 2050 describes our commitment to plan for the long-term, anticipating and responding proactively to the emerging risks and opportunities around our ability to deliver great service to customers and the environment, now and in the foreseeable future. This enables us to respond in a way that is timely, effective, fair and affordable. Hence, during 2022, in the lead-up to our next business planning submission covering 2025-2030, we considered the extent to which our 18 Strategic Responses to the long-term trends and risks we face are still fit for purpose, how far we have come, what we have learned, and what needs to change. These have been set firmly in the context of our long-term ambitions for sustainability and excellence, and the challenges ahead.

As detailed in the review, we identified 8 future trends that are likely to have the most significant impact on service provision over the long term. These challenges and opportunities remain relevant today. Even so, there have been some significant shocks and stresses that were unanticipated, such as the Covid pandemic and increases in energy costs. We also have 5 additional years of data on which to base our view of long-term uncertainties such as the impact of climate change.

It is, therefore, important to refresh our original view of risks and opportunities affecting our service, and to identify any new emerging trends, before going on to re-evaluate our Strategic Responses in light of these. At the same time, we recognise that any statement of long-term trends will be incomplete and imperfect, given the inherent uncertainties about the future.

It is clear there are significant challenges ahead to which we must adapt, as well as opportunities. In so doing, we must ensure our services remain affordable for our customers, particularly in a period of significant financial hardship and uncertainty, and that future investments embrace the circular economy, and are, of course, themselves sustainable.

1. **Climate change** – Climate change will result in more extreme rainfall events, which is likely to lead to an increased risk of flooding and pollution. Drier, hotter summers are projected for Wales, which could result in water supply deficits and the potential for increased water demand.
2. **Change in customer expectations** – Customer expectations are likely to continue to change with an increasing desire for a more personalised service and control over their use of services and less tolerance of service outages. This will particularly be the case for business customers. We expect our customers as a whole will increasingly be concerned about our environmental performance.
3. **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, cooperative approaches to the delivery of enhanced ecosystem services could lead to better environmental outcomes.
4. **Protecting essential infrastructure** – Ageing infrastructure, a limited supply chain and cybersecurity are key concerns for future service provision. Technological advances could lead to significant efficiencies in the planning, delivery and operation of new assets.
5. **Protecting public health** – Regulatory standards to protect drinking water quality are likely to continue to tighten in the future. We will have a role to play in promoting healthier and more sustainable lifestyles for our customers.
6. **Policy and regulatory change** – Changes in policy and regulation are expected to continue with Brexit, devolution and changing environmental and drinking water quality standards. This level of change creates short-term uncertainty but also provides a useful opportunity to help shape future policy.
7. **Changes to the structure of the economy** – The growth of the digital, knowledge-based economy will create opportunities to provide services in more efficient ways. However, it could also have an impact on the nature of society and present a challenge to us continuing to meet the needs and expectations of our customers.
8. **Demographic change** – Population growth will lead to increased water demand in certain areas and an ageing population may lead to more customers in vulnerable circumstances. However, opportunities will emerge to develop a more diverse age profile in the workforce.

GOVERNANCE OF SUSTAINABILITY

STOP THE BLOCK

There has been significant continued engagement around the 'Stop the Block' campaign during this reporting period, on both a national and localised scale.

Not only does this campaign highlight the damage from sewer misuse within the home, it also raises awareness of what damage blockages and misuse can do to the environment and biodiversity from bursts and misconnections.

Links: ESG Objective 10

> RAISING AWARENESS OF WHAT BLOCKAGES AND MISUSE CAN DO TO THE ENVIRONMENT AND BIODIVERSITY.

GLOBALLY IMPORTANT FUNGI SPECIES FOUND

Lisvane and Llanishen reservoirs in Cardiff is a unique natural resource of significant ecological value designated as an SSSI for overwintering birds and for waxcap fungi. Waxcaps are a fantastic indicator of old undisturbed grassland habitat, which is important in the fight against climate change because it stores a third of the world's land-based carbon. Since purchasing the site in 2016, we have been working closely with NRW to enhance the grassland habitat for waxcap fungi and have introduced a new grass cutting regime.

Our last Fungi Survey recorded a total of 27 species of waxcaps, far in excess of the SSSI selection criteria (19). Several species of fungi were recorded on site for the first time, including two species of Dermoloma, both of which are extremely rare. D.magicum is a globally threatened species with very few British records. Another Dermoloma was also found and confirmed by DNA bar-coding to be an unnamed species, only found once before in the world (in Turkey). A third notable new addition to the fungi flora is a brown species of earthtongue in the Microglossum olivaceum group, which has a high value for nature conservation.

Links: ESG Objective 8.3

Governance of sustainability: policies and initiatives

Good governance is at the heart of our decision making and our transparent and accountable relationships with our stakeholders. Our approach to governance 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.

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. As a consequence, the financial statements in this Annual Report include a number of areas of enhanced disclosure which have been provided in order to develop stakeholder understanding of the total taxation reported. **Prompt Payment Code** 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. To identify all existing suppliers with under 50 employees we wrote to all suppliers requesting confirmation of their employee numbers and used the Credit Safe reporting tool. We have also included a mandatory step in our vendor set-up process to capture this data for all new suppliers. As at the end March 2023, we were making payments to 92% of all small business we are aware of within 30 days of receipt, and 90% of total invoices for all suppliers within 30 days of receipt, with plans in place for further improvement.
Anti-Bribery and Corruption Policy and Anti-Fraud	Our policies make it clear that we will not tolerate any acts of fraud, dishonesty, bribery, corruption, theft, or improper disclosure of confidential information. This is reinforced by our strict policy on hospitality and gifts from suppliers. No breaches of policy were notified to Internal Audit or the external whistleblowing hotline during FY 23.
Sustainable Procurement Policy, Supply Chain Compliance Standards and Anti-Slavery initiatives	**Sustainable Procurement Policy** We have established our sustainable procurement aspirations through collaboration with key stakeholders, covering environmental, economic and social areas. Our aspirations have been mapped against Dŵr Cymru's ESG Strategy Objectives, the Well-being of Future Generations (Wales) Act and are included in our Sustainable Procurement Policy (SPP). We have assessed the impact on these sustainable procurement aspirations in the key categories we procure by undertaking risk and opportunity heatmapping of existing procurement contracts against the aspirations. We are in the process of detailing our implementation plan for deployment of the Sustainable Procurement Policy in the current financial year. **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. **Modern Slavery Awareness** We held an annual week-long campaign on modern slavery awareness. In October 2022, Procurement, in conjunction with the Hope for Justice Alliance, engaged with and trained 36 operational Contract Managers, 15 colleagues from the Procurement and Compliance teams, and 37 suppliers (which provide services with a higher risk of modern slavery occurring in their supply chain) 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 Supplier Code of Conduct and the requirement to comply with this during the training sessions. Our Anti-slavery statement can be found at https://dwrcymru.com/antislavery. All members of the Procurement team have completed the Chartered Institute of Procurement and Supply's (CIPS) Ethical Procurement and Supply e-Learning and Test certification and Welsh Water successfully attained the CIPS Corporate Ethics Mark accreditation. This signals to Welsh Water's suppliers, customers, potential employees, and other stakeholders that they are dealing with an organisation that is committed to ensuring its staff are trained in ethical sourcing and supplier management, and that we have adopted ethical values in the way in which we source and manage suppliers.

SUSTAINABILITY: WATER

We manage a source-to-tap approach in delivering safe, high quality and reliable drinking water.

Starting with our drinking water catchments, it is our first line of defence and is managed through our Watersource Strategy. The strategy addresses raw water quality challenges and proactively prevents future deterioration; building resilience into our water supply systems and protecting our asset base downstream. A key highlight from this strategy is our long-term Brecon Beacons Mega Catchment concept. It takes learning from the Catskills area that supplies drinking water to New York State. The Brecon Beacons (now known as Bannau Brycheiniog) supplies over half the drinking water to our customers.

Driven by a Portfolio Risk Assessment, this work ensures our dams are resilient to the impacts of long-term climate change in their ability to transfer flood waters safely and also be fully operable in regulating key rivers from which we abstract water into our treatment works. The current investment programme is our largest in the water business through AMP7 and is concentrating on the upgrade of dam spillways to deal with 1:10,000 year storm events. Our innovative Pipes Through Dams Project also allows water to be passed through the dam all of the time, protecting downstream watercourses.

We continue to focus, through our water treatment work estate, on the treatment of ever-more challenging raw water to maintain a continuous supply of clean wholesome drinking water into our network. Cryptosporidium remains a key area of focus for us, and the maintenance of ultra violet (UV) and risk-based sampling continues to be a priority. We also monitor bacteriological performance of the treatment process, which is currently focusing on the cleaning and inspection of treated water storage tanks. Our Acceptability of Water investment is focusing on the water treatment works contribution to manganese removal to prevent discolouration complaints from customers, and effective carbon treatment to remove taste and odour-forming compounds through algal activity in our rivers and reservoirs.

Our distribution system contributes to many of the performance challenges that we face, from discolouration complaints to supply interruptions. We have a number of operational strategies targeting key areas of performance across the network. We are focusing on Leakage, Customer Minutes Lost and Acceptability of Water, and also the significant impact the network makes to performance on Water Quality through our Compliance Risk Index. Through customer minutes lost, a move to more predictive capability of the awareness of leaks through our SMART Strategy will reduce the time customers are off supply. Our long-term investment in this area involves moving to more grid networks capable of providing opportunities to move water around, if and when we have a failure of our strategic distribution system.

Encompassing all of this is our long-term water resource planning strategy. It ensures we have sufficient resources to deal with future demands for water from our customers during times when we are likely to see prolonged dry periods. Over our longest-term planning horizon through to 2050, we model the impacts of climate change on our ability to abstract water, against the demand for water, through leakage from our system and customer consumption.

Key enabling strategies for this are our Leakage Strategy, our Per Capita Consumption Strategy, and our Metering Strategy. A key area of focus for demand management is our ability to influence customers on more efficient use of water. We are moving to more progressive metering to increase the number of metered customers to promote the benefits of more efficient water use.

Long-Term Planning and Sustainability – ESG Objective 1

During AMP7, we have been developing new approaches to investment planning to ensure we deliver ever better value for our customers. These have centred around our new multi-capitals approach to investment decision making. This involves the assessment of different forms of capital to ensure that broader impacts and opportunities, beyond financial capital implications, are accounted for in decision making. These are illustrated below.

Welsh Water's Purpose is: 'To provide high-quality, better value drinking water and environmental services, so as to enhance the wellbeing of our customers and the community we serve, both now and for future generations to come'. A multi-capitals approach to investment provides the opportunity to integrate public value systematically into the delivery of Welsh Water's functions for the benefit of all. In so doing it should directly support our Purpose and assist the Company to move to a more sustainable position over time.

Water as a Resource

On the face of it, a significant amount of rain falls across Wales and on average we use only around 3% of the effective rainfall for public water supply. This leaves some 97% for agriculture and the environment, which is far more than in many areas of England.

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

We hold 151 abstraction licences that govern how much water can be taken from our water sources. The licences are granted by Natural Resources Wales and the Environment Agency in England and restrict the amounts that can be abstracted. These licences also have conditions, such as the volume of water that needs to be released from reservoirs for environmental compensation or the need for fish screening.

The key environmental legislation governing our raw water sources are the Habitats Directive and the Water Framework Directive. Implementation of the requirements of this legislation resulted in expenditure during AMP6 and AMP7 to manage the impact of reductions in permitted licence volumes at a number of our river abstractions.

We now have an enhanced duty from the Environment (Wales) Act whereby Section 6 requires public authorities (including water companies) to 'seek to' maintain and enhance biodiversity rather than just 'have regard' to its conservation. To meet that objective, we need to be proactive in understanding the potential impacts of our operations in the medium to long term so we can prepare and mitigate accordingly.

It is important we ensure that we will always be able to provide a sufficient supply of water to meet our customers' reasonable need for water, and that this is managed in a sustainable way within environmental limits. It is equally important that we seek to reduce the demand for water by reducing leakage and promoting customer behaviours that reduce their water consumption. This will reduce both our need for abstraction and our use of energy in processing and distributing water.

To support the aims above, we develop long-term Water Resource Management Plans addressing the sustainability of supplies over the next 25 years, ensuring that our water supply systems are resilient to drought, do not damage the environment, and account for latest demand forecasts under a changing climate.

We take a progressive approach to Water Resource Planning as successive WRMP timeframes overlap. Every 5-year plan is an update of the last, based upon new drivers, such as revised government or regulatory guidance, customer priorities, and improved evidence.

The WRMP formulates a set of options and solutions to ensure long-term drought resilience of our customers' supplies. It is achieved through reducing the demand for water, such as through increased leakage detection, or providing new sources of water. We are guided by government, regulators, interested parties and our customers in selecting the most appropriate solutions. We use economic and environmental capital metrics to help judge the most effective solutions to meet the challenges identified in our WRMP.

Water Resources Management Planning (WRMP)

Every 5 years, as part of our business planning work, we review the impacts of demand change, climate change, and the needs of the environment and customers in assessing how best to provide drinking water services, while minimising, and in some cases eliminating altogether, the environmental footprint associated with this work. This plan is now well developed for PR24, and will be approved by the Board in due course.

Adapting assets and services – ESG Objective 3

How we have responded to adverse weather events throughout FY 23, and how we are preparing our assets to be more resilient and meet future challenges are set out on pages 42 and 50 to 52. We have detailed our response to climate change risks as part of our TCFD disclosures under strategic mitigations on pages 83 to 84.

Investments supporting Water sustainability

Our capital investment programme is essential to the long-term provision of our services, as illustrated by the following examples of recent developments.

South-east – Pengarnddu Service Reservoir

We have invested over £8 million to build a brand new service reservoir (an underground tank which stores drinking water) in Pengarnddu, Merthyr Tydfil. There is already an existing service reservoir on the site, but by building this new reservoir – which will be partially buried within the landscape – we will be able to increase the network's water storage capacity and reduce the likelihood of supply interruptions. This will help ensure over 25,000 customers in Merthyr Tydfil and the surrounding areas continue to receive fresh drinking water for years to come.

North – Dee Crossing

We are investing £6.8 million to install two new water pipes under the River Dee in Connah's Quay to ensure thousands of customers and major businesses in the area have a reliable water supply for decades to come. Using innovative technology, two 800m long pipes have been installed under the River Dee between Shotton Steelworks and Dock Road in Connah's Quay. The work also involves bringing back unused parts of the water network to help improve the resilience of the water supply in the area. Work started on site in April 2022 and is due for completion in April 2023.

West – Port Talbot

We have investing £10.3 million to upgrade the drinking water network in Port Talbot. Our work involved replacing 16.3km and cleaning 9.8km of water pipes in Bryn, Cwmavon and Baglan. By doing this, we have ensured that we continue to provide customers in the area with a first-class supply of drinking water for decades to come. Our work started in May 2021 and was completed at the end of 2022.

During our work we have used various methods to lay the water pipes to minimise disruption to residents, businesses, and motorists. This included using 'no dig' techniques, such as slip-lining and pipe bursting. Throughout this project, we have worked hard to become part of the local community and this has included volunteering at Port Talbot Foodbank, carrying out litter picks and helping out at a community afternoon tea in Cwmavon.

SUSTAINABILITY: ENVIRONMENT

Environmental performance

Natural Resources Wales (NRW) publishes its assessment of Dŵr Cymru's Environmental Performance annually during July for the previous calendar year. The assessment comprises 6 performance metrics that allow them to assess all water and sewerage companies in a consistent way. The 2021 performance was assessed as 3* (Good company) and was the first year of assessment against tighter environmental targets.

While we expect the delivery of our AMP7 National Environment Programme and our Supply Demand Balance metrics to remain 'green' on our assessment, we are predicting our overall pollution performance will reduce from our 2021 performance of 'green' to 'amber' due to a slight increase in pollution incidents in the year. We anticipate both our self-reporting of pollutions and Discharge Permit compliance to remain 'amber', although we are pleased that the number of Wastewater Treatment Works (WWTW) which are not compliant with their permits has reduced from 7 to 3. This year will see the reinstatement of the Satisfactory Sludge Use/Disposal metric and our performance is likely to be assessed as 'green.' The determination of the number of pollution incidents that should be classified as serious remains under discussion with NRW.

NRW's 2022 Environmental Performance Assessment is not yet confirmed.

	2016	2017	2018	2019	2020	2021
Rating	3	2	3	3	4	3

Improving river water quality

The actions that water companies need to take to meet environmental legislative requirements and improve river water quality are driven through the National Environment Programme (NEP) in Wales and the Water Industry National Environment Programme (WINEP) in England.

During 2021/22 we delivered all 85 outputs that were planned, 32 in England and 53 in Wales and included 16 improvement schemes, 34 monitors, 32 investigations and three water resources schemes. This delivered a total of 89km of improved rivers.

It is planned that for the 2022-23 year we will complete 38 outputs, including ten improvement schemes (four in England and six in Wales). This will comprise three schemes to increase storm tank capacity and reduce settled storm discharge to the environment, two schemes to reduce phosphorus on the River Wye, two schemes to ensure we can meet tightened sanitary determinants and three schemes that remove barriers to fish passage. Successful delivery of these outputs will achieve a further 75km of improved rivers. This would put us at a cumulative delivery in AMP7 of 169km, well ahead of our outperformance target of 100km.

Enhancing biodiversity

Our 2022 Biodiversity strategy sets out our ongoing ambitions, objectives, and action plan to maintain and enhance biodiversity and ecological resilience across our operational assets and landholdings, within the fulfilment of our functions. The strategy enables the business to continue delivering its core functions while supporting our environmental regulators – NRW, the Environment Agency, and the Welsh Government – to address the biodiversity crisis we face. In so doing, we will help safeguard our environment for future generations to come, and meet the expectations of our customers.

Investments supporting environmental sustainability

Our capital investment programme also supports our environmental sustainability as illustrated by the following examples of recent developments.

Weobley Wastewater Treatment Works

In May 2022, our £3.5 million investment at Weobley Wastewater Treatment Works in Herefordshire got underway. As well as upgrading some of the assets at the site, it also included introducing an enhanced treatment process which removes phosphates from the treated wastewater before it is safely returned to the environment. This project was completed by February 2023, and helps provide a boost to the aquatic life in the river Lugg, which joins the river Wye just downstream of Hereford.

Upper Carno reservoir

We have invested around £15 million to strengthen and upgrade the assets at Upper Carno reservoir, which is located just outside Ebbw Vale in south Wales.

The work at the site involved making improvements to the reservoir's drawdown ability, to allow us to lower the reservoir's water level quickly, helping to reduce the impacts of flooding and allow for essential maintenance work to be carried out safely. It also included improvements to the water drainage channels that run around the dam.

The investment also included the creation of a new spillway, which will allow excess water not used for supply to pass around the dam safely. This will help protect the dam from flood damage and ensure a reliable source of water for the whole community.

Llanelli

We have installed 1,800 solar photovoltaic (PV) panels at our Llanelli Wastewater Treatment works in Llanelli, Carmarthenshire. This solar array will help generate 600MWh of power each year. To add to the green energy being created at this treatment works, Welsh Water is also working on a biodiversity project to create wildflower meadows around the solar panels.

In June 2022, the Company published its first Biodiversity Strategy – which is available at https://dwrcymru.com/biodiversitystrategy.

The strategy notes that by improving water quality, and in many cases transforming the quality of local rivers, estuaries, and coastal waters, we have also improved aquatic biodiversity and the ecology of these waters. However, when compared to our investments for water quality, and more latterly those to reduce our carbon footprint, projects to specifically improve biodiversity, whether terrestrial or aquatic, have been comparatively few.

This focus is set to change with the launch of our AMP8 business plan, which builds on our successful catchment work focused on water quality improvements in our upland drinking water catchments. It recognises that by improving and restoring terrestrial and aquatic habitats we can and will make improvements to water quality, lock up carbon, mitigate flooding risks, and improve the wellbeing of our customers.

Our biodiversity strategy sets out our ambitions, objectives and action plan to maintain and enhance biodiversity and ecological resilience across our operational assets and landholdings, within the fulfilment of our functions. Our strategic objectives to achieve this, as already supported by our biodiversity plan, focus on the following areas:

- Restore habitats and look after the protected sites we own.
- Work in partnership with our regulators and stakeholders and promote research opportunities.
- Improve the management of invasive non-native species (INNS).
- Develop and engage our colleagues as ambassadors and work better to understand our customers' expectations.
- Maintain and enhance biodiversity at our operational assets and landholdings.

Our biodiversity mission links directly to our duty in Section 6 of the Environment (Wales) Act 2016. It requires us to produce and publish a corporate biodiversity action plan and report progress every 3 years. Our first Biodiversity plan was published in 2017 and later refreshed in 2020. Our latest plan will be published in 2023.

By delivering this mission we will support and meet our legislative requirements relating to biodiversity and ecology, and so help move our business to a sustainable footing. The strategy aims to deliver performance improvements in both the short term and the medium-term through to 2030, and ensure our plans remain aligned with the longer-term objectives of Welsh Water 2050.

Drainage and Wastewater Management Plans (DWMP)

We have now developed and implemented a broad equivalent to the WRMP process for wastewaters services. It addresses the impacts environmental pressures, climate change and customer pressures will have on the wastewater services we provide. These have highlighted significant need for further investment, particularly to reduce the impacts of storm overflows, the nutrient content in treated effluent discharges, flooding risks, and, in some cases, the impacts of wastewater operations on designated waters, such as those used for bathing. These needs are being addressed in our business plans both for the next 5-year period, but also for subsequent periods.

FOUR RIVERS FOR LIFE

Welsh Water's contribution to multi-million-pound projects to conserve Welsh rivers and bogs

Supported through the EU's LIFE programme, and match funded by the Welsh Government and Welsh Water, £13.8 million will be invested in urgent conservation challenges over the next 5 years. More than £9 million will be invested in bringing 4 Welsh rivers (the Teifi, Cleddau, Tywi and Usk) into good condition, with an estimated 500km of river being improved. In addition to this, over £4.5 million will be invested to conserve quaking bogs. Areas targeted will include Crymlyn Bog on the outskirts of Swansea, St Davids in Pembrokeshire and on the Llŷn Peninsula. This project will not only restore the peat land but will also help preserve very rare species – including Britain's largest spider, the great fen raft spider, at Crymlyn, and the marsh fritillary butterfly in Pembrokeshire and Gwynedd.

These projects have a multi-stakeholder approach to help deliver multiple benefits within Wales, working closely with local landowners, communities and partner organisations.

Four Rivers for LIFE will be run by NRW in partnership with the Bannau Brycheiniog (formerly the Brecon Beacons) National Park Authority, River Restoration Trust, Coleg Sir Gâr and the Woodland Trust, with additional financial support from Dŵr Cymru / Welsh Water. NRW's LIFE Quaking Bogs partners are the National Trust and the Snowdonia and Pembrokeshire Coast National Park Authorities.

Output from Four Rivers for LIFE will include an improvement to river habitats and conditions for migratory fish as well as working with farmers to protect river corridors and reduce sediments and nutrients from entering rivers. This will have the added benefit of safeguarding important drinking water supplies.

LIFE Quaking Bog outputs will include the restoration of 7 Special Areas of Conservation (SAC), 4 of which are National Nature Reserves. Its aim is to achieve the correct water level for quaking bogs' specialised plant life and wildlife, controlling scrub and non-native invasive species that can smother the natural habitat, and improving access so that more people can experience and enjoy nature at its best.

SUSTAINABILITY: ENVIRONMENT CONTINUED

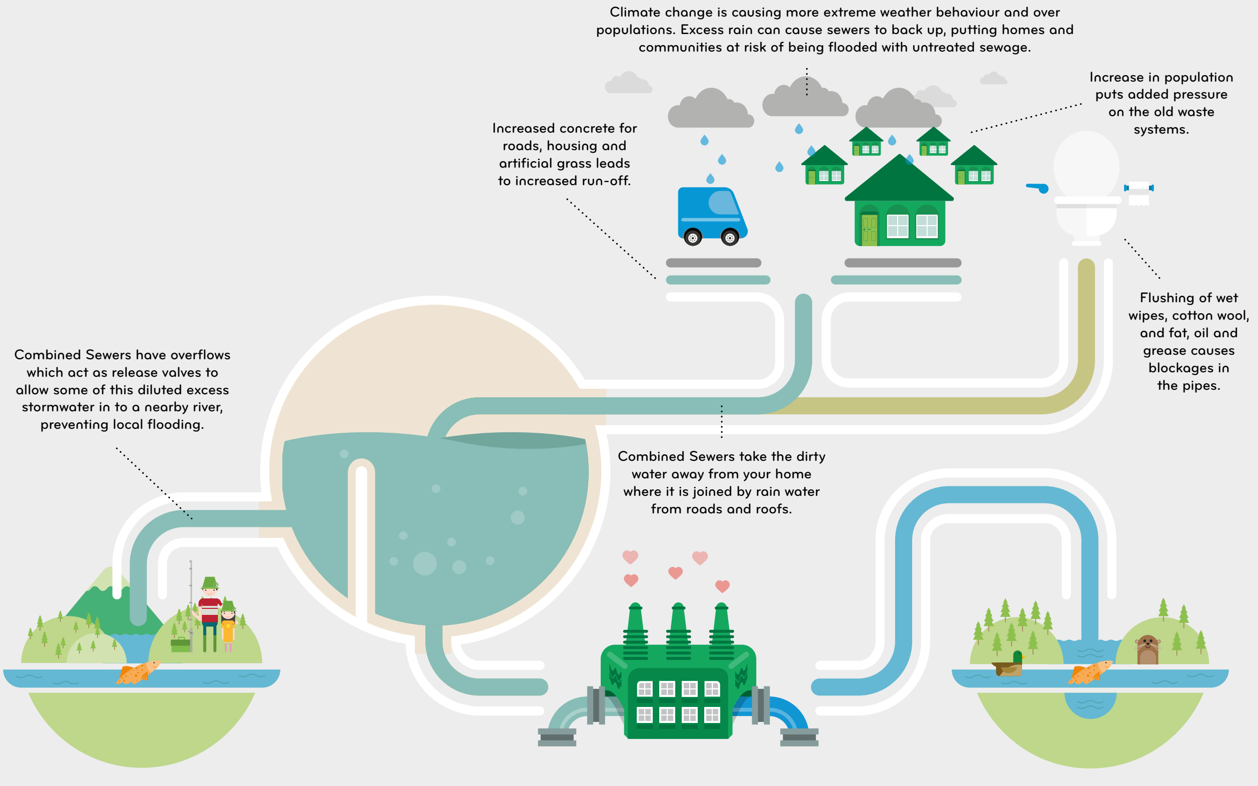
CSOs and reducing the risks of flooding

England and Wales have mainly combined sewage systems comprising hundreds of thousands of kilometres of sewers, built over the last 100+ years – in the main to drain urban areas. This means that rainwater and waste water from toilets, bathrooms and kitchens are conveyed in the same pipe to a sewage treatment works. Under most conditions this system works well, but during heavy rainfall the capacity of these pipes can be exceeded, which means possible inundation of customer homes, and the potential to back up and flood roads, open spaces and other buildings.

Overflows of diluted sewage during heavy rainfall are not a sign that the system is faulty. CSOs are a necessary part of the existing sewerage system, acting as a form of safety valve to prevent the health risks associated with sewage flooding into customer homes, businesses, hospitals, schools and other premises if it is not allowed to flow elsewhere; usually into rivers or coastal waters. The system capacity can also be hampered by misuse, such as flushing of wet wipes and sanitary products, and disposal of oils and fats in sinks and drains. We and other companies continue to raise awareness with customers to influence their behaviour to reduce the risk of CSOs being called into action, by reducing blockages.

This is a long-standing industry issue which has gained greater attention in recent years as environmental awareness has increased. Climate change is expected to make the issue worse as rainfall patterns become less predictable and more extreme. We and other water companies have invested heavily in recent years to alleviate this issue and are accelerating investment, but the level of investment must be balanced against affordability of our services from now and for decades to come. Equally, investment needs to be targeted on those CSOs which have the greatest impact on the environment – which is our plan. During the next investment period, from 2025 to 2030 – we will be investing over £300 million on reducing the impact such discharges have on the environment. This investment will increase in the following investment period, but will need to be agreed with customers, as it is they who will need to afford the increased bills needed to fund such investments.

HOW CSOs FUNCTION



CSOs and river water quality Q&A

Q: Why do you dump raw sewage in rivers and the sea?

A: We do not, because this would be, for good reasons, illegal. Any sewage overflowing into rivers or seas is heavily diluted with rainwater. We do not choose to dump it – the discharge results from an overflow from the combined rainwater and sewage networks when they are inundated due to heavy rainfall, in principle much like the overflow in a sink or a bath. The combination of excess rainwater and diluted sewage has to go somewhere and the CSOs act as a safety valve to prevent the health risks associated with sewage (albeit diluted) backing up into homes, business premises, schools and hospitals.

Q: Why can't you sort this out?

A: All water companies have over many years made, and will continue to make, significant investments in their networks to alleviate this problem, but the facts are that the combined sewage and rainwater networks were built many years ago for a smaller population; and before climate change and heightened environmental concerns emerged; and to replace these systems entirely would cost billions of pounds over decades and eventually must be paid for either by higher customer bills or by governments subsidies (i.e. higher taxes).

Q: Shouldn't you be doing more?

A: We plan our investments according to the greatest benefit they will generate for our customers, the environment and the communities we serve now and for generations to come. River and coastal water quality is degraded by other factors besides storm overflow discharges, such as pollution from rain water run-off from agricultural land containing phosphorus and other contaminants. We are also investing substantially in schemes to reduce these effects.

Q: As customers of Welsh Water and users of beaches and rivers in Wales, what can we do to help?

A: The efficiency of our wastewater systems is undermined by flushing or disposal in sinks, drains and toilets of fats, grease, oils and other inappropriate materials such as sanitary products and wet wipes containing plastics, all of which can contribute to blockages and obstructions which reduce the ability of our systems to cope in periods of high rainfall. Responsible disposal of these materials is a good place to start. We welcome the announcement in early April of acceleration of the proposals to ban the sale of wet wipes containing plastics which do not biodegrade effectively.

We recognise that CSOs are a contributor to pollution, but it is also important that we take an evidence-based approach to responding to this issue so that the investments we and others make to improve river and coastal water quality represent good value for customers. See the illustration on the right for how we achieve this.

"WE TAKE AN EVIDENCE-BASED APPROACH TO INVESTMENT TO IMPROVE RIVER WATER QUALITY TO ENSURE GOOD VALUE FOR CUSTOMERS."

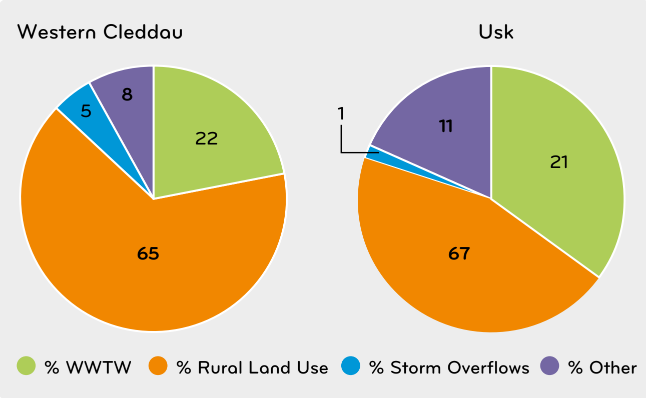
Targeting investments to improve river water quality

Phosphorus is the most important determinand (broadly a chemical proxy measure) to monitor, control and avoid eutrophication (becoming over-rich in nutrients, leading to algae growth and the formation of scum which reduces the recreational value of water and can clog water-intake pipes).

Our research and modelling of phosphorus sources (developed in conjunction with regulators) identifies the main contributors of phosphorus to our river systems, particularly failing SAC rivers.

Our main findings are that:

- Agricultural food production is the most important contributor to phosphorus levels in Welsh major river systems.
- In most river systems, rural land use is around 10 times more significant than CSOs as a source of phosphorus pollution, and typically is at least twice as important a source as our wastewater treatment works.
- The western Cleddau and Usk are typical of the 6 failing SAC rivers and their sources of phosphorus are shown here:



See page 13 for a case study on planned CSO improvements in Usk.

Combining our monitoring data with that of our regulators and third parties, such as universities, helps us to understand the sources of phosphorus pollution and their root cause, and seek the most efficient solutions to bringing our rivers back into good condition.

Through our Wastewater treatment work phosphorus investment plan, subject to investment, we hope to have removed 90% of the total phosphorus load from our wastewater treatment works discharging to failing SAC rivers by 2030.

Extensive monitoring of phosphorus contributors to our rivers, and the investments we have made and plan to make to reduce the effects, are included in Our Rivers Manifesto (at https://dwrcymru.com/rivermanifesto) and in our PR24 investment proposals.

SUSTAINABILITY: ENVIRONMENT CONTINUED

LIFE DEE RIVER

Welsh Water's contribution to help transform the river Dee and its catchment

LIFE Dee River is a £6.8 million project funded through multiple stakeholders, including Welsh Water, to transform the River Dee and its catchment by restoring the river and its surroundings back to their natural state. The Dee is the largest river in North Wales and is a highly regulated river as well as being designated as a SAC. The project, which started in 2019, and is due to complete in December 2024, will look to remove the constraints to fish migration and improve wider ecological connectivity. It will also restore or improve physical features along river banks and improve agricultural and forestry land management practices to reduce the input of nutrients and sediment entering the SAC. We are aiming to establish and build long-term positive relationships with key stakeholders during and beyond the life of the project. The project will also initiate conservation management for the critically endangered freshwater pearl mussel.

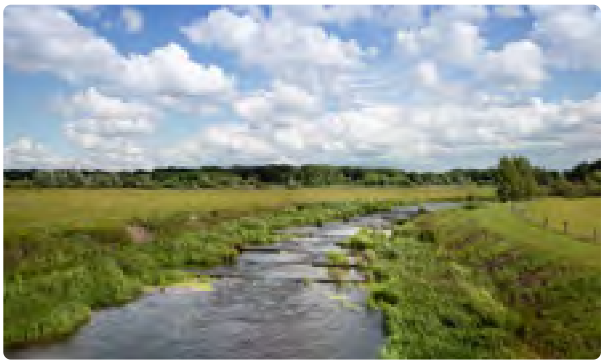
Find out more:

naturalresources.wales/about-us/our-projects/nature-projects/life-dee-river-project

WETLAND AND FISH PASSAGES

Planning an ambitious fish and eel passage programme

As part of Welsh Water's AMP7 Fish Passage programme it has delivered 54.8km of improved habitat. Going forward, an ambitious fish and eel passage programme is planned for AMP8. As part of our wetlands programme, 7 of our WWTWs are progressing through feasibility studies to understand if they could support a wetland solution to the water quality parameters required. A partnership wetlands framework is being advanced to enable Welsh Water to collaborate with catchment partners and deliver multiple benefits. All PR24 Nutrient growth drivers are being screened for nature-based solutions (NBS), as we aim to embed NBS as a business-as-usual option within our environmental schemes. Our first collaborative wetlands which are a natural solution to holding and sorting rainwater before it enters our network, in Herefordshire, received flows in September 2022.



This wetland is owned and managed by Herefordshire Council to deliver nutrient credits to the development sector. The scheme has been a multi-sector collaboration, and the first of its kind for us.

Find out more:

https://www.dwrcymru.com/cso

MEET OUR BIODIVERSITY CHAMPIONS

We currently have 12 Biodiversity Champions within Welsh Water and we will continue recruiting to grow our network further.

Our champions are passionate individuals with a shared vision for biodiversity and ecology within Welsh Water. They come from all regions and teams across the Company and are in operational and support roles. Not only do they support colleagues with biodiversity queries, but they also help raise awareness of internal campaigns as well as look for opportunities for enhancement across our operational sites. Here is what one of our champions has to say about the volunteering role they bring so much passion to.

"What sparked your interest in becoming a Welsh Water Biodiversity Champion?"

"I studied Civil and Environmental Engineering at university, so have always had an interest in infrastructure and protecting and enhancing the environment. My role in the dam safety team has exposed me to a number of environmental challenges, so becoming a Biodiversity Champion has helped to expand my knowledge and share learning with others."

"What do you enjoy most about being a Biodiversity Champion?"

"I enjoy finding out about how the business is enhancing biodiversity, new initiatives and learning from the other champions about the ways they are improving their areas."

"Have you been involved in any biodiversity projects or have anything planned?"

"I'm currently looking at incorporating more biodiversity features at our north Wales dam sites. This includes planting bulbs, native wildflower seeds, bat and bird boxes and bug hotels."

I ENJOY FINDING OUT ABOUT HOW THE BUSINESS IS ENHANCING BIODIVERSITY, NEW INITIATIVES AND LEARNING FROM THE OTHER CHAMPIONS. I'M CURRENTLY LOOKING AT INCORPORATING MORE BIODIVERSITY FEATURES AT OUR NORTH WALES DAM SITES.

River Dee, Llangollen

SUSTAINABILITY: ENVIRONMENT CONTINUED

Carbon Neutrality

Achieving our Net Zero Carbon Strategy – ESG Objective 2

We aim to achieve 'net zero' carbon emissions by 2040. This exciting commitment is comprehensive and ambitious, covering all aspects of Scope 1, Scope 2 and Scope 3 emissions. The 'net zero' terminology of our pledge is key as it obliges Welsh Water to reduce the carbon emissions of the business as much as possible, typically between 90% and 95% against the baseline. We do this before incorporating any 'off-setting' or sequestration measures, such as tree planting, to absorb any remaining emissions. An organisation which claims to be 'carbon neutral' may offset a much greater proportion of their total emissions. We believe that delivering this net zero pledge is the most credible and transparent pathway to a more sustainable future for our customers.

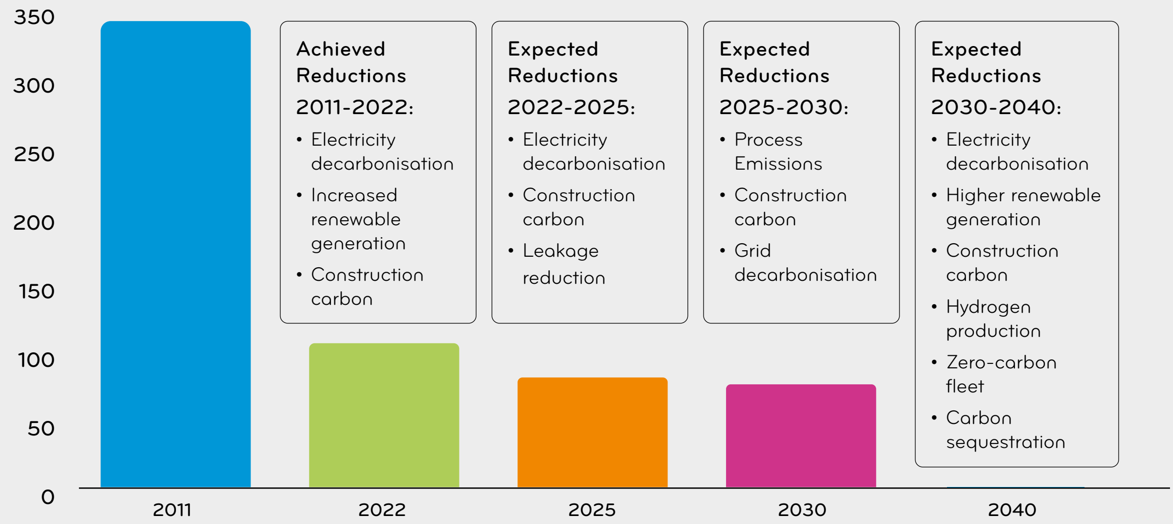
To comply with a net zero pledge an organisation must adhere to the requirements of the United Nations Framework Convention on Climate Change 'Race to Zero' by the 2050 target defined following the 2015 Paris Agreement. Committing to achieve this target 10 years before the Science-Based deadline will ensure we play our part in limiting global temperature rise to 1.5°C in line with best practice.

Greenhouse gas emissions for the reporting year are shown below.

		FY 23		FY 22	
Description	**Units**	**Value**	**Value**	**Value**	**Value**
		Location based	**Market based**	**Location based**	**Market based**
Gross annual operational GHG emissions					
(i)Scope 1 emissions					
Direct emissions from burning of fossil fuels (including combined heat and power (CHP generated onsite)	tCO_2e	12,894	12,894	12,403	12,403
Process and fugitive emissions	tCO_2e	41,854	41,854	38,078	38,078
Transport: Company-owned or leased vehicles	tCO_2e	7,657	7,657	7,518	7,518
(ii)Scope 2 emissions					
Purchased electricity	tCO_2e	90,699	11,893	91,264	14,316
Purchased heat	tCO_2e	–	–	–	–
Electric vehicles	tCO_2e	–	–	–	–
Removal of electricity used to charge electric vehicles at site	tCO_2e	–	–	–	–
(iii)Scope 3 emissions					
Business travel on public transport and private vehicles used for company business	tCO_2e	760	760	562	562
Outsourced activities (if not included in Scope 1 or 2) Energy and other	tCO_2e	6,724	6,724	6,795	6,795
Purchased electricity – transmission and distribution	tCO_2e	8,297	8,297	8,076	8,076
Purchased heat – transmission and distribution	tCO_2e	–	–	–	–
Gross operational emissions	tCO_2e	168,884	90,078	164,696	87,748

To ensure we continue to build on the current reductions in carbon emissions, there is an over-arching strategy and milestones to measure progress against plan. An overview of the discrete work packages is published at: https://dwrcymru.com/netzero and a summary of the outline trajectory to net zero emissions is shown in the figure on the following page.

Carbon Footprint ($kTCO_2eq$)



Note 1) Welsh Water's ambitious target is for a 90% reduction in carbon emissions by 2030, through acceleration of hydrogen production and reductions in carbon emissions associated with our construction activities (referred to in the graph as Construction carbon and which Ofwat refers to as Capital Carbon).

Note 2) Welsh Water expects to see significant reduction in carbon emissions between 2030 and 2040 as we convert our fleet to non-fossil fuel powered vehicles, as well as the benefits from nature-based solutions (noted in the graph as carbon sequestration).

The diagram above demonstrates our ambition to go from the baseline of kilotonnes CO_2eq in 2020, and move toward net zero emissions in 2040. To deliver this strategy, we have identified 6 work packages to ensure all aspects of the business align with the Race to Zero pledge obligation to reduce emissions as much as possible. The work packages are:

1. Reducing our use of energy and increasing own renewable energy generation.
2. Utilising sewage-derived biogas to decarbonise our heat and/or transport.
3. Gradual transition to a low-carbon fleet of vehicles.
4. Actively control and reduce fugitive emissions from treatment processes.
5. Monitor and reduce construction-related carbon emissions.
6. Maximise carbon sequestration and biodiversity.

While the net zero strategy outlines the objective to reach net zero emissions in 2040, we have prepared a detailed submission for PR24 to set out the interventions to be delivered between 2025 and 2030.

To ensure continued management attention and scrutiny is given to progress and claims made during each operating year, progress is reviewed quarterly at ESG Committee meetings. The Committee reviews 41 Environmental, Social and Governance Key Performance Indicators. The following are some examples relating to net zero:

- Procurement and supply of electricity with Renewable Electricity Guarantee of Origin certificates.
- Appropriate deployment of nature-based solutions for less energy-intensive means of treating water and returning it to the environment.
- Carbon footprint of construction activities being reviewed and interventions in design or construction methods to reduce the environmental impact. To be reported through the UKWIR Carbon workbook methodology and included in future annual reports.

We have made progress over the past 12 months engaging with the market on 'private wire' and Power Purchase Agreement opportunities for purchasing renewable electricity directly. This will contribute to further decarbonisation by promoting additional investment in renewable projects. Our biodiversity case studies above indicate the progress being made in enhancing our natural environment. This year has also seen hydrogenated vegetable oil (HVO) generators and fuel cells replace conventional diesel solutions for on-site construction activities requiring an electricity supply. We are also excited to be finalising our Sustainable Procurement Policy to facilitate further work with our supply chain in managing Scope 3 emissions and continuing to reduce emissions from our activities.

We have commissioned 2 new solar and 2 new hydro-electric generating stations during the last 12 months, bolstering our energy self-sufficiency to around 25%. We have also been at the forefront of hydrogen innovation, with two projects being progressed in tandem: the HyValue project, in conjunction with the Ofwat innovation fun; and H2Juice, which is part of the BEIS Industrial Hydrogen Accelerator. Working with project partners Costain, Wales & West Utilities, and Princes Foods, we are excited to further develop these feasibility projects into detailed design, and ultimately, to deliver low-carbon hydrogen in the near future.

SUSTAINABILITY: CUSTOMERS

Engaging with Customers – ESG Objective 6

Our customers are at the heart of everything we do and we are constantly striving to improve the quality of the service we provide. Customer feedback allows us to make plans and concentrate our efforts to improve our services to help us achieve our vision, which is to 'earn the trust of our customers every day'.

There are a range of independent measures used to evaluate our performance for our household, business and developer customers.

For discussion of our customer groups (Household customers, Business Customers and Developers) please see the Market Context section on pages 40 to 42.

We provide essential services to more than 3 million people across most of Wales, Herefordshire and parts of Deeside. Ofwat's Customer Measure of Experience (C-MeX) metric is designed to measure how satisfied our household customers are with the level of service we provide. In FY 22, overall customer satisfaction measured under the C-MeX index saw us achieve fifth place out of 17 companies overall and this year we have secured a ranking of 4th place.

With no shareholders, we are more able to focus on our customers, and over the last 12 months, we have concentrated our efforts on:

- Managing customer expectations: the introduction of the 'Track My Job' facility provides appointment reminders, updates, and live tracking of our engineers. This helps improve communication with customers and our understanding of their needs.
- Resolution: our new 'Jeopardy Management' tool provides colleagues with an operational single customer view which helps us resolve issues much quicker, often on the first contact or visit, and making the customer aware of the next steps if this is not possible.
- Timescales: prioritising work based on the impact on the customer and responding consistently and quickly.

In July 2022, we regained our position as the top-ranked water company in the Institute of Customer Service's UKCSI measure – the national measure of customer satisfaction. We were also among the sector's top performers across most measures in CCW's annual Water Matters report, also published in July 2022. Nonetheless, the report highlighted the general decline in trust that customers now have in the sector as evidenced by our own research and external benchmarks such as the Edelman Trust Barometer (annual survey that purports to measure whether people around the world trust businesses, governments and the media). While our trust scores remain relatively high, we are mindful that delivering a high-quality service and addressing social concerns, such as our impact on the environment, driving cost efficiencies and keeping bills low in the current cost-of-living crisis, will be fundamental in helping us retain customer trust over the coming years.

As a genuinely customer-driven business, we are passionate about understanding and engaging with our customers to provide an unrivalled customer experience, now and for the long term. We put customers at the heart of everything we do and engage directly with them so that we can own and champion this relationship.

We want to be constantly listening to their needs and views so that we can reflect them in the essential services we provide. This is an ongoing process as we bring together and analyse data from our customer research and also our daily operations, thereby enhancing our understanding of our customers and their needs.

Over the past 12 months

Our customer research programme has 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. After completing in FY 22 the initial phase of research on customer priorities to inform the PR24 business plan, we have commissioned further research to understand the long-term customer priorities and test the pace and ambition of our plans.

We have consulted with customers (and other stakeholders) on key business documents published this year, including our latest Water Resources Management Plan (see page 113) and our first ever Wastewater Resources Management Plan (see page 115). We now have an established group of 30 customers who take part in our quarterly longitudinal panel where we can track customer views with an informed group of customers.

We attended flagship national events in Wales (Royal Welsh Show in July and National Eisteddfod in August) where we discussed the importance of water efficiency and promoted the availability of our Welsh language service provision.

We have also completed a number of projects to support the operational business, such as a review of customer perceptions of the Temporary Use Ban (introduced in Pembrokeshire last summer) and the freeze/thaw that impacted our drinking water services to Ceredigion and parts of Carmarthenshire in December 2022. This will help inform how we manage future incidents and how we also communicate with customers.

We hosted our first 'Your Water, Your Say' public event to allow customers and other stakeholders to pose questions about issues that are important to them, including priorities for the future as we develop our business plan for 2025-30.

CASE STUDY CUSTOMER AWARENESS CAMPAIGN

During the drought last summer, we worked closely with customers in Pembrokeshire to help maintain water supplies.

This included implementing an extensive customer awareness campaign by issuing public notices in local newspapers, advertising on local radio, local TV and digital stations; targeting social media, using large billboards in high-footfall areas, attending the Pembrokeshire Shows and visiting town centres to explain to customers the measures being put in place. We shared stakeholder packs with trusted partners and held regular press briefings, all of which helped amplify the message.

Customer research shows that our awareness campaign did not negatively impact on the perceptions of Welsh Water, with a recognition among customers of the need to temporarily introduce restrictions to keep water flowing while also helping the local environment.

> “CUSTOMER RESEARCH SHOWS RECOGNITION AMONG CUSTOMERS OF THE NEED TO TEMPORARILY INTRODUCE RESTRICTIONS TO KEEP WATER FLOWING WHILE ALSO HELPING THE LOCAL COMMUNITY.”

Pembrokeshire Show 2022

SUSTAINABILITY: COMMUNITIES

Working to Create Tangible Benefits in the Communities we Serve – ESG Objective 4

Water Resilient Communities Project

Over the past 12 months, we have continued to build on the success of earlier Water Resilient Communities Project activities in south Wales (Maerdy and Rhymney) and north Wales (Rhyl) and we have now moved to the western area of Newport city. This place-based project, which targets some of Wales' most deprived communities, brings together several of our services in a coordinated effort. An important part of its success involves developing a deeper understanding of the challenges facing customers and communities, as well as exploring opportunities to collaborate with partners as we look to increase the impact of our activities. We have now connected with 30 groups and organisations active within the area.

Our achievements in Newport:

- Attending over 70 events and engaging with over 2,500 customers. This has involved reviewing over 200 customer accounts and has led to estimated customer savings of c.£11,000. The focus in the area also led to over 250 customers joining the Priority Service Register. Following the support received from the Vulnerable Customer Community Team, one customer commented: 'It is a big difference, a big help. That little bit extra that I was spending on water, is now spent on the boys'.
- Promoting our free toilet leakage and water efficiency offering within the area, which led to over 140 customer appointments and the dispatch of c.500 free water saving devices.
- Identifying, analysing and initiating proactive investigations into multiple post codes within the area, where there is a high risk of repeat blockages.
- Proactively reaching out to customers in arrears to inform them that we would be holding drop-in surgeries. Our debt advisers were at hand to assist customers, many of whom had been disengaged for a long time, onto a path to clear their debts. One customer involved on the day shared his appreciation: 'I'm really nervous on the phone. I thought this...was a great idea. I just came down, and the gentleman has helped me out. I'm trying to sort my life out. Times are hard and every penny helps. I owe Welsh Water a lot of money. This gentleman today has put me on a tariff, and as long as I keep my payments correct, the bill will be written-off'.
- Supporting jobseekers in the area through the support and expertise of our Human Resources department.
- Delivering curriculum-led school visits, which involved the trial of new educational content to c.4,000 children in local schools. This involved c.70 hours of classroom time, during which future generations were thoroughly engaged in the learning: 'In those little microscopes, I looked at a dragonfly wing. I enjoyed it so much because I got to learn about other creatures that I've never learned about before'.

Education Delivery in FY 23

Our education programme delivers enriching, informative and practical sessions to help inspire future generations. It covers a range of important environmental and sustainability themes, while also encouraging a positive attitude towards STEM (Science, Technology, Engineering & Mathematics) subjects from an early age. Our free provision is highly regarded and in high demand from schools and practitioners. The experiences, knowledge and skills captured within our outreach and education centre-based sessions also offer a strong industry link, helping our young people as they strive for future employment, lifelong learning and active citizenship.

80,212 pupils have taken part in one of our sessions, which has been delivered through 789 education sessions – and involved over 1,000 hours spent with pupils in classrooms. Despite the remnants of social restrictions on some large school hall gatherings during the beginning of the year, we delivered our education programme to significantly more pupils as the year went on. The content, created and presented by qualified teachers, uses a combination of outdoor, classroom-based, assembly hall and online sessions to ensure maximum impact.

Partnership working and online digital resources continue to be a key part of our strategy, ensuring pupils receive the utmost impact from, and access to, our education support. We have continued in a successful partnership with Keep Wales Tidy to deliver a series of online interactive sessions, simultaneously streamed into classrooms and reaching over 1,500 pupils. We have also supported Groundwork Wales in their Nant-yr-Aber Project school engagement, continued to work with NRW in the annual training and induction of teachers, and have trialled a collaborative approach with Cardiff Metropolitan University as we seek to provide development opportunities for prospective teachers. In addition to the support we offer to schools in their delivery of the national curriculum to pupils, our approach is also about providing school practitioners with the scope to enhance their teaching – and this is particularly apparent again this year.

The quality of our service and impact of our education is highlighted through teacher evaluations. 442 evaluation forms have been completed, with 99% of them indicating that schoolteachers have been 'very satisfied' with the quality of delivery.

COMMUNITY FUND

Supporting local communities has never been more important. With the after-effects of Covid-19 and the ongoing concerns over the cost-of-living crisis, customers are looking at companies such as Welsh Water to lead the way as a responsible business to support projects in their local community. Since launching our Community Fund in 2017, over £450,000 has been given to various charities and community organisations.

Projects to support environmental improvements, health and wellbeing, and education and inclusivity benefits receive between £250 and £1,000 to help make a difference in their local communities. The Fund has played a key part in supporting communities where we often have large investment schemes as it enables us to work in the community while giving something back to form part of the legacy of the investment.

“WE LEARNED HOW TO SAVE WATER SUCH AS TURNING OFF THE TAPS WHEN WE BRUSH OUR TEETH.”

“WE LEARNED HOW WATER COMES TO US FROM THE RAIN TO THE RESERVOIR, CLEANED AND TO OUR HOUSE.”

Pupils from Somerton Primary School

“THIS WAS AN EXCELLENT WORKSHOP THAT ALL PUPILS THOROUGHLY ENJOYED. THE LESSON GAVE AN UNDERSTANDING OF WATER FROM SOURCE – AND ALL PUPILS UNDERSTOOD. FABULOUS WORKSHOP AND WE`LL DEFINITELY BOOK AGAIN. DIOLCH!!”

New Radnor Primary School

SUPPORTING THE AUTISTIC COMMUNITY


Safe Shred, Autistic Minds Show

Autistic Minds supports the autistic community in Wales.

To help address a lack of employment opportunities for autistic people, the company launched Safe Shred Wales, an accredited document shredding service which provides training and employment, improving social and economic wellbeing. Funds were used to buy equipment to provide more opportunities for autistic people.

“THANK YOU SO MUCH ONCE AGAIN FOR YOUR SUPPORT. WE REALLY APPRECIATE IT, AND AS YOU CAN SEE FROM THE PHOTO, MEMBERS OF OUR SAFE SHRED WALES TEAM WERE VERY PROUD TO BE ON THEIR STAND AT THE AUTISTIC MINDS LIVE SHOW LAST FRIDAY SELLING THEIR NEW PRODUCTS!”

Ruth Mills, Autistic Minds Ltd

SUSTAINABILITY: COMMUNITIES CONTINUED

USK FOOD KITCHEN

Usk Food Kitchen received funding from Welsh Water to help ensure those who needed a hot meal received a Christmas meal.

Usk Food Kitchen runs twice a week, delivering hot food to over 40 homes in the area. Set up in May 2020 and run by local volunteers, they rely on food and financial donations.

“WE FIND THAT MOST OF THE PEOPLE WHO HAVE OUR MEALS ARE ELDERLY, LIVE ALONE OR HAVE DIFFERENT DISABILITIES. EVERY MEAL THAT WE MAKE HERE IS PREPARED WITH FRESH VEGETABLES, SO WE MAKE SURE THAT THEY HAVE FRESH, WHOLESOME FOOD. IT'S LIKE WE WRAP OUR ARMS AROUND THEM WITH THE FOOD! THE FEEDBACK WE GET IS ALWAYS VERY POSITIVE INDEED. THE MONEY DONATED BY THE COMMUNITY FUND HELPED TOWARDS FOOD COSTS, CLEANING MATERIALS AND THE UPKEEP OF COOKING MATERIALS.”

Gloria Dolan – Founder of Usk Food Kitchen

MEADOW STREET COMMUNITY GARDEN, PONTYPRIDD

We supported Meadow Street community garden via our Community Fund and also supported with volunteering at the garden over the last year. The garden is a public space that uses nature and biodiversity to promote health and wellbeing for all. The community garden is open to the community and is a space that uses nature and biodiversity to promote health and wellbeing to all. It offers opportunities for everyone to volunteer and access wellbeing courses, develop their confidence, learn new skills and make new social contacts.

“IT'S BEEN GREAT HAVING THE SUPPORT OF WELSH WATER AT THE GARDENS AND THROUGH THE FUNDING. WE HAVE BEEN ABLE TO FILL OUR RAISED BEDS WITH COMPOST, PLANT UP SOME BEE-FRIENDLY FLOWERS AND GET EXPERT ADVICE FROM A MEMBER OF WELSH WATER'S ECOLOGY TEAM. WE HOPE TO SEE THEM AGAIN SOON.”

Helen Williams – Pontypridd Town Council's Development Officer

Ensuring Affordability – ESG Objective 5

We are currently experiencing the worst cost-of-living crisis in the UK since the 1970s. With inflation increasing to over 10% in the fourth quarter of 2022, businesses and households have faced increasing financial pressure.

It is therefore more important than ever that we support our customers, not least given that deprivation levels in Wales are among the highest in the UK. We provide a comprehensive package of support to help customers facing affordability challenges, and run proactive communications campaigns, such as 'Here for You', throughout the year to encourage those in difficulty to contact us to discuss their circumstances.

With over 1.4 million household customers in most of Wales and parts of England, we are:

- Making available £62 million across the 5 years to 2025 to provide financial assistance to our customers.
- Supporting 127,000 of our customers via discounted bills through social tariffs – a larger number, proportionate to the Company's size, than any other water company in England and Wales.
- Proud to have earmarked over £12 million in FY 23 to support our vulnerable customers as we aim to support an additional 50,000 low-income households.
- Working with over 300 local organisations (including Citizen's Advice, Welsh Government's NEST scheme to support energy efficiency improvements, Job Centre Plus, housing associations and foodbanks) to help identify and support customers who may be eligible for a discounted bill.

From April 2023, customers on our HelpU tariff have had their annual bill capped at £291, a significant reduction on the average household bill of £499.

To date, working households have usually been ineligible for financial assistance from us, but we introduced a new scheme in late 2022 which is enabling them to apply for support from our newly established Cymuned (Community) Support Fund. The scheme offers short-term support to working households who find themselves in a situation where their bills exceed their income.

Qualifying households may receive a 3-month charge-free period, equating to a discount of around £100-£120 on the average bill. Those who apply need to undergo an income and expenditure assessment which is completed by trusted organisations, such as Citizens Advice. The scheme was initially introduced in Rhondda Cynon Taf in south Wales and Denbighshire in north Wales, and we plan to extend its availability more widely.

We have also supported our employees through the cost-of-living crisis. Having already implemented the increase to the Real Living Wage for all affected employees, we worked with our recognised trade unions to make a one-off payment of either £1,000 or £2,000 to eligible colleagues (with the lower paid receiving the higher amount) in December 2022 and agreed a 6.2% pay award from 1 April 2023 for most of our employees.

BRINGING CUSTOMER SUPPORT TO LIFE

We have a dedicated and specialist support team in place to guide and support customers experiencing any form of vulnerability; financial or otherwise.

We offer financial support to eligible customers, which focuses on the impact that the cost of living is having on our customers, working alongside a range of trusted partners.

“WE RECENTLY SUPPORTED A FOODBANK USER WHO CAME OVER TO HAVE A CHAT ABOUT HIS ACCOUNT. HE WAS A RECOVERING HEROIN ADDICT, WHO HAD BEEN WORKING OVERSEAS IN A HIGHLY PAID ROLE. HE'D RETURNED HOME TO SEEK TREATMENT FOR ADDICTION AND LOST HIS HOME AND FAMILY IN THE PROCESS. HE WAS SUPPORTED BY A CHARITY TO SECURE A PLACE OF HIS OWN AS HE LIVED ON THE STREETS. WE WERE ABLE TO HELP HIM BY PLACING HIM ONTO OUR HELPU TARIFF FOR 12 MONTHS WHILE HE IS ON SUCH A LOW INCOME; AND WE SET UP A DIRECT DEBIT FOR ONGOING PAYMENTS. HE WAS IN TEARS AND SAID HE WAS SO HAPPY AND RELIEVED BY THE SUPPORT WE'D GIVEN HIM.”

Paula Burnell – Head of Vulnerable Customer Support and Digital Services

SUSTAINABILITY: COMMUNITIES CONTINUED

Attracting and Retaining a Diverse Workforce to Reflect our Communities – ESG Objective 7

Every organisation is only as good as its people, and so we want to recruit and retain the best talent. Talent is indifferent to gender, race, or sexual orientation: it is what an individual is endowed with. We want to have the widest possible appeal to talent in all its forms and this comes by being recognised externally as having an inclusive culture, somewhere people are valued for who and what they are. We need all our people to recognise and value that culture so they talk about it to their friends and communities and spread the word that Welsh Water is a great place to work.

In the water sector, we have historically had a predominantly white male workforce. We have, therefore, continued our focus on improving our diversity across genders, LGBT+ and non-binary, race, disability, social background and more, to better reflect the communities we serve. We are currently reviewing our targeted data-led approach underpinning our strategy to better inform us on where we need to move the dial on equality, diversity and inclusivity.

Our work to reinforce this culture continues to be driven by:

- An experienced Equality, Diversity and Inclusivity lead working with colleagues, teams and networks across the business.
- Our well-established Inclusivity Forum which includes ambassadors for all the protected characteristics and identifies areas in which the business can improve its efforts to be more inclusive.
- Monitoring progress, using quantitative and qualitative data to highlight where barriers exist, show the impact of our interventions, and make appropriate adjustments where needed.
- Using employee-led network groups to feed back to evaluate initiatives, to assess if policies are working for everyone, and to provide a platform for feedback and improvements.

Internal programmes

We want inclusivity to be at the heart of what we do at Welsh Water, and over the past 12 months, we have:

- Delivered inclusive language training to colleagues at all levels, including our Non-Executive Directors, demonstrating the importance of top-level down initiatives.
- Delivered a range of modules for colleagues around diversity to include conversations about race, being an ally, and unconscious bias.
- Had regular communication with the Executive Team on initiatives and areas for focus.
- Continued with reverse mentoring for Directors and senior managers with colleagues from different backgrounds sharing their lived experience.

External relationships

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

- **Energy and Utility Skills** – our Inclusion Lead attends these for best practice sharing across the industry looking at ways we can improve.
- **Business in the Community** – as a signatory to the Race Charter, but also working with our dedicated inclusion adviser delivering webinars available to all colleagues. We are also part of the Age at Work Leadership group, working together with other organisations to understand the challenges and opportunities of an ageing work population and share good practice.
- **Stonewall Cymru** – continuing our membership as a diversity champion, taking part in the annual Stonewall Index and delivering modules for colleagues.
- **Chwarae Teg** – delivering a series of modules supporting development of women in the organisation.
- **Mahogany Inclusion Partners** – delivering a number of modules supporting development for Black, Asian or ethnic minority colleagues.
- **WISE (Women in Science and Engineering)** – partnering for best practice approaches that we can introduce and embed into our way of working.

Recruiting our future workforce (Graduates and Apprentices)

We are continuing to invest in recruiting new talent into Welsh Water by identifying those with the right skills, attributes and behaviours to become our highly skilled workforce of the future.

We continue to review the programmes we offer, and our apprentice offering is for craft roles as well as in support functions and degree apprenticeships.

We continue to partner with the University of South Wales to deliver our network75 programme which is a combined work placement and part-time study route to a degree, allowing students to work, earn and learn.

Over the past 12 months, we have recruited 41 graduates and apprentices and 2 colleagues have taken part in the network75 programme.

INNOVATION

With the support of our customers, regulators, and governments alike for improved services and reducing our carbon and environmental footprint, we continue to look for better ways of working or advances in technology.

Over the past 12 months, we have made good progress delivering the agenda set out in our Innovation Strategy, which we refreshed and published in 2022, with links to over 100 academic and other institutions, technology specialists, and global innovation concerns. Our refreshed strategy confirms the original 2 drivers of our approach to innovation are still very much fit for purpose (https://dwrcymru.com/innovationchallenges).

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 governments, and so enable new innovative policies to be developed which facilitate and support the delivery of our 2050 vision, for example, on catchment solutions and nutrient trading.

In 2022, we progressed 46 technology-related projects from a total of 179 which have arrived at our Innovation web-based portal. We have also won or are part of innovation projects worth £35.7 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 £32 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 well-established iLab process, and support both our AMP7 KPI targets and Welsh Water 2050 to ensure our investment remains appropriately targeted.

In May 2023, our innovative project idea to use artificial intelligence (AI) to improve the way in which water companies monitor algae levels in reservoirs was awarded £385,000 in funding from Ofwat's Innovation Fund. The project is one of 16 solutions awarded a share of the award fund in the water regulator's latest innovation competition – the Water Breakthrough Challenge.

The initiative will use artificial intelligence (AI) to transform algal monitoring into a high-throughput, high-accuracy laboratory or field-based process for a fraction of the cost of historical algal monitoring methods, allowing better risk prediction and enabling water companies to take earlier, more cost-effective and targeted actions.

The Water Breakthrough Challenge encourages initiatives that help to tackle the biggest challenges facing the water sector, such as achieving net zero, protecting natural ecosystems and reducing leakage, as well as delivering value to society.

Our research work has been used to help support policy change in the EU through Eureau, the European industry trade body. In December 2022, we were pleased to see the incorporation of the producer responsibility principle in the draft Urban Wastewater Treatment Directive, requiring the pharmaceutical industry to fund any quaternary treatment processes required to further reduce the presence of pharmaceutical products in treated sewage effluents. This sets a powerful precedent and should assist the whole water sector and pharmaceutical and chemical industries to move to a more sustainable footing. Our research programme is now focusing on a wide range of topics, including how best to progress nature-based sustainable investments for our supply area.

We ran our biennial virtual Innovation Conference in September 2022, celebrating our innovation successes to date, and looking forward to AMP8 in terms of establishing stronger partnerships to deliver improvements and efficiencies for our customers. Over 500 delegates registered to attend, and we are currently working through the various innovations and research topics raised to pick the best of them for investment and support.

We are also very active in the support of Spring Innovation Ltd, the centre of excellence for innovation in the water sector. We hope to see the new Company flourish and enable us to more efficiently undertake trials of treatment processes etc, as well as share knowledge more effectively across the whole sector.

INNOVATION CONTINUED

THE ONGOING TRIAL OF NORAG TECHNOLOGY

A highlight for Wastewater Innovations this year has been the ongoing trial of the NoRag technology for combined storm overflow (CSO) screen enhancement, designed by a Swansea-based company.

CSOs are designed to alleviate pressure on our sewer systems during heavy rainfall, they are regulated and the flows entering the environment tend to be diluted. We are committed to reducing our impact and investing in the improvement of CSOs through research and innovation.

The NoRag innovation is designed to force the rag back into the main flow of water, allowing it to continue through the network without blocking the screen and risking unconsented discharge to the environment. NoRag requires no power and has no moving parts, and the current trial is proving to be 93% successful.

Next steps include modifications and testing on other applications, but ultimately this could be a brilliant, innovative solution to the challenges we face with existing CSO screen blockages.

Cog Moors WWTW, Vale of Glamorgan

THE WATERFALL SMART METER

Creative EC have developed a new smart water meter that has the capability to monitor customers' daily water consumption.

The devices have the ability to determine which appliances are being used within the household and give advice and nudges on how to be more water efficient based on their own water consumption patterns. The Waterfall smart meter can also capture pressure transients in real time as well as shut off the water if it detects large leaks within the home.

Six households took part in the trial, all were Welsh Water colleagues. All the colleagues had a low per capita consumption (PCC) of between 85 and 96 l/p/d. However, during the trial, 46,000 litres of efficiencies across all trial households were identified; this equates to a saving of 6.3 l/p/d. These efficiencies were made up of:

- Two background flows (leaks), a small drip and a larger leak measured at about 35,040 litres per year.
- Targeted nudge messages led to increased engagement and behaviour changes by some of the participants, saving approx. 2,496 litres per year.
- One participant identified through the app that a family member was using 12 litres to brush their teeth by leaving the tap running. By changing behaviour this would save them approx. 8,760 litres per year.

EVENT DURATION MONITORING ANOMALY DETECTION TOOL

Colleagues within our Wastewater Services team are tasked with reviewing huge numbers of graphs that show data recorded from Event Duration Monitoring (EDM) sites, as part of wider initiatives to improve wastewater asset performance.

Analysts carefully review recorded data to identify developing anomalies that may indicate that asset performance may be beginning to deteriorate. This enables proactive action, where the team informs operational teams to investigate and potentially resolve any issues before they occur.

The Data Science Team at Welsh Water has created a new tool – the Event Duration Monitoring Anomaly Detection Tool, or 'EDMAD'. It uses advanced machine learning and statistical methodologies to automatically flag any anomalous readings, considering any relevant seasonal and meteorological factors. The results are presented to users through the EDMAD dashboard, which highlights the EDM assets that have high levels of anomalous readings, which in turn supports further investigation of EDM assets. Built using cutting-edge cloud analytics components, EDMAD eliminates time currently spent on manually reviewing graphs, instead cleverly pinpointing areas of interest for the team to direct their efforts.

INNOVATION CONTINUED

Hydrogen Innovation

Welsh Water has been progressing two projects, HyValue and H2Juice, for hydrogen production by 'reforming' renewably produced methane into hydrogen. Steam reformation is an established technology. However, this is understood to be a first of its kind innovation. Conversion of sewage gas into biomethane and reforming into hydrogen, with the addition of carbon capture technologies, in a single development is unique.

The HyValue project will determine the feasibility of hydrogen production and opportunities for vehicle fuel displacement. The H2Juice project, feasibility funded by Department for Business, Energy and Industrial Strategy, is particularly novel as it addresses, with the project partners Costain, Wales & West Utilities and Princes Foods, an end-to-end arrangement to use hydrogen on a different site to where it is produced. These two hydrogen feasibility projects provide fantastic carbon emission reduction opportunities through the displacement of fossil fuels in vehicles or industry. We intend to publish our findings in 2023. We also intend to progress to front-end engineering design over the next 12 months. This will enable the excellent carbon reduction potential of hydrogen to be part of Welsh Water's contribution to Journey to Zero Carbon emissions by 2040.

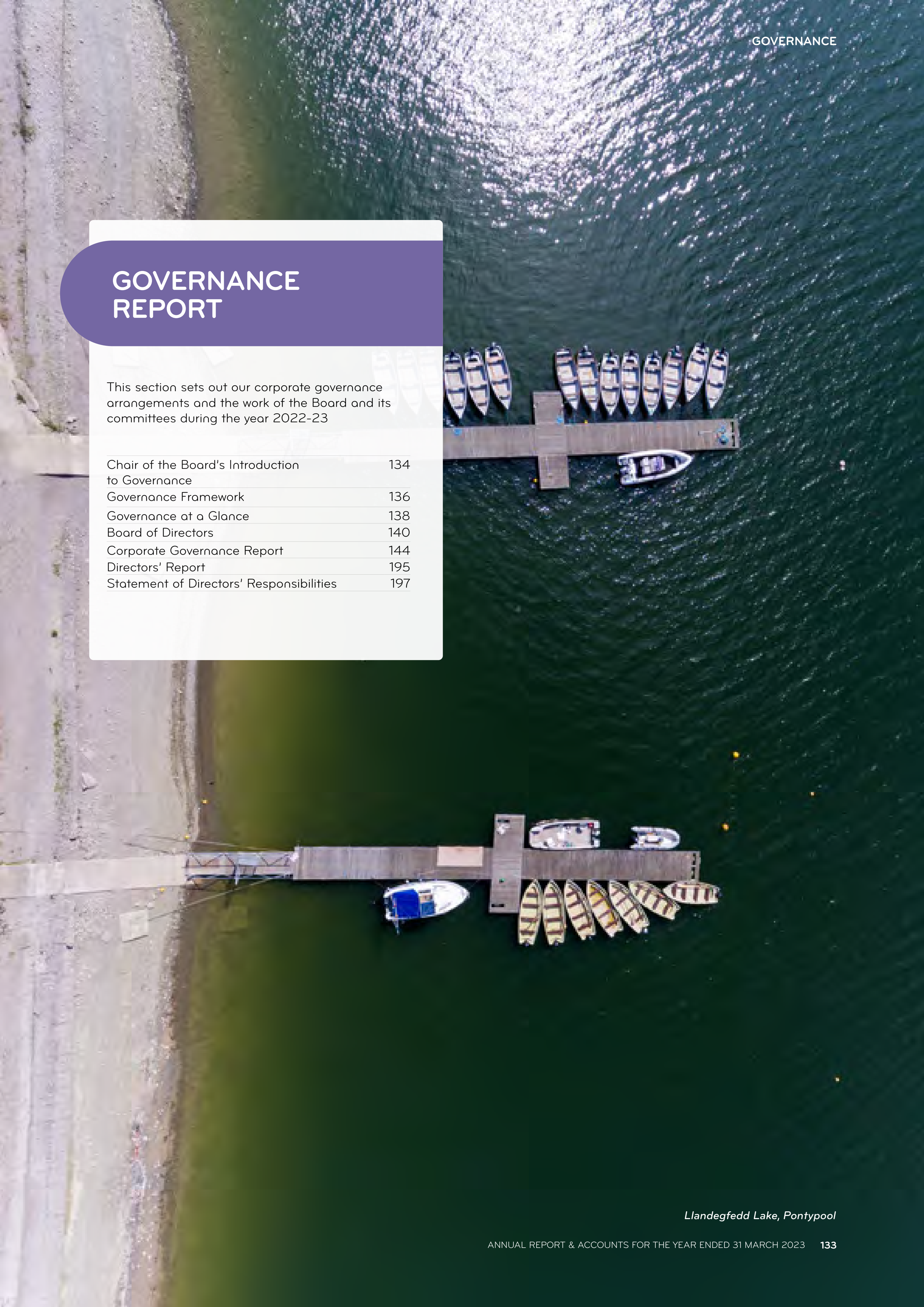
Low Code Application Development: Confined Space Entry App

The IT team has been working with the operational business to showcase the benefit of 'low-code' development, enabling the rapid development and deployment of mobile apps to improve efficiency. As an example, the Dam Safety team are deploying a new app that saves time, improves user experience and enables continuing the best practice in safety procedures within confined spaces. The development has enabled an innovative approach to safety documentation using Microsoft's Power Platform.

The IT team saw this as a great opportunity to adopt a collaborative approach with operational teams, employing design thinking to deliver a user-centric product, and understand in detail how we can support the sometimes dangerous work our operational teams do every day through simplifying the process with technology. In building on cloud-based technology platforms already integrated into our environment, much of the necessary cybersecurity is already 'baked in', and the approach is now being used by an internal Automation and Integration team to deliver value across Welsh Water's business.

GOVERNANCE REPORT

This section sets out our corporate governance arrangements and the work of the Board and its committees during the year 2022-23



Llandegfedd Lake, Pontypool

CHAIR OF THE BOARD'S INTRODUCTION TO GOVERNANCE

"OUR CULTURE FOCUSES ON DELIVERING VALUE AND THE BEST OUTCOMES FOR OUR CUSTOMERS AND THE ENVIRONMENT."

Focus of the Board in the last 12 months

Operational performance

Given the scale of the operational challenges confronting the Company over the last 12 months the Board applied significant focus to reviewing the Company's progress against its operational measures with the Executive Directors and the Managing Directors of the 3 business areas who are permanent attendees at the Board. Among other areas there was specific in-depth consideration of the Company's response to last summer's drought and its actions to minimise the impact on customers; how the Company handled the winter's freeze/thaw event and subsequently compensated affected customers for the disruption suffered; the Company's environmental performance and the development of its Manifesto for Rivers in Wales and its contribution to the First Minister's Phosphate Summit Action Plan; and the investigation into the need to restate prior year's leakage and per capita consumption (PCC) reporting together with the resulting plan to get leakage back on track.

Review of leakage reporting

The Board was briefed on the potential leakage reporting issue in May 2022 and immediate action was taken to better understand the root cause of this. As reported in last year's Annual Report and Accounts, a third party review of our interpretation of Ofwat's guidance on the reporting methodology for two Performance Commitments: Leakage and Per Capita Consumption was initiated. Internal reviews took place in parallel with the third party review and the outcomes of these reviews have been considered by the Board directly and through the work of its Committees during the year. The conclusion of the reviews has resulted in the establishment of a new Leakage Oversight Committee, a purpose-formed task-and-finish committee of the Board. More information on the Company's response to this review can be found on page 56.

Key focus areas in FY 24

- Reviewing the Company's strategies on Leakage and Reduction of Per Capita Consumption in particular, in light of the misstatements of data in our regulatory reporting in both of these areas during FY 21 and FY 22.
- Considering the issues highlighted through ongoing monitoring of operational performance and the appropriateness of resulting action plans to improve performance where currently failing short of our objectives and regulatory requirements, in particular our Environmental Performance Assessment (EPA).
- Ensuring the Company continues to provide support to those of its customers who struggle to afford their bills, and who have characteristics of vulnerability.
- To assess the demands placed on our people by our 24/7 operations and ensure we have in place the appropriate resources and organisational design
- Ongoing preparation for PR24 and receiving updates from the Regulatory, Asset Planning and Executive Teams on the progress with investment cases for the Company's PR24 business plan using multi-capital accounting to support this.
- Overseeing progress with the collaboration approach to PR24 in Wales through the PR24 Forum with the Welsh Government, Ofwat and other stakeholders to agree the right plans for the future.
- Overseeing the Company's River Quality strategy and CSO programme which is prioritised on the basis of harm reduction and plan to improve more than 500km of river.
- Overseeing the progress of the Cwm Taf Project, to construct a new water treatment works in the Merthyr Tydfil area, and ensuring that the scheme meets the requirements of Ofwat's Direct Procurement for Customers (DPC) delivery model.

PR24 planning

The Board's strategy day was held in November 2022, enabling it to spend time debating a number of strategic and long-term business priorities, including an update on our Long-Term Delivery Strategy (LTDS), within the framework which Ofwat require all water companies to use as part of their PR24 submission. The LTDS will set out our core pathway to future enhancement investment plans to deliver our 2050 strategy.

A particular focus of the Strategy Day was our preparations for the next 5-year price review, PR24, and understanding the challenges and opportunities for Welsh Water. This included the financeability, acceptabilty, and affordability of our Plan. The Board also received from Peter Davies, Chair of the Independent Challenge Group, the results of the PR24 customer insight following engagement with our customers up to that date. Such engagement is a key process throughout our PR24 preparations.

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 our engagement with them are set out in the Board's S172 Statement on page 70.

Governance changes

During the year, the Board has noted and, where appropriate, approved the implementation of the following enhancements to processes

- ESG Investment Policy – following recommendations from the ESG Committee, which approved the policy put forward by the Treasury team, and the Audit Committee, which approved the inclusion of the policy within the Treasury policies and procedures document, the Board approved a new ESG Investment policy.
- Establishment of an executive-level Finance Risk and Control Committee, reporting to the Chief Financial Officer, to oversee audit actions and control improvements within the Finance function. The progress made by this Committee will be reviewed by the Audit Committee.

Our people

As a Board, we consider it very important to have direct engagement with our colleagues at Welsh Water. It provides an opportunity to gain an understanding of the day-to-day challenges they face, both from an operational and office-based perspective and is one of the ways we monitor culture and behaviours. The engagement feedback during the past year has primarily focused on hybrid working, which has largely been embraced but for some continues to be a challenge. Teams are getting together more face-to-face and consider this to be of great value. Communication and collaboration have also been a key focus. This has included the negotiations with trade unions in relation to the cost-of-living impact and one-off payment made to eligible colleagues to help soften this impact. During engagement discussions, many colleagues have indicated that they feel valued and supported by the Company during these times.

As Non-Executive Directors we value the opportunity to undertake operational site visits which enable face-to-face meetings with colleagues (see page 148 for details of these site visits during the year). It give us the opportunity to discuss and appreciate some of the issues first hand. It also allows us to see the great work being done across the business by our colleagues.

We are pleased to see the progress that has been made in the area of diversity and inclusion during the past year. See page 128 for further details.

Our members

The Company's Annual General Meeting (AGM) is held in July each year and welcomes a large number of our Members. We appreciate the valuable role our Members perform in relation to our not-for-shareholder governance model. We are fortunate that through our annual Member recruitment process we are able to attract individuals from a wide range of backgrounds and who share an interest not only in our Purpose (the what we do and for who), but also our culture (the how) which focuses on delivering value and the best outcomes for our customers and the environment. Further detail on our engagement with Glas Cymru Members is on page 149.

Board evaluation and succession

Details of the externally facilitated evaluation of the Board's performance, which was led an independent board evaluator, Halex Consulting Limited, are set out on page 152 of this report. I am pleased to confirm that the output from that evaluation concluded that the Board was a very effective Board but the review also identified important opportunities to improve further our effectiveness.

We have welcomed Lila Thompson and Barbara Moorhouse, both as Non-Executive Directors, to the Board during the year. Graham Edwards, Senior Independent Director and Chair of the Quality and Safety Committee (QSC), formerly the Quality and Environment Committee, retires at the AGM in July after 9 years of being a Director. Barbara will succeed Graham as Chair of the QSC and Joanne Kenrick will take up the role of Senior Independent Director, all being effective from the date of the AGM in July 2023.

Overall, I am confident with the quality of the Board's decision making and compliance and that the Company has complied during the year with the key principles of good governance.

Alastair Lyons
Chair of the Board

16 June 2023

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 Safety Committee

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

Remuneration Committee

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

Environment, Social and Governance (ESG) Committee

Develops and oversees the Group's ESG Strategy. Monitors performance against the Company's ESG targets. 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 and makes recommendations to the Board in relation to the necessary approvals and Board assurances required under Ofwat's Direct Procurement for Customers (DPC) delivery model.

Leakage Oversight Committee

Established during the year to oversee the misstatement of leakage and per capita consumption data during FY 21 and FY 22.

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 (ISSG)

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

Asset Investment 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.

Other performance and project groups

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

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 18 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 Section 172 Statement on pages 68 to 73.

Elan Valley, Mid-Wales

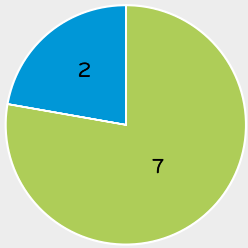
GOVERNANCE AT A GLANCE

Board composition statistics

Gender diversity

- Female
- Male

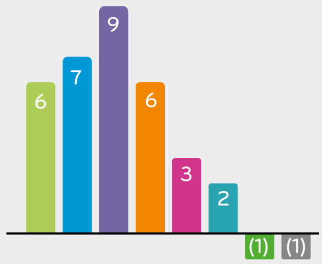
Independence



- Non-Executive (excludes Chair)
- Executive Directors

Board tenure of Non-Executive Directors

Shown to the nearest full year to 31 March 2023



- A Lyons
- J Kenrick
- G Edwards
- T Crick
- D Bowen Rees
- J Hanson
- L Thompson
- B Moorhouse

See note on page 151 on Directors' independence.

Meeting attendance

Nine Board meetings took place during the year. The table below shows the actual number of meetings attended and the maximum number of the Board and Committee meetings which the Directors could have attended. Every effort is made by Board members to attend all meetings.

Director	Board	QSC	Audit	Remuneration	Nomination	Finance	Technology	ESG	Cwm Taf Project	Leakage Oversight[6]
Peter Perry	9/9	8/8	5/6	3/6	3/3	1/1	4/4	5/5	4/4	2/2
Mike Davis	9/9	–	6/6	–	–	1/1	–	4/5	4/4	2/2
Alastair Lyons	9/9	7/8	–	6/6	3/3	1/1	4/4	5/5	4/4	2/2
Graham Edwards[1]	7/9	6/8	–	–	3/3	–	–	–	4/4	–
Deb Bowen-Rees	9/9	8/8	6/6	6/6	–	–	–	4/5	–	–
Tom Crick[2]	9/9	6/7	–	5/6	–	–	4/4	–	–	–
Jane Hanson[2,3]	9/9	4/5	6/6	–	–	1/1	2/4	3/5	3/4	2/2
Joanne Kenrick	9/9	–	6/6	6/6	3/3	–	3/4	–	–	–
Barbara Moorhouse[4]	1/2	1/2	–	–	–	–	–	–	–	–
Lila Thompson[5]	6/6	5/5	–	–	–	–	–	1/1	–	–

1 Retires at the AGM in July 2023
2 Ceased to be a member of the Quality and Safety Committee in November 2022 and February 2023, respectively
3 Attends Technology Committee at the invitation of the Committee Chair
4 Appointed on 16 January 2023
5 Appointed on 6 September 2022
6 A purpose-formed task-and-finish Committee of the Board established in March 2023 to oversee the leakage and per capita consumption review

Board activity highlights

Board composition and succession

Progress made

The Board reviewed Board and Committee size and memberships in November 2022 and considered the appointment of Lila Thompson and Barbara Moorhouse.

Action taken

See page 155 (Nomination Committee Report) for changes made to committee memberships and decisions to recruit two new Non-Executive Directors.

External audit re-tender

Progress made

The Audit Committee completed the external audit re-tender process which commenced in December 2021.

Action taken

See page 159 for details of the Committee's activities.

Board diversity

Progress made

The Board is pleased to have welcomed Lila Thompson and Barbara Moorhouse as Non-Executive Directors on the Board in September 2022 and January 2023, respectively, each bringing a diverse range of skills and experience, including from within the water sector, to the Board. These appointments also demonstrate the Board's commitment to the targets it had set in its Diversity Policy which included having at least 33% female representation on the Board, whiich it has maintained, and a target to appoint one Board Member from an ethnic minority background by the end of 2025.

Action taken

The Nomination Committee's activities are set out on page 155.

Meeting the Environmental Challenge

Progress made

The Board has considered in detail the metrics that describe the impact of the Company's activities on the environment, in particular on river water quality in our operating area, and has reviewed with management the plans developed during the year to minimise the resulting ecological harm. A key part of this has been the Company's development of its first Drainage and Wastewater Management Plan and the determination of the scale of environmental investment plan that is deliverable, financeable and affordable by customers in the next and subsequent AMPs.

Action taken:

The Company published its Manifesto for Rivers in Wales on 18 May 2023 and announced record environmental investment over the final 2 years of AMP7 and between 2025 and 2030 (AMP 8). This responded directly to public concern about sewage pollution and the actions agreed at the First Minister's Phosphate Summit in July 2022. The Company has outlined its investment plan to the PR24 Forum led by Welsh Government and the Board of NRW.

Environment, Social and Governance (ESG)

Progress made

The Committee monitored performance against the Group's ESG targets and overseen the development of our climate-related reporting requirements.

Action taken

A full report of the Committee's activities is set out on page 171.

Cwm Taf Project Committee

Action taken

The Committee met to oversee progress with the development of the new Cwm Taf Water Treatment Works in Merthyr Tydfil which is being undertaken under Ofwat's Direct Procurement for Customers (DPC) delivery model for competitively tendering services, to ensure best value for customers. The Committee ensures that the Board is able to provide appropriate assurance to Ofwat that the DPC process has been followed at various stages of the project.

Preparation for PR24

Progress made

The Board has progressively considered, and input into, each of the elements of the PR24 plan to be submitted to Ofwat receiving papers on the investment plan, financial plan, business plan, long-term delivery strategy, base expenditure and comparative efficiency, performance commitments, and engagement with stakeholders and customers.

Action taken:

Having discussed with management each material element of the PR24 plan, the Board has a comprehensive understanding of the challenges facing the Company over 2025-30 and the plan being prepared by management to deliver against the Company's objectives and regulatory requirements. Input from the Board has been reflected in subsequent iterations of the elements of the plan.

Leakage Restatement

Progress made

The Board, through a purpose-formed task-and-finish committee, had detailed oversight over the investigation into the inaccurate reporting of the Company's leakage data for FY 21 and FY 22 and the related need to restate the reporting of per capita consumption. This was first referenced by the Company in May 2022 and was followed by a 15-month review undertaken by independent third parties.

Action taken:

The need to restate past reporting was declared to Ofwat and the Board determined to give a £10 rebate to every customer to apologise for not having recognised the full extent of the leakage being suffered by the Company. An action plan, supported by an additional £54 million investment over the remainder of this AMP, has been set in hand.

BOARD OF DIRECTORS

Alastair Lyons CBE
Chair of the Board

C E F L N Q R T

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 Chair of the Nomination Committee, the Cwm Taf Project Committee and the Leakage and Oversight 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 Dhairman 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 Director (SID)

C N Q

Appointed: October 2013

Responsibilities
See summary on page 151. Graham was appointed Senior Independent Director in July 2020. He is Chair of the Quality and Safety 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. Non-Executive Director of the Institute of Customer Service.

Graham retires from the Board at the AGM in July 2023. At which time, Joanne Kenrick will succeed Graham as SID, and Barbara Moorhouse will take up the role of Chair of the Quality and Safety Committee.

Peter Perry
Chief Executive Officer

C E F L N Q T

Appointed: August 2006

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

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

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

KEY

- A Audit Committee
- C Cwm Taf Project Committee
- E ESG Committee
- F Finance Committee
- L Leakage Oversight Committee
- N Nomination Committee
- Q Quality and Environment Committee
- R Remuneration Committee
- T Technology Committee
- Chair of Committee

Mike Davis
Chief Financial Officer

C E F L

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
Non-Executive Director of Wales & West Utilities.

Debra Bowen Rees
Non-Executive Director

C E Q R

Appointed: January 2020

Responsibilities
See summary on page 151.

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.

Other past experience
Chair of the South West Wales Branch of the Institute of Directors

External appointments
Non-Executive Director of the Port of Milford Haven and of Airport Coordination Ltd. Trustee and Board Member at Hijinx Theatre Company. Member of the Board of Trustees of the Bluetits Chill Swimmers Group.

Prof. Tom Crick MBE
Non-Executive Director

R T

Appointed: October 2017

Responsibilities
See summary on page 151.

Tom is Chair of the Technology Committee.

Skills and experience
Tom is Professor of Digital & Policy and Deputy Pro-Vice-Chancellor at Swansea University, with his academic interests sitting at the research/policy interface – from data science, cybersecurity, 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 the UK Government's Department for Digital, Culture, Media and Sport (DCMS) College of Experts. Tom is a Chartered Engineer, 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
Independent Member of Swansea Bay University Health Board. Non-Executive Director of Sector Development Wales Partnership Ltd. (a Welsh Government body known as Industry Wales). Member of the Ofcom Advisory Committee for Wales.

BOARD OF DIRECTORS CONTINUED

Jane Hanson CBE

Non-Executive Director

A C E F L

Appointed: January 2021

Responsibilities

See summary on page 151.

Jane is Chairs of the Audit Committee and the 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 of Rothesay Life plc, 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. Honorary Treasurer at the Disasters Emergency Committee.

External appointments

Chair of The Reclaim Fund Ltd and the Dormant Asset Expansion Board. Non-Executive Member of the Board and Chair of the Audit Committee of the Civil Aviation Authority. Member of the Board of His Majesty's Treasury. Chair of Board of Trustees of the Bardi Symphony Orchestra.

Joanne Kenrick

Non-Executive Director

A N R T

Appointed: November 2015

Responsibilities

See summary on page 151.

Joanne is Chair of the Remuneration Committee. She will succeed Graham Edwards as SID in July 2023.

Skills and experience

Joanne was the Marketing Director for Homebase until the end of 2015. Prior to that, she was Chief Executive Officer 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 while 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 of Coventry Building Society. Non-Executive Director and Chair of the Remuneration Committee 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 charity, Make Some Noise.

Lila Thompson

Non-Executive Director

E Q

Appointed: September 2022

Responsibilities

See summary on page 151.

Skills and experience

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

Other past experience

Trustee of St Christopher's Hospice.

External appointments

Trustee of the Chartered Institution of Water & Environmental Management (CIWEM). A member of the Board of Spring, the innovation centre of excellence for the water sector.

KEY

- A Audit Committee
- C Cwm Taf Project Committee
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- N Nomination Committee
- Q Quality and Environment Committee
- R Remuneration Committee
- T Technology Committee
- Chair of Committee

Barbara Moorhouse

Non-Executive Director

Q

Appointed: January 2023

Responsibilities

See summary on page 151.

Barbara will succeed Graham Edwards as Chair of the Quality and Safety Committee in July 2023.

Skills and experience

Barbara is an experienced Chair, Committee Chair and Non-Executive Director, holding appointments across a number of business sectors. She spent most of her executive career in strategic, commercial and finance roles within listed companies, including Chief Finance Officer for two international listed software companies (Kewill Systems plc and Scala Business Solutions NV), Group Finance Director at Morgan Sindall plc, and Regulatory Director at South West Water plc. Barbara has also worked within the public sector as Director General at the Ministry of Justice, Director General at the Department for Transport, and Chief Operating Officer at Westminster City Council.

Other past experience

Chair of the Rail Safety and Standards Board. NED and Chair of Remuneration Committee at IDOX plc. Trustee and Chair of the Audit Committee at Guy's and St Thomas' Charity. NED at West Hampshire Clinical Commissioning Group.

External appointments

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

CORPORATE GOVERNANCE REPORT

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

Our governance processes are in pursuit of the Company Purpose (set out in full on page 04 of this annual report) 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.	See pages 04 to 07. The Company Direction and Performance Statement can be found in our Annual Performance Report which is available from mid-July 2023 on our website https://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 145 to 153. 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 https://dwrcymru.com/companystructure Dividend Policy (page 195). Principal Risks and Uncertainties (pages 90 to 99). Board and Committee membership and meeting attendance (page 138). Executive pay policy (pages 173 to 194).
Board Structure and Effectiveness	A review of the effectiveness of the Board and its Committees is undertaken each year – in every third year, as was the case in this reporting year, this is conducted by an independent external evaluation. Based on this latest 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 152 and 153 for the conclusions of our 2022-23 externally facilitated Board Effectiveness review. Biographical details of our Board members, including skills and experience, and Committee memberships (pages 140 to 143). Information about the independence and objectiveness of our directors (page 145).

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 (the Code)

1 Board Leadership and Company Purpose

> Read more on pages 154 to 149

2 Division of responsibilities

> Read more on pages 149 to 151

3 Board composition, succession and evaluation

> Read more on pages 152 to 157

4 Audit, risk and internal control

> Read more on pages 158 to 172

5 Remuneration

Read more on pages 173 to 194

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. It's 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 which was refreshed and our review was published in 2022. Alongside this, the ESG Strategy, includes 10 key objectives to support the focus on Environmental, Social and Governance issues in the context of Welsh Water 2050. Further details of the Company's planning framework are set out in the Strategic Report on pages 44 to 45.

The Company also made a commitment in 2021 to achieving net zero carbon emissions by 2040 and to be 35% energy self-sufficient by 2025. To see how we are achieving our Net Zero Carbon Strategy, see ESG Objective 2 on page 120.

Board engagement with employees

Employee engagement champions and representatives of teams across the business

During FY 23, two Employee Engagement Sessions were held with Non-Executive Directors to discuss a range of topics, including impact of extreme weather events for operational teams; cost-of-living crisis; PR24; and the role of the Remuneration Committee and senior colleague pay. The Executive Team also held four engagement sessions with colleagues which covered discussion on a variety of topics including hybrid working, communication and collaboration, career aspirations and personal development, and the negotiations with trade unions about the cost-of-living award to colleagues. Including the informal meetings held with managers (see below), the Board believe this is the most effective method for engagement when considering the three more formal methods suggested by the Code for workforce engagement.

Informal meetings with managers

During the year, one informal meetings took place between Non-Executive Directors with managers drawn from across the business to discuss the responses to the freeze/thaw and recent flooding events and to thank them for their efforts. The Chair and Non-Executive Directors also attended lunches and dinners with colleagues around site visits.

CORPORATE GOVERNANCE REPORT

1 Board Leadership and Company Purpose – continued

Topic	Key activities and discussions FY 23	Key achievement	Key priorities FY 24
Strategy and management	• PR24 Planning	• Consultation with stakeholders and engagement with Welsh Government and regulators via the PR24 Wales Forum to develop PR24 Plans	• Development of our Long-Term Delivery Strategy alongside the development of the detail of the PR24 Plan subject to the constraints of deliverability, affordability, and financeability and the input to the process of stakeholder engagement and customer consultation
	• Welsh Water 2050	• Monitoring of strategic responses to Welsh Water 2050 to ensure these are addressed within PR24 planning	• Continue to test the alignment of our plans for PR24 and the subsequent Long-Term Delivery Strategy against the objectives of Welsh Water 2050 and the delivery of the strategic responses set out there
	• Review of Operating Performance against Business Plan targets and regulatory requirements	• Considered the principal operational challenges facing the company and the appropriateness and adequacy of proposed management responses	• Focus on those areas where operating performance falls short of regulatory targets and Company objectives, measuring the effectiveness of the improvement plans developed by management
	• Water Resources	• Reviewed and agreed the Water Resource Management Plan and the plan to reduce leakage to planned levels following the outcome from the Company's process of assurance over leakage reporting that leakage data for FY 21 and FY 22 had been incorrectly reported • Oversight of the Company's response to the summer drought with a view to minimising its impact on customers in consultation with Welsh Government and regulators • Agreed the quantum and process of compensation of customers whose supply was disrupted during the winter freeze/thaw event	• Review and agree the amended Water Resource Management Plan to reflect the amendments to the reported levels of leakage and per capita consumption • Review the Company's plans to respond effectively to any limitations to the supply of raw water caused by summer weather patterns
	• Environmental performance	• Developed Our Manifesto for Rivers in Wales and our contribution to the Action Plan agreed at the First Minister's Phosphate Summit • Reviewed and agreed the first Drainage and Wastewater Management Plan	• Oversee the Company's prioritisation of investment in wastewater assets on the basis of contribution to reducing our impact on the environment • Review the effectiveness of the company's programme to improve its Environmental Performance Assessment • Review progress achieved in implementing the actions agreed at the First Minister's Phosphate Summit and the effectiveness of partnership working with relevant stakeholders

Topic	Key activities and discussions FY 23	Key achievement	Key priorities FY 24
	• 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	• 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
Strategy and management continued	• 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 • Approval of launch of the Cymuned (Community), a project to support working people who have negative budgets	• Monitor impact on customer ability to pay following increased charges and the wider cost-of-living context, when considering the appropriate level of charges for 2023-24
Risk management and internal controls	• Reviewed Enterprise Risk Management Framework • Reviewed Strategic and Emerging risks on a six-monthly basis • Review of third party reviews of leakage and per capital consumption (PCC) following misreporting issue identified in FY 22	• New Enterprise Risk Management Framework implemented • Board constructively challenged the Executive Team assessment of strategic and emerging risks • Establishment of a task-and-finish Committee of the Board led by the Chair of the Board to govern the investigation into the causes of leakage and PCC misreporting, its reporting to Ofwat, and the plans for rectification	• Monitoring the Enterprise Risk Management Framework across the business • Risk reporting to the Board on strategic and emerging risks, led by the Chief Risk Officer
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 https://dwrcymru.com/annualperformancereport)	• Accounting policies reviewed with input from the Auditors • Enhancements to year-end process and the establishment of a new Executive level Financial Controls Committee reporting to the CFO, 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 FY 24 year-end reporting to Ofwat (Annual Performance Report)
Environmental, Social and Governance	• Environmental, Social and Governance Committee reviewed progress towards ESG objectives	• Key performance indicators (which has included 'deep dives') reviewed at each meeting • Monitored progress with TCFD and carbon reporting • Sustainable Fitch ESG rating obtained	• Focus on the key performance indicators which are material to our stakeholders and which measure the Company's progress towards its ESG objectives

CORPORATE GOVERNANCE REPORT CONTINUED

1 Board Leadership and Company Purpose – continued

Topic	Key activities and discussions FY 23	Key achievement	Key priorities FY 24
Board composition and effectiveness	• Nomination Committee reviewed Board composition, succession planning and Committee membership • Recruit new Non-Executive Director to manage Board succession and enhance diversity • External Board effectiveness review undertaken comprising a detailed questionnaire and interviews of Directors and Board attendees by external evaluator	• Changes to Committee membership made, recruitment process for Non-Executive Directors completed (see page 155) • Outcomes of FY 22 internal Board Effectiveness review reviewed and action plan agreed with implementation monitored at each Board meeting • External Board Effectiveness review completed and improvement actions agreed (see page 153) • Appointment of Lila Thompson and Barbara Moorhouse (see page 150)	• Board effectiveness review will be via an internally facilitated process in FY 24 • Support Non-Executive Directors in new roles as SID and Chair of Quality and Safety Committee from July 2023 following retirement of Graham Edwards from the Board • Progress actioning of what was agreed in the FY 23 external Board effectiveness review

Board development and education

The Board undertook several development sessions during 2022-23. These included Health & Safety training which is conducted every three years, 'teach-ins' on Drought, and PR24 Financials, and a Technology dinner attended by the Cloud Services Director of Mobilise.

Operational site visits

August 2022 – Debra Bowen Rees, Tom Crick and Joanne Kenrick

- Cardigan Waste Water Treatment Works
- Canaston Bridge raw water pumping station

October 2022 – Alastair Lyons

- Retail Services, Specialist Support Team, Linea (St Mellons) Cwmtillery Dam

October 2022 – Debra Bowen Rees

- Glaslyn Laboratories

November 2022 – Lila Thompson

- Retail Services, Linea (St Mellons)
- Glaslyn Laboratories

December 2022 – Lila Thompson

- Swansea Waste Water Treatment Works

February 2023 – Alastair Lyons and Graham Edwards

- Overview of Hailey Park scheme with Ian Wyatt and Shaun O'Leary (Program Delivery Manager)
- Retail Services, Linea (St Mellons)
- Data Analytics Update

March 2023 – Barbara Moorhouse

- Llwynon Water Treatment Works
- Cardiff Waste Water Treatment Works
- Retail Services, Linea (St Mellons)

March 2023 – Jane Hanson

- Glaslyn Laboratories

March 2023 – Joanne Kenrick

- Meter readers
- Retail Services Specialist Support Team, Linea (St Mellons)

Members and investors in FY 23

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 72 Members, including our ten 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, broadly reflecting 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 on the Panel. 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, three Members stepped down and six 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 2022-23:

2022

- Quarterly: WW2050 Workshop (March, via Teams)
- Annual General Meeting (July)
- New Members' Induction (November)
- Half-yearly Meeting (December)

2023

- Prioress Mill Opening (February) – local members invited
- Quarterly: PR24 Workshop (March, via Teams)

Meetings and dialogue with Members:

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

Debra Bowen Rees, Joanne Kenrick (on matters relating to Remuneration Policy) and the Company Secretary are also available to meet with any Member outside of scheduled Member Meetings.

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

Further information on how we engage with our other key stakeholders is set on pages 68 to 70 in the Strategic Report.

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, considers 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 12 July 2023, and further details of this event will be sent out by email to investors registered on the Group's stakeholder database.

During 2022-23, the topics on which the team has engaged with our investors include our net zero carbon programme and our ESG rating from Sustainable Fitch (see page 39), our plans for AMP8 as part of PR24, our next regulatory price review, and the Cwm Taf Project to construct a new water treatment works following Ofwat's Direct Procurement for Customers delivery model which will require the consent of our bondholders in due course.

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.
- Setting the risk appetite for the business and ensuring the adequacy and efficacy of the Group's systems of internal controls and risk management.

The final candidate for new Non-Executive Director appointments to the regulated company board meets with Ofwat ahead of their formal appointment being made.

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 annually.

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, makes recommendations to the Board on matters requiring its approval. There are regular meetings of the Audit, ESG, Nomination, Quality and Safety, Remuneration, Technology Committees, and the Cwm Taf Project Committee in line with the development timelines for that project. The Leakage Oversight Committee, a purpose-formed task-and-

CORPORATE GOVERNANCE REPORT CONTINUED

2 Division of Responsibilities – continued

finish committee of the Board, has met twice since it was established in March 2023. 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 page 136.

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 Cwm Taf Project Committee, and the Leakage Oversight Committee, which are 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. All newly appointed Non-Executive Directors join the Quality and Safety Committee for a period of 12 months to gain a good understanding of the operational business. 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 https://dwrcymru.com/boardterms.

The Executive Team

The Executive Team is led by the Chief Executive Officer and includes the Chief Financial Officer. Its other members are senior managers from across the business. During the year, the Chief Risk Officer became a member of the executive team. 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 136 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 152). 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. 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.

Directors' appointment, induction and development

A rigorous and transparent procedure for the appointment of new Directors to the Board is followed (see page 156).

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 Safety 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 148. 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.

During FY 23, Lila Thompson and Barbara Moorhouse were appointed as non-executive directors on the Board on 6 September 2022 and 16 January 2023, respectively.

Graham Edwards, Senior Independent Director (SID) and Chair of the Quality and Safety Committee retires at our AGM in July, when he will have completed nine years as a Director. Barbara Moorhouse will succeed Graham Edwards as Quality and Safety Committee Chair when Graham retires in July. Joanne Kenrick will take up the role of SID from the same date.

No other resignations from or appointments to the Board have taken place during FY 23.

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. The Committee also regularly reviews the range and balance of skills and experience on the Board which are wide-ranging.

External appointments of the Executive Directors

The external appointments held by Peter Perry and Mike Davis are set out in their biographies on pages 140 and 141.

Appointment of Company Secretary

Nicola Foreman was appointed Company Secretary on 6 February 2023.

Membership and attendance at Board and Committee meetings

The Board is scheduled to meet 9 times a year. Additional Board meetings are held, as required, during the year. The table on page 138 shows the actual number of Board and Committee meetings held during FY 23 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 of the Board, in the first instance, and submitted to the Nomination Committee for approval.

Chair of the Board

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

Senior Independent Director

- Meets with other Non-Executive Directors and the Executive Directors on an annual basis to review the performance of the Chair of the Board.
- Stands in as Chair of a 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 148).

Chief Executive Officer

- Beyond matters reserved to the Board, the Chief Executive Officer 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 Officer, 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 CONTINUED

3 Board 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 FY 23, we conducted an external review in accordance with the UK Corporate Governance Code requirement that companies should carry out an externally facilitated evaluation of the Board at least every three years. This review was undertaken by an independent consultant firm, Halex Consulting Limited (Halex), an experienced Board evaluator to deliver a robust, independent board and committee effectiveness assessment. Halex has no connection with the Company or any of the Board Directors.

FY 23 Board effectiveness review

The external evaluation process involved all Board members and other regular Board and Committee attendees, including the Company Secretary, except for Barbara Moorhouse who had just joined the Board at the start of the process. A survey was issued to participants by Board Benchmarking, in association with Halex. The survey was based on 20 academically-proven factors that influence board effectiveness and was used to supplement Halex's research and preparation activities ahead of their review. The benefit of using the benchmarking survey was that it allowed direct comparisons to be drawn with the Company's peers, as well as leading practice. The results of the benchmarking survey placed the Company in the top quartile of its benchmark peer group consisting of 48 boards across Utilities which includes the water industry, large not-for-profits and Government.

Areas considered in the survey included: Clarity of the Board's role, vision and strategy; its composition and renewal; Chair and Committee leadership; performance management of the Board – its dynamics, delegations, and relationships with senior management; management of information and meetings; organisational culture and integrity; governance of risk and compliance; executive talent, succession, and remuneration; and other areas, such as continuous improvement and adding organisational value.

The survey results were discussed with respondents in one-to-one interviews held with Chris Burt and Prof. Bryan Foss, both of Halex. During the interviews, a range of topics using an outline agenda were explored. The interviews also examined subjects that the interviewees felt were important, as well as other areas or themes which emerged during the course of the review.

The results of the Board evaluation were then presented in a concise report highlighting common themes, areas of maturity, as well as areas for the Board's development. This report was discussed with the Chair of the Board in April.

The research and preparation undertaken by Halex included a review of the previous 12 months' Board and Committee papers and minutes. Chris Burt and Bryan Foss also attended, as observers, one meeting of the Board, the Quality and Safety Committee (in March) and the Audit Committee meeting held in May 2023 (Chris Burt only).

The Board met in May 2023 to discuss the final report and recommendations of the review, together with an assessment of the Board's progress with the agreed actions from the previous year's review. The Board agreed that good progress had been made in implementing the recommendations from the FY 22 evaluation, as set out in last year's Annual Report. Progress against the current year agreed actions is reviewed at each Board meeting as part of the Company Secretary's Report item.

Key recommendations in the FY 23 board evaluation

Recommendation	Agreed Actions FY 23
Board Committees	Recognising that the Company has 8 Committees of the Board it was recommended that there should be periodic review of their continuing relevance as standalone committees, rather than subsuming their areas of focus into the main Board agendas. Having considered this the Board felt that all the current Committees remained appropriate to ensure effective governance.
Operational Oversight	The Quality and Safety Committee (QSC) is responsible for oversight of the Company's operating performance and its delivery against its regulatory requirements, supporting the Board's overall review of performance against our business plan objectives. As set out on page 164 it conducts detailed reviews of all significant aspects of our operations and reviews and approves the operational strategies to be employed to achieve our plans to deliver against our obligations and our targeted standards of service to our customers. Its activities are, therefore, central to the effective governance of our operations and the Board considers that having such a committee allows more detailed and engaged oversight by Directors of the Company's operational performance than would be possible were this to be subsumed into main Board agendas. Given the importance of achieving the Company's plans for performance improvement, and the materiality of the supporting investment, all Directors are now invited to join QSC meetings, whether or not they are formal members of the Committee – it is in any case the established practice that all new Non-Executive Directors become members of the Committee for at least 12 months to build their understanding of operational issues and challenges.
Board papers and meeting arrangements	It was agreed to introduce a standard covering paper template to all Board papers alongside each paper's executive summary to ensure clarity as to the origins and objectives of the paper, and the governance process through which it has been developed. Focus will also be placed by Board paper authors on striking the right level of detail to support the purpose of the paper but avoid the key issues becoming obscured by unnecessary input : this should support a reduction in the length of papers and more efficient meetings. When the Company Secretary, Chair, CEO and CFO meet to consider the agenda for subsequent Board meetings they will determine the appropriate point in the agenda at which Committee Chairs should provide feedback on the activities of their committee in order to inform other items on the agenda : at present all Committees feed back at the end of the agenda.
Senior management diversity	As set out on page 156 the Company is committed to creating a diverse workforce that is representative of the communities we serve. When considering the Company's talent management and succession planning the Board will maintain its focus on the achievement of greater diversity amongst the Company's senior management.

Overall the review considered the Board to be effective with agreed areas for improvement as set out. The Board Benchmarking survey results and consensus interviewee feedback indicated that it is a high-performing Board.

The Chair of the Board (Chair), taking into account the views of the other Directors, also reviewed 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 May 2023. The SID considered and discussed with the Chair of the Board the comments and feedback received from the Directors 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 the Non-Executive Directors.

CORPORATE GOVERNANCE REPORT CONTINUED

Alastair Lyons CBE

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.

Meetings held: 3

> See page 138 for Board and Committee meeting attendance

3 Board composition, succession and evaluation – continued

Nomination Committee Report

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 FY 24

- Maintaining the appropriate balance of skills, knowledge, experience and independence on the Board through Board succession planning and agreed outcomes from the annual Board effectiveness review.
- Reviewing the current makeup of Committees taking into consideration succession issues.
- Overseeing the induction process for the most recent Non-Executive Director appointments to the Board.

Priorities	Activity of committee in FY 23	Outcome of committee activity
Board Composition and Balance	Ensuring a balanced range of skills, knowledge, experience, independence and diversity on the Board	The Committee considered and commented on the Non-Executive Director 'skills matrix' to include the two additional Non-Executive Director appointments on the Board during the year. The Committee took into account Director Commitments – it approved an external appointment for each of Mike Davis, Chief Financial Officer, and Debra Bowen Rees, Non-Executive Director.
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	The Committee has, when undertaking its recruitment processes, maintained at least 33% female representation on the Board and appointed at least one Non-Executive Director from an ethnic minority background to the Board.
Board Committee Membership	Reviewing the current membership of Committees	The Quality and Safety Committee (QSC) is responsible for oversight of the Company's operating performance and its delivery against its regulatory requirements. Its activities are, therefore central to the effective governance of our operations and we, therefore, ask each new Non-Executive Director, on joining the Board, to spend at least 12 months as a member of the QSC to ensure they have a good understanding of operational issues and challenges. Hence over the last year Jane Hanson and Tom Crick stepped off the Committee and Lila Thompson and Barbara Moorhouse joined. Because of the relevance of the Committee's activities to the Board's oversight of the Company's operating performance all Directors, whether or not formal members of QSC, are now invited to join the meetings of the Committee. Lila Thompson joined the Environment, Social and Governance Committee.
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. The recruitment process for the appointment of two additional Non-Executive Directors; one of which was to succeed Graham Edwards who steps down from the Board and as Senior Independent Director at the AGM in July 2023, was completed. The Committee also recommended to the Board that Joanne Kenrick be appointed as Senior Independent Director from July 2023, which the Board approved in March 2023.
Governance and Board and Committee Effectiveness	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 noted the proposal for conducting the FY 23 external Board Effectiveness Review by an independent third party. The Committee determined that no amendments were required to its Terms of Reference. The Committee reviewed the list of directors appointed to Group subsidiary companies. 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 CONTINUED

3 Board composition, succession and evaluation – continued

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.

All Non-Executive Director appointments are subject to a meeting with Ofwat ahead of a formal appointment being made.

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 The Directors' biographies on pages 140 to 143 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 FY 23, 50% of our Board (FY 22: 33%) and 33% of the Executive Team (FY 22: 37.5%) are female, while in the wider workforce, of those senior managers reporting directly to a member of the Executive Team, 38% (FY 22: 23.4%) 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 has been 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 recommended the appointment of a new Board member from an ethnic minority background.

While we are not a listed company, we note the changes to the UK Listing Rules for reporting periods starting on or after 1 April 2022 to meet specific board diversity targets on a 'comply or explain' basis and that until the conclusion of our AGM in July 2023, when Joanne Kenrick will succeed Graham Edwards as Senior Independent Director, we have not been in a position to comply with the obligation for at least one of the following senior positions on the Board of Directors to be held by a woman: the Chair, the Chief Executive, the Senior Independent Director; or the Chief Financial Officer during FY 23. Beyond July, we will continue to ensure that the Board is appropriately balanced in all respect and take into account the Listing Rule board diversity targets as part of our future succession plan for these senior roles.

We also know that we can further improve diversity and inclusion across the Company and neither the Committee nor the Board is complacent about these issues. The Group is committed to eliminating discrimination and encouraging diversity and inclusivity to enable us to recruit and retain a diverse workforce.

Our Board diversity statement can be accessed via https://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 are taken into account in progressing the recruitment of the Non-Executive Directors.
The Committee will work with recruitment consultancy firms who understand the Group's values and approach to diversity and will identify and propose suitable candidates.	The Committee will work with a recruitment consultancy firm, following a best value selection process. The firm will be a signatory to the Standard Voluntary Code of Conduct for executive search firms and be committed to adhering to those standards.	The Committee will continue to engage with an appropriate recruitment consultancy firm which meets this criteria during its recruitment process.
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 155 and 156.	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 2023, the Remuneration Committee 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.	The Environment, Social and Governance Committee received an update on attracting and retaining a diverse workforce to reflect our communities in November 2022.	The Company has worked hard to collect personal data on protected characteristic. Since November 2022, ethnicity completion has increased from 73% to 80%. The Board supported the programme of ED&I activities held for the wider business including our female Non-Executive Directors attending the Welsh Water Women's Network.
Review its Diversity Policy annually and recommend any amendments to the Board.	A review of the Policy will be undertaken at the Committee's next meeting.	

Alastair Lyons
Chair of the Nomination Committee

16 June 2023

CORPORATE GOVERNANCE REPORT CONTINUED

Jane Hanson CBE

Chair of the Audit Committee

Other members:

- Debra Bowen Rees
- Joanne Kenrick

Meetings held: 6

> See page 138 for Board and Committee meeting attendance

4 Audit, Risk and Internal Control

Audit Committee Report

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 Chief Risk Officer, the Head of Internal Audit, the Company Secretary and representatives from the Group's External Auditor.

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 Acting Head of Internal Audit (referred to as the Head of Internal Audit in this report) and KPMG without management present. Private meetings are also held at the end of each Committee meeting with the Head of Internal Audit who presents the Whistleblowing and Special Investigations Report.

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 FY 24

- Monitoring the transition from KPMG LLP to Deloitte LLP as the Group's external auditor commencing in respect of FY 24, subject to formal appointment by our Members at the AGM.
- Monitoring the development and implementation of the outputs of the BEIS Consultation: Restoring Trust in Audit and Corporate Governance into our corporate governance frameworks as further Government guidance is issued. Also reviewing the FRC's proposed changes to the UK Corporate Governance Code (consultation: published May 2023).
- Overseeing progress with the Group's Enterprise Risk Management (ERM) Framework and maturity of the Group's risk function under the leadership of the Chief Risk Officer.

Priorities	Activity of the committee in FY 23	Outcome of the committee activity
Financial Reporting	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 Auditor, KPMG LLP and the Company's management in relation to accounting treatments.	The Committee recommended that the financial statements be approved by the Board. The Committee reviewed a draft of the 2022 Annual Report and Accounts in order to ensure that it presented a fair, balanced and understandable assessment of the Company's financial status. 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 Auditor in relation to going concern considerations at the end of the half year and full year end.	The Committee assessed the prospects of the Company over a period of at least 12 months as required by the 'Going Concern' statement on page 215. The Committee also considered the financial viability of the Group over the next seven years, which it has deemed to be the most appropriate forward-looking period over which to make this assessment as it covers the remainder of the current AMP period to 2025, and the next AMP period to 31 March 2030. The Group's FY 23 Long-Term Viability Statement is set out on pages 100 to 104.
	The Committee reviewed and commented on the Long-Term Viability (LTV) Assessment approach. At the end of the full year the Committee reviewed the Company's LTV Statement for inclusion in the Annual Report and Accounts.	The Committee agreed the LTV Assessment approach at its meeting in January 2023 and the first draft of the FY 23 LTV Statement was subsequently presented to the Committee at its meeting in May. The Committee recommended the LTV Statement for approval by the Board at respective meetings of the Committee and Board held in June.
Internal Audit	Management responses to unsatisfactory and limited opinion 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 Internal Audit once the remedial action has been completed. The Head of Internal Audit also regularly presented a Whistleblowing and Special Investigations Report to the Committee in private meeting. The effectiveness of the internal audit function was monitored regularly using a variety of inputs, including the Committee's review of the audit reports produced, the Committee's interaction with the Head of Internal Audit, and updates at each Committee meeting on progress against the Internal Audit Plan.	The Head of Internal Audit reported regularly on progress against the FY 23 Internal Audit Plan and, in detail, on any audit reports with a less than 'satisfactory' outcome. She also presented her outline Internal Audit Plan for FY 24 at the Committee's meeting in January 2023. The Whistleblowing and Special Investigation 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 held monthly one-to-one meetings with the Head of Internal Audit during the year.

CORPORATE GOVERNANCE REPORT CONTINUED

4 Audit, Risk and Internal Control – continued

Priorities	Activity of the committee in FY 23	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 Internal Audit on the outcomes of internal audits conducted as well as special investigations as a result of whistleblowing and special investigation incidents. The Committee reviewed proposals for embedding risk appetite within the Enterprise Risk Management (ERM) Framework. The Committee reviewed the Internal Audit Charter which sets out the scope of work for the internal audit function and confirms its independence. Business Systems and Quality Audit Plans, which cover largely compliance activity in the operational water and waste businesses, were reviewed by the Committee prior to being presented to the Quality and Safety Committee for approval.	In addition to reviewing the findings of internal audits conducted during the year, the Committee received a report on internal controls and risk management, which detailed a review of risk and compliance with relevant statutory, license and regulatory obligations and summarised other assurance activities. 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. Whistleblowing and special investigation incidents were reviewed during private meetings held immediately after each Committee meeting. The Committee received an 'annual thematic view' of whistleblowing and special investigation activity which reviewed 36 incidents conducted in the period and discussed the observations and themes. The Committee approved the proposed governance for inclusion of a Strategic Risk Appetite Framework within the ERM Framework, prior to approval by the Board. The Committee approved the Internal Audit Charter and was satisfied that the internal audit function continued to operate on an independent basis. The Committee noted the Business Systems and Quality Audit Plans where assurance is focused on core risks: Health & Safety, Water Quality, and Environment. The Committee Chair held monthly one-to-one meetings with the Acting Head of Internal Audit and had regular meetings with the Chief Risk Officer since his appointment in a newly established role that commenced in April 2022. She has also been involved in the recruitment process for the permanent role of Head of Internal Audit, previously held by the Chief Risk Officer

Priorities	Activity of the committee in FY 23	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; • the publication of our Charging Schemes for FY 24; and • PR24 Additional Regulatory Data Submissions to be provided to Ofwat in July and August 2023. The Committee reviewed a report in relation to FY 22 Leakage reporting in May 2022 and received subsequent updates on the progress of the internal compliance reviews undertaken, in private meeting.	The Committee provided feedback to the Board on the assurance processes followed for the FY 22 APR, including the updates from Jacobs and KPMG, in advance of the Board's formal approval of the APR prior to publication in July 2022. 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 2023-24 in December 2022. The Committee reviewed eight data requests, published by Ofwat in April 2022 to inform Ofwat in its preparations for the PR24 cost assessment process. The Committee Chair and the Chair of the Board jointly oversighted a review conducted by the Chief Risk Officer and the Legal and Compliance Director, of the root causes of the reporting issues prior to the establishment of the Leakage Oversight Committee, a Committee of the Board, to continue this oversight.
	The Committee considered and approved certain policies and procedures. These included Treasury and the Group's Taxation Strategy prior to its publication, and progress with Supplier Payment Terms compliance.	The Committee gave its recommendation to the Board to approve these policies in accordance with the Board's terms of reference. This included an amendment to Treasury policies and procedures to incorporate a new ESG policy that measures and controls the ESG risks of the Group's cash investments.
	The Committee reviewed the FRC Position Paper on Restoring Trust in Audit and Corporate Governance (published July 2022).	The Committee reviewed the "next steps" in delivery of the Government's white paper, providing some clarity on some reform measures which FRC will take ahead of legislation. Management will keep a watching brief as further guidance becomes available.
	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. It also received a document from the Company Secretary which showed that the Committee had performed its duties. 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, taxation and insurance arrangements.	An example of such an update included a review of the Group's Property and Public Liability Insurance limits following a request from the Board, which concluded that both limits offered an appropriate degree of protection.
	The Committee received presentations from KPMG on: Climate Risk Related Disclosures and Key Reminder and Prompts for Audit Committees; and Key Focus areas for FY 23 annual reporting.	The Management provided responses to the ten questions every Audit Committee should be able to answer in relation to Climate Risk Related Disclosures on its preparation and readiness in relation to future reporting. The key focus areas for FY 23 reporting including those published by the FRC including summary findings from TCFD reviews, and on ESG reporting. The Committee reviewed and endorsed management's FY 23 ARA Plan in November 2022.

CORPORATE GOVERNANCE REPORT CONTINUED

4 Audit, Risk and Internal Control – continued

Priorities	Activity of the committee in FY 23	Outcome of the committee activity
External Auditor	The Committee is supported by the External Auditors, KPMG LLP. The Committee assessed the effectiveness of the external audit process, the scope of the Group audit and the quality of the audit work throughout the year. It reviewed the External Auditor's 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 FY 23 to the Committee in November 2022 and reported on their progress against it at subsequent meetings of the Committee. The audit plan also highlighted changes in governance and accounting and tax regulation that will impact on financial reporting.
	The Committee received reports from KPMG on the Audit Plan and KPMG Strategy for FY 23 at the half year in November 2022, and in May 2023, 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 226 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 the process for, and results following, the internal review of the effectiveness of the external auditor which was conducted after the statutory audit for the year ended FY 22. This exercise supported FY 23 year end planning.	The results from this review, together with suggested areas for improvement for the ensuing financial year, were presented to the Committee at its meeting in September 2022. Management also provided a report on the lessons learnt from the financial year end process which was discussed subsequently with the external auditor as part of the preparation for the FY 23 year end statutory audit. An Executive level Finance Risk and Control Committee (reporting to the Chief Financial Officer) was established, the terms of reference for which were reviewed by the Committee in January 2023.
	The Committee invited KPMG to discuss the firm's Audit Quality Review published by the Financial Reporting Council (FRC), published in July 2022.	James Ledward, KPMG external audit partner, discussed the FRC review which monitors the quality of audit work, to the Committee, and highlighted areas of good practice as well as some areas of improvement.
	The Committee put forward its recommendation to the Board to appoint the Group's Auditor following completion of the audit tender process.	See overleaf for more details and on the decision to appoint the Group's Auditor, subject to approval by our Members at the AGM.

Financial report and significant estimates and judgements

During FY 23 the Committee considered the following specific issues in relation to financial reporting of the interim and year-end results.

Key judgement and estimates	Subject of Audit Committee review	Conclusions
Provision of impairment and receivables	The approach to setting the bad debt charge.	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.	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.
Accounting treatment for pension increases	The accounting judgement in relation to the treatment of pension benefit increases above a 5% rate of inflation.	The Committee's review of the accounting treatment of pension increases through both the income statement and recognition as an exceptional item was considered to be appropriate.
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 200.

Audit tender

As set out in the Committee's last report in the 2022 Annual Report, an external audit services re-tender exercise would be undertaken across FY 22 and FY 23. KPMG LLP had been 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. However, 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 was not required to tender the existing external audit services until 2025, when KPMG would 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 followed the Financial Reporting Council'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 three participating firms to engage with Welsh Water, prior to the submission of tenders in August 2022. The Committee put forward its recommendation of at least two of the firms, providing a clear preference for one of the two firms to be appointed the Company's auditor, to the Board, for the Board's approval. The Board subsequently agreed to engage Deloitte LLP as the Company's auditor, subject to formal approval by our Members at the AGM in July. Deloitte LLP attended to observe the May and June 2023 meetings of the Audit Committee which focused on the financial year end and Annual Performance Report related approvals.

Non-audit services and fees

The Group's policy is that the External Auditor will not generally be used for non-audit services, and that all non-audit matters are subject to the Group's Procurement Policy. All non-audit fees paid to the External Auditor 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 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 FY 23, audit fees for the Group's financial statements totalled £535,000 (FY 22: £390,000), fees for other audit-related assurance services were £111,000 (FY 22: £92,000) and fees for other non-audit related services amounted to £71,000 (FY 22: £68,000). As a result, non-audit fees accounted for 11.0% (FY 22: 12.4%) 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 226.

Leakage Reporting – FY 23 Financial Statements

The Committee considered the treatment of the misreporting of leakage and per capita consumption in the FY 23 financial statements.

Jane Hanson
Chair of the Audit Committee

16 June 2023

CORPORATE GOVERNANCE REPORT CONTINUED

Graham Edwards OBE

Chair of the quality and safety committee

Other members:

- Debra Bowen Rees
- Tom Crick (until February 2023)
- Jane Hanson (until November 2022)
- Alastair Lyons
- Barbara Moorhouse (from January 2023)
- Lila Thompson (from September 2022)
- Peter Perry

Independent consultants:

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

Meetings held: 8

> See page 138 for Board and Committee meeting attendance

4 Audit, Risk and Internal Control – continued

Quality and Safety Committee Report

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 (SIRs) 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 FY 23 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 (including six monthly review of emergent environmental regulatory risk) and mitigation plans;
- strategies for key areas of business focus including 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)/Regulation 27/28 (Risk Assessment) and DWSP Risk Update, Catchment Management, 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 and as part of the externally facilitated annual Board evaluation conducted during the year. That review concluded that the Committee was working well and continued to perform effectively.

Priorities	Activity of committee in FY 23	Outcome of committee activity
Closely monitoring Health and Safety	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.	The Committee reviewed and constructively challenged the reports and provided updates to the Board after each meeting. The Committee noted the work of the Process Safety Group and its key areas of activity for FY 24 and approved the Health, Safety and Wellbeing Policy Statement on behalf of the Board.
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 (DWI) 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. Reviewed with the DWI that our overall Drinking DWI measure on the Compliance Risk Index had improved to 5.4 in 2022 compared to 9.77 in 2021, although our water network quality, covering iron compliance and instances of discolouration, remain a challenge for us Reviewed with NRW the principal factors underlying the Company's Environmental Performance Assessment declining from 3* to 2*, in particular the increased number of assessed serious pollution events.
Reviewing in detail the Company's response to severe weather events	The Committee reviewed post incident reviews of the Summer drought, in what was the driest period on record in Wales, and the Freeze/thaw event in December 2022, where the temperatures in West Wales were the equivalent to the Scottish Highlands. When the thaw arrived earlier than predicted this caused bursts on our network and in customer premises, which saw the fastest depletion of water in our distribution system ever experienced.	The Committee noted the mitigation actions and improvements as a result of lessons learned. A more detailed appraisal of the Summer drought will be included in our published Water Resource Management Plan. For the Freeze/thaw event an independent review by Jacobs and by the Independent Challenge Group were commissioned in relation to our response to the event. Copies of both independent Reports were submitted to DWI and Ofwat.
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 against 'dashboards' which set 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: • Customer Minutes Lost • 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. The Committee received a paper in relation to year end Leakage reporting in May 2022. Subsequent progress updates on the operational reviews undertaken were provided through regular management reporting to the Committee and to the Board. This included an AMP7 Leakage Recovery Paper presented to all Board Members in May 2023.

CORPORATE GOVERNANCE REPORT CONTINUED

4 Audit, Risk and Internal Control – continued

Priorities	Activity of committee in FY 23	Outcome of committee activity
'Teach in' sessions on technical issues	The Committee spent additional time on 'deep dive' sessions on issues that benefited from a detailed review. During the year these included: • Water Resource Management Plan (WRMP) • 2022 Innovation Strategy, ahead of its launch at our Innovation Conference in September 2022.	The update on the WRMP to the Committees took the form of a teach-in of the key components of the Plan with key changes noted, including updating the climate change projections, and drought resilience moving to a 1 in 200 drought analysis basis. The Committee, joined by other members of the Board, received a presentation on the refreshed Innovation Strategy, which was approved.
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 49 'Measures in the interests of safety' (MITIOS) had been due during the year and that all except two had been delivered; good progress had also been made on the 'Pipes in Dams' capital programme and work had now been completed at 17 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 2022-23 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 2022-23. Following a review of all Board Committee Terms of Reference and how these are mapped against the Matters Reserved for the Board, the Committee noted the areas which had been reallocated from QSC to other Board Committees which would be effective during 2023-24.

Having served for nine years on the Board of Glas Cymru Holdings Cyfyngedig and Dŵr Cymru Cyfyngedig, I will be stepping down as Non-Executive Director, Senior Independent Director, and Chair of the QSC, at the Annual General Meeting on 7 July 2023. Barbara Moorhouse, who joined the Board in January 2023, will succeed me as Chair of the QSC, and Joanne Kenrick, a longer standing Non-Executive Director on the Board, will take up the role of Senior Independent Director. Both appointments will be effective from the date of the AGM. I wish them both well in the performance of their additional duties.

Graham Edwards
Chair of the Quality and Safety Committee

16 June 2023

Prof. Tom Crick MBE

Chair of the Technology Committee

Other members:

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

Meetings held: 4

> See page 138 for Board and Committee meeting attendance

The Technology Committee is chaired by Prof. Tom Crick, who has an extensive background in computer science, cybersecurity and data science.

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

4 Audit, Risk and Internal Control – continued

Technology Committee Report

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 FY 24

Review and monitor progress with the:

- IT Service (ITS) team transformation and ongoing development, including
- Security programme, including increased focus on cyber threats due to geopolitical situation (e.g.Ukraine), increasing our CMMI security maturity level to a target maturity level of 3 in 2023 and improving cyber risk awareness across the business
- Post implementation of the Cloud migration programme
- Implementation of the remainder of the AMP7 Investment Plan and planning of investment for PR24 (AMP8) including SAP S/4HANA upgrade
- Monitoring the Company's readiness for the discontinuation of the UK's Public Switched Telephone Network (PSTN) in 2025.

CORPORATE GOVERNANCE REPORT CONTINUED

4 Audit, Risk and Internal Control – continued

Principal activities	Activity of committee in FY 23	Outcome of committee activity
IT Strategy	The Committee received strategic updates at each meeting which focused on: • The remainder of the AMP7 Investment Plan and its alignment to the Technology Strategy; • Progress with the new delivery model established in FY 22, including the roles of our key partners and in-house team as part of the ITS Transformation Programme; • The Company's continuing journey to Cloud; and • Progress with AMP8 Investment planning. The Committee received a 'One Year In' and SAP S/4HANA progress update from the functional Head of Enterprise Applications appointed in FY 22. The Committee received the annual updates on the Company's strategies in relation to: Data Strategy and Enterprise Data Platform (EDP), SMART (water and wastewater network) Strategy, and Alarm Management.	The Committee considered the current strategy, the technology landscape, and team/partner capability, in the context of the AMP7 delivery plan and AMP8 Technology Plan preparation in line with the Group's longer-term plans. The Committee monitored management's oversight of the relationship with and performance of a key Cloud support partner. Members of the Board received a 'teach in' from the Director of Mobilise Cloud Services, on the subject of transitioning to Cloud services. The Committee monitored the Cloud programme's progress and governance oversight through to the project's completion in June 2023. The Committee noted good progress with addressing the enabling capabilities gap with the use of applications; adoption of a more agile methodology; and the embedding of appropriate governance arrangements. The Committee noted the progress with these strategies since their early development and recommended that a presentation to all Board members on Data Strategy/EDP was added to the Board Forward Schedule.
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, Cyber Target Operating Model (TOM) and additional funding to support our information security programme; • Key information security risks, including KPI and KRI reporting; and. • updates on progress with the cyber culture and awareness programme of work within Welsh Water, incorporating a 3-year cybersecurity culture roadmap including achieving an improved level of cybersecurity maturity. The Committee received updates on the current threat landscape included heightened cyber activity (e.g. Distributed Denial-of-Service (DDoS) and ransomware attacks) across Critical National Infrastructure organisations.	The Committee closely monitored progress with the delivery of the Information Security Programme, including security risk and governance and activities and the development of the programme to increase cybersecurity awareness and strengthen the cyber 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 remains the priority for the CISO and Cyber Security Team with more regular updates provided to the Committee, as appropriate. The Committee reviewed the response to a DDoS cyberattack of the Company's website in July 2022 and the outcome of our participation in the NATO Marvel cyber exercise earlier in 2023, where we were ranked third place out of the 30 organisations involved.

Principal activities	Activity of committee in FY 23	Outcome of committee activity
Operational Technology	The Committee received updates on OT performance and security measures. The Committee also received half-yearly progress updates on our compliance with the NIS Regulations 2018 by the Drinking Water Inspectorate's (DWI) following the DWI's assessment of our Cyber Assessment Framework (CAF) responses. The Committee reviewed the impact on the Company of the discontinuation in 2025 of the UK's Public Switched Telephone Network (PSTN), the legacy analogue public telecommunications infrastructure.	The Committee monitored 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 a consistent delivery and deployment approach across both environments. The Committee noted the positive progress with compliance under the NIS Regulations comprising legal measures to protect essential services, which includes the designation of 'drinking water supply and distribution' as an essential service. 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 are brought to the Committee at each meeting.
Governance	The Committee reviewed, with input from the CTO and CISO, its terms of reference, alongside an assessment of how it had performed its duties during the financial year. 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 Committee's review of its performance concluded that the Committee had made good progress during FY 23 in its oversight of the Group's IT, OT and information security provision.

Cloud Technology

The continued move to Cloud during FY 23 is an important enabler for ITS to further increase its focus on delivering value to the business through technology, and to further build its capabilities around enterprise applications, cloud-based systems, automation and modern workplace technologies, with potential opportunities to further consolidate the capabilities across the wider business.

AMP8 Investment Planning

Good progress has been made in building the AMP8 Technology Investment plan, which is aligned with the business and IT strategies. The plan is built on a clear understanding of the key technology platform drivers including system obsolescence, while keeping a strong focus on cybersecurity and resilience. This process has required a deeper understanding by ITS of the business' direction and of the opportunities to exploit technology platforms to deliver business efficiency and transformation to improve customer and field force experience. This is alongside the continued transformation of the ITS team towards the exploitation of Cloud technologies and fostering an innovation-led culture.

Committee Oversight

The Committee notes the continued positive development of the Company's cyber resilience and progress throughout the IT and Security operations which has been supported by the ongoing ITS Transformation Programme. With increasing global cyber threats, especially for CNI organisations, the Company has adopted a risk-averse stance in the face of these rising threat levels and will continue to invest in appropriate cybersecurity technologies and infrastructure, as well as further developing its cyber culture. It will also oversee the Company's plans to optimise the use of Cloud-based platforms and its preparations to upgrade to SAP S/4HANA.

Tom Crick
Chair of the Technology Committee

16 June 2023

CORPORATE GOVERNANCE REPORT CONTINUED

Debra Bowen Rees

Chair of the ESG Committee

Other members:

- Jane Hanson
- Alastair Lyons
- Lila Thompson (from January 2023)
- Peter Perry
- Mike Davis

Meetings held: 5

> See page 138 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.

4 Audit, Risk and Internal Control – continued

Environment, Social and Governance Committee Report

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 FY 24

- Overseeing a materiality review of key performance areas to ensure that ESG measures are monitored and reported to the relevant Board Committee, and to prioritise those areas which are the most important to our stakeholders to ensure that these are reviewed by the Committee, and in doing so, that the Committee meet its objectives;
- Overseeing the Group's ESG rating based on its 2022-23 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 all aspect of climate-related reporting; and
- Reviewing the effective stakeholder communication of the Group's ESG Strategy and progress.

FY 23 was the Committee's second year in existence since it was established in June 2021. This past year, the Committee has been consolidating the foundation work it completed in its first year and made significant progress on reporting strategy and processes and the management and oversight of ESG risk and opportunities. This has involved further development of the ESG Strategy and objectives and Key Performance Indicators (KPIs) which the Committee uses to monitor performance against the Group's ESG targets. Our focus during 2024 will be to ensure the alignment of our ESG strategy with operational and investment plans for PR24.

This is also the second year the Company has reported against the Task Force on Climate-related Disclosures (TCFD). Work this year has helped bring together coherent content across various reporting, including TCFD, Climate Change Adaptation and the UN Global Compact; all of which feeds into our PR24 planning. Building on the progress made over the last FY, our focus in 2024 will be the further development of reporting towards full compliance with the TCFD requirements.

During the year, the Committee appointed Sustainable Fitch (the ESG division of Fitch Ratings) to carry out a rating of the Group – this resulted in the award of '2' ('Good' ESG profile)

The Committee's focus in FY 23 is shown within the activities set out below.

Priorities	Activity of committee in FY 23	Outcome of committee activity
Strategy		
ESG Framework	The Committee reviewed the ESG Framework Document and suggested amendments to recognise the 10 Strategy Objectives and underlying strategic measures.	The updated ESG Framework Document better supports our future reporting from the UN Sustainable Development Goals, our Wellbeing Goals from the Wellbeing of Future Generations (Wales) Act 2015, through to the Company's business planning and long-term strategy.
ESG Strategy The ESG strategy is published on the Group's website https://dwrcymru.com/esg	The Committee reviewed performance against the Company's 10 ESG Objectives, involving deep dives into the following areas: • Net Zero Carbon Strategy • Community Fund investment • Biodiversity Management Plan (see below) • Sustainable Procurement (see below) • Visitor Attractions Strategy • Strategic Management of Natural Resources • Water Catchments business performance • Working to create to create tangible benefits in the communities we serve • Attracting and retaining a diverse workforce to reflect the communities we serve • Ensuring affordability – PR24 Planning • Adapting to future challenges (see Climate Adaptation Reporting below) • Long-term planning and sustainability	The Committee considered and challenged the Company's performance using key performance indicators linked to the ESG objectives. The Committee has given its support to a proposal to undertake a double materiality exercise in the current financial year to prioritise which of the 36 KPIs best support the Committee's objectives. This will enable us to better map the ESG issues that matter most to our stakeholders (both internal and external) and will also identify overlapping areas as some of these KPIs will be reported through other Board Committees. This work will also provide a further improved framework for focussed annual reporting and enable the Committee to concentrate resources on those issues that best support the long-term sustainability of the business and meet stakeholder expectations.
Environmental		
Biodiversity Report	The Committee reviewed the annual Biodiversity Report prior to publication.	The Biodiversity Report was approved by the Committee and published in February 2023.
Net Zero Carbon Strategy	The Committee has received regular updates on the progress towards the delivery of the strategy, including on: • the innovation and research work being led by the company on behalf of the sector in terms of measuring and developing systems to control fugitive emissions from the sewage treatment process, • the feasibility of Hydrogen production from biogas with carbon capture, and • the promotion of private wire arrangements to secure both better value and locally produced power for our sites.	The Committee has requested that a 'Roadmap for Delivery" of the Strategy is produced to highlight the associated risks and the need for additional investment.
Social		
Key Stakeholder Relationships	The Committee reviewed key stakeholder relationships and actions arising.	This supports the Committee's understanding of the interaction of the Company with key stakeholders on ESG issues on a periodic basis and also increases our understanding of stakeholder expectations and our impact on the outside world.

CORPORATE GOVERNANCE REPORT CONTINUED

4 Audit, Risk and Internal Control – continued

Priorities	Activity of committee in FY 23	Outcome of committee activity
Sustainable Procurement	The Committee received regular progress updates on the development of a Sustainable Procurement Policy from the Procurement team. This included a review of the impact of Welsh Water's expenditure on the Welsh Economy which demonstrated that the Company directly and indirectly supports high levels of economic activity in Wales (see page 65 for more details).	The Committee considered and approved the proposed Sustainable Procurement Policy (SPP) with a targeted completion for implementation by March 2024. For more details on the SPP see page 111.
Diverse Workforce	The Committee received a presentation from the Business Support & People Director on progress with attracting and retaining a diverse workforce to reflect the communities we serve.	The Committee noted that 78% of the workforce had declared their ethnic profile, which was a significant improvement which meant that we are moving closer to being able to compare Welsh Water relative to Wales as a whole i.e. 2.71% of those who had declared their ethnicity came from an ethnic background versus ethnic diversity in Wales which was around 5%.
Governance & Risk		
ESG Reporting	The Committee reviewed ESG reporting in the Annual Report and Accounts, including TCFD. It also reviewed proposals from management on producing a Climate Change Adaptation report and approach to Taskforce on Nature-based Financial Disclosures (TNFD) reporting.	The Committee considered and approved for final approval by the Board, the ESG narrative reporting in the FY 22 Annual Report, which including carbon reporting, and TCFD. Welsh Water is producing a Climate Change Adaptation Report to support both TCFD reporting and PR24 planning. The report will be reviewed by the Committee prior to publication in 2023. Welsh Water are members of TNFD, established in 2021, and we are working closely with the organisation to understand how TNFD could be of value to the water sector. The Committee will consider TNFD's formal guidance due to be published in September 2023.
ESG Rating and Accreditations	The Committee agreed it would seek a rating from Sustainable Fitch to evidence the Group's ESG credentials. The Committee reviewed a list of the Company's ESG accreditations.	The Committee received the Sustainable Fitch ESG Rating Report with a score of 2 (highest being 1, lowest being 5) based on its FY 22 ESG reporting. The Committee noted the recommendations the report made to maintain and further improve this score.
UN Global Compact	The Committee committed to meeting the 10 objectives of the UN Global Compact (UNGC) in March 2022.	The Committee will oversee the completion of the Company's reporting against the UNGC 's objectives via a digital platform, the timing of which coincides with Annual Report and Accounts reporting.
ESG Risks	The Committee reviewed ESG risks and opportunities on a six monthly basis. These risks are mapped against the Group's Enterprise Risk Management (ERM) and their development has fed into TCFD reporting in relation to climate-related risks and opportunities.	The Committee recognised the risks which fall within the ESG Framework against those which would be overseen within the business area where the risk is addressed or by another Board Committee i.e. QSC. The Committee agreed that all ESG risks which were not directly oversighted elsewhere in the business would fall within the direct oversight of the Committee.
ESG Committee Effectiveness	The Committee reviewed its Terms of Reference in light of the changes made to the ESG Framework Document. The Committee also reviewed a document which assessed the performance of its duties as set out in the Terms of Reference.	The Committed noted that no amendments were proposed to its Terms of Reference as a result of this review. The Committee's review of its performance concluded that it had made good progress in FY 23.

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

16 June 2023

Joanne Kenrick

Chair of the Remuneration Committee

Other members:

- Debra Bowen Rees
- Tom Crick
- Alastair Lyons

Meetings held: 6

> See page 138 for Board and Committee meeting attendance

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.

5 Remuneration

Remuneration Committee Report

Overview of this report:

Section 1: the Chair's Statement

Sets out an overview of the Remuneration Committee's activities during the year, and explains the business context against which pay decisions have been made, both for our Executive Directors and the workforce as a whole

Section 2: the alignment of pay and performance, remuneration principles and Ofwat guidance

Outlines the agreed remuneration principles underpinning our pay philosophy, and how we take account of the interests and views of our key stakeholders in determining remuneration policy and outcomes

Section 3: proposed Remuneration Policy for 2023–25

Sets out our remuneration policy for the remainder of the AMP7 period, subject to Member approval at the 2023 AGM

Section 4: pay last year 2022–23 (FY 23)

Shows the amounts paid to our Executive Directors in respect of the FY 23, and how we performed against the targets set for variable pay

Section 5: pay decisions for next year 2023-24 (FY 24)

Outlines the Committee's approach to implementing the Remuneration Policy for FY 24 for Executive Directors

Section 6: other important information

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

Principal responsibilities

The Committee is responsible for recommending to the Board and Glas Members for approval (i) the Executive Directors' Remuneration Policy via a binding vote at least every three years (or earlier, if coinciding with a new AMP cycle) and (ii) the Annual Report on Remuneration via an advisory vote every year.

The Committee determines the remuneration for the Chair of the Board, the Executive Directors and Executive Team within the parameters of the approved Remuneration Policy. Although the Chair of the Board is a member of the Committee, he does not participate in any decisions 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 and annual remuneration decisions.

As our Policy was last approved in 2020, a policy vote will be held at the 2023 Annual General Meeting. We are proposing some minor amendments to the existing policy, as detailed on page 180. Our next full review will take place in 2025 to align with the start of the new AMP.

CORPORATE GOVERNANCE REPORT CONTINUED

5 Remuneration – continued

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

During FY 23, the Committee received independent advice from Deloitte LLP (until December 2022) and Korn Ferry (from January 2023). Deloitte LLP had served as advisors to the Committee since 2020, but due to their appointment as external auditor we were required to re-tender for a new advisor. Korn Ferry was selected following a competitive tender process. Both Deloitte LLP and Korn Ferry are signatories to the Remuneration Consultants Group Code of Conduct, and their advice given is governed by the Code.

The Committee is satisfied that the advice received from both Deloitte LLP and Korn Ferry was independent and objective. The fees payable to Deloitte LLP totalled £37,900 plus VAT (FY 22: 36,950 plus VAT). The fees payable to Korn Ferry were £44,136 plus VAT.

Section 1: Remuneration Committee Chair's Statement

Dear Glas Members

On behalf of the Board, I am pleased to present our FY 23 Remuneration Report.

Business, employee and member context

Business context

The year ended 31 March 2023 (FY 23) was one of the most challenging years in the recent history of the water industry. We were confronted by operational issues brought on by a number of extreme weather events (such as the long period of drought and very hot weather in the summer and periods of freezing weather in the winter). These events both influenced demand for water and our environmental impact (for example through the risk to sewage treatment because of low water levels) and our operational abilities (such as interruptions to supply and leakage being caused by pipe bursts due to ground movement in the summer and the freeze/thaw in the winter).

This year, water company performance, in particular protecting the health of our rivers and bathing waters has been in the spotlight more than ever. Our Manifesto for Rivers in Wales sets out the investment we intend to make to tackle first those aspects where we can make the biggest difference to water quality.

From an economic perspective, we and our customers have been faced with an extraordinary high inflation environment and we have worked hard to support our employees and customers in these very challenging times, while also recognising that we cannot completely insulate these stakeholders from the consequences of the cost-of-living crisis.

Against this backdrop, we have achieved strong customer service ratings (achieving third place among water and sewerage companies in the Ofwat C-MeX customer satisfaction survey), and improvement in our water quality after a drop in the previous year.

That said, we still have much work to do to plan for the future, in particular to minimise the impact of our activities on the environment and to make our business resilient to the effects of climate change. As a consequence as we plan for the next regulatory cycle we are looking to significantly increase our investment in our infrastructure for the long-term, to enable us to address more effectively the challenges of leakage, interruptions to water supply, and the protection of our environment.

The performance outcomes for variable pay in respect of 2023 as set out below reflect some of these challenges and, as explained, it is against this backdrop that Peter Perry and Mike Davis have elected to waive their variable pay in respect of FY 23.

Restatement of Regulatory Reporting for Prior Years

As outlined in the Chair of the Board's letter on page 24, during FY 23 our internal assurance processes found errors in our regulatory reporting in respect of FY 21 and FY 22, leading to misstated leakage and per capita consumption (PCC) figures for those years.

The Committee looked in detail at the impact that the misstated figures would have had on our variable pay outcomes in those years.

In the case of the AVPS, neither leakage nor PCC KPIs were measures in either year so has no effect on any variable payments made in respect of those years.

In the case of the LTVPS, both leakage and PCC are components in the Performance Development portion of the Scheme. This is through assessing accumulated ODI penalties across a broad scorecard of which leakage and PCC are components. However, no payouts have been made under the Performance Development element for either year, so the restatement has no impact on variable payments made in the long-term scheme.

Finally, the Committee has considered whether any broader adjustment to the variable pay outcomes would have taken place, had the actual leakage levels been reported correctly at the time. The Committee concluded that the variable pay outcomes for FY 21 and FY 22 remained reflective of the overall corporate performance of the business in those years. The Committee has also accepted the CEO and CFO's offer to waive their FY 23 variable pay. While the decision not to take their FY 23 variable pay was not solely linked to the Regulatory Reporting Review, it does reflect their absolute commitment to doing the right thing for our customers at a very challenging time for the business and water industry.

Employee context

Employee remuneration and the wider employee experience is a high priority forming a core part of what we do as a company, and the decisions and debates that we have as a Committee. This has been a particularly challenging year for many people, and we are sensitive to the need to ensure that our employees, particularly in lower-paid roles, are provided with additional support, to the extent possible. At the same time, we must also manage our employee costs taking into account the AMP7 determination and the needs of our customers who are also exposed to similar economic challenges.

For FY 24, we have agreed an employee pay increase of 6.2% for our wider workforce, together with a one-off cost-of-living payment made to eligible employees of either £1,000 or £2,000 (the lower paid receiving the higher amount) during FY 23.

We have continued to evolve our process of engagement with employees, and I have met with a small focus group of colleagues from within the business to understand their perspectives on their own remuneration, and explained and discussed how our principles are applied at Executive Director level.

Our gender pay gap for 2022 (published in April 2023) showed a further narrowing of the gap between our male and female employees to 3.6%. There is a zero median bonus gap due to the inclusive nature of the colleague reward scheme. The mean gender pay gap has also reduced, from 6.6% in 2021 to 6.0% in 2022. The continued narrowing of our pay gaps has been influenced by an increase in the number of females in more senior roles, coupled with the percentage representation of men in less senior roles having increased slightly.

Remuneration for FY 23

- Salary increase for employees effective from 1 April 2022: 4.8%
- One-off cost-of-living payment to eligible employees: of either £1,000 or £2,000, paid in December 2022
- Colleague reward scheme payouts of £1,000 paid in June 2022
- Employee Variable Pay Schemes Company portion paid in July 2022 at 47.5%
- Gender pay gap 3.6% at median (6.0% mean) snapshot date 5 April 2022 (published April 2023)

Remuneration for FY 24

- Salary increase for employees effective from 1 April 2023: 6.2%
- Colleague reward scheme payouts of £1,000 to be paid in July 2023
- Employee Variable Pay Schemes Company portion to be paid in July 2023 at 31.2%
- Progressing our diversity pay gap management, with over 80% of colleagues now submitting their data

We have also begun to capture data on ethnicity so that we may understand and address any key trends in this area. Whilst we are not yet in a position to report under this metric, the Committee will continue with its ongoing commitment to develop a progressive, transparent and inclusive pay culture. We are pleased to have reached our target of 80% data capture in 2023.

Member context

It is vital that we take into account the views of our Members when making judgements. In 2022, some questions and points of clarification were made by our Members at the Annual General Meeting (AGM), which we have considered at our Remuneration Committee meetings. Such points were also, where appropriate, taken into consideration when reviewing our Remuneration Policy and determining remuneration levels.

CORPORATE GOVERNANCE REPORT CONTINUED

5 Remuneration – continued

Key work carried out by the Committee during FY 23

Remuneration policy review for 2023

As we have adopted governance applicable to a publicly listed company, 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 AGM on 3 July 2020, and our Policy is therefore subject to renewal by Glas Members in 2023.

Our next full policy review will take place in 2025, aligning with the AMP8 Determination.

Other focus areas for the Committee in FY 23

In addition to reviewing the policy for 2023–25, the Committee continued to focus on the successful implementation of our ongoing remuneration arrangements. In particular, we have considered the detailed operation of the Long-Term Variable Pay Scheme (LTVPS). While this exercise has highlighted some issues in the mechanics of how the scheme is structured for the current AMP7 cycle, in particular the method of measuring the Outcome Delivery Incentive (ODI) calculations within the performance commitments element, the Committee has concluded that no changes should be made at this stage. Further detail of the outcome under the LTVPS for FY 23 (interim assessment) is set out below.

In respect of the Annual Variable Pay Scheme (AVPS), for which some amendments were made last year to simplify and balance the targets for FY 23 performance, we have monitored the effectiveness of these changes. The changes made for FY 23 addressed the Committee's previous concerns, and a similar approach will continue to be operated in FY 24. We have, however, elected to change the weightings applied to performance targets under the scheme, and in 2023–24 the weightings will be based 30% on customer, 50% on operational and 20% strategic metrics, which reflects the importance of focusing on the delivery of our operational goals. Additionally, we will be replacing our employee engagement metric with a sustainability metric (kilometres of river improved), as we have made good progress with this metric and have high engagement levels, while km of river improved is one of our core environmental KPIs.

Further details of the outcome under the AVPS for FY 23, and the composition of the AVPS scorecard for FY 24 is set out below.

Outcome of remuneration policy review

As we are currently three complete years into the AMP7 cycle, around which our current policy was designed, there are only minor changes being proposed in the 2023 Policy Review. These include:

- Adding greater flexibility to the weighting within the AVPS performance metrics to allow the aggregate of Customer and Operational metrics to be at least 75% (removing the previous fixed weighting of 40% on each)
- Altering the structure of our Non-Executive Directors' fees approach, moving to a base fee together with a separate fee for chairing a Board Committee, as reviewed by the Board, excluding the Non-Executive Directors, (see remuneration for Directors in relation to FY 24 below)

The full remuneration policy as set out on pages 181 to 185 will be put to Members for approval at the AGM.

Looking back – pay outcomes in relation to FY 23

The Committee reviewed the outcome of the AVPS and LTVPS scorecard following the end of the financial year, and the full outcomes are set out within Section 4.

AVPS scorecard summary

In 2023, the formulaic scorecard out-turn would have resulted in payouts to the Executive Directors of 41.39% of maximum. The performance against our Strategic goals was assessed as being at a target payout level (60% of maximum), whilst performance against our Customer and Operational goals were both between the threshold and target levels, at 40.2% and 33.27% of maximum, respectively.

LTVPS scorecard summary

In 2023, the formulaic scorecard out-turn would have resulted in payouts to the Executive Directors of 10.1% of maximum. The performance against our Totex paid 10.1% of maximum, while performance against our performance commitments would not have resulted in a payout. More specifically, our Totex performance, which was below target, reflects the rising cost of managing our operational expenditure under the current high inflation economic backdrop. Our ODI performance was particularly impacted by high leakage and water main burst penalties, which more than offset above-target performance in other elements of the scorecard (for example, km of river improved).

Waiver of variable pay entitlement by Executive Directors

The scorecard outcomes under both the AVPS and LTVPS were, in the Committee's view, a balanced reflection of the business performance in a very challenging year for the business and the wider water industry. However, as announced on 11 May 2023, the Executive Directors have elected to waive their variable payout under both the AVPS and the LTVPS. While a number of the AVPS and LTVPS targets were either partially or fully met, this decision reflects the individuals' recognition of their duties to manage the environmental impact of our operations (particularly river water quality). The Executive Directors are aware of the high level of public sentiment in this regard, and in a year where the extreme weather events impacted our wider ability to manage these challenges, Peter Perry and Mike Davis did not feel it appropriate to receive variable pay at this time and the Committee has accepted their offer to waive their variable pay.

Looking forward – remuneration for Directors in relation to FY 24

In line with the normal annual cycle, the Committee reviewed salary levels for the Executive Directors and the Executive Team in March 2023. The Committee considered several reference points, including the proposed increases for the wider workforce, business and individual performance in FY 23, and the wider economic context. As a result, the Committee decided to increase Executive Director salaries by 4% from 1 April 2023. This is below the workforce rise of 6.2%. The Committee believes that this increase reflects the importance of keeping our executive salary levels within a market competitive range, while also managing our overall pay budgets and targeting higher increases towards lower-paid employees. The Committee also reviewed the car allowance for the Executive Directors, and found this was well below the market rate. It therefore decided to increase the car allowance from £5,000 to £8,500 for FY 24 with commitment to review it again as needed in future.

The Committee also reviewed the fee for the Chair of the Board, taking into account external market benchmarking and internal relativities. The Committee's conclusion was that it was appropriate to award a 4% increase to the Chair, in line with the increase applied to the Executive Directors.

The fees of the Non-Executive Directors were reviewed by the Board (excluding the Non-Executive Directors). The review found that whilst our base fees are competitive against the market, it is now common practice to pay additional fees for chairing the main Board Committees, which we have not done historically. Consequently, the Board determined that rather than increasing the base fee, this should remain unchanged, but that a separate fee of £10,000 per annum for the Chairs of the Audit, and Quality and Safety Committees, £7,500 per annum for the Chair of the Remuneration Committee and £2,500 per annum for the Environmental, Social and Governance Committee and Technology Committee Chairs should be introduced. The Senior Independent Director (SID) will receive a fee of £10,000 per annum when the current SID retires from the Board in July 2023. The current SID's fee is already a composite fee.

Salaries and fees applying for the Directors in FY 24 are set out on pages 190 and 191.

Remuneration Committee focus areas in FY 24

Subject to Member approval at the AGM, the Committee will focus on implementing the Policy approved by Glas Members in accordance with our agreed Remuneration Principles.

Towards the end of FY 24, the Committee will begin planning for the more substantive 2025 Policy Review that will coincide with the start of the AMP8 cycle. This will look in detail at how our schemes align to the Regulatory Determination (once agreed) so as to ensure that our executive remuneration structures are appropriately aligned with delivering the strategic and operational priorities which we anticipate will form a key part of the Determination.

The Committee is sensitive to the challenges faced in the water industry at present, and public sentiment around this. This frames the decisions that we make as a Committee, particularly around salary levels and the structure and payout assessments in our variable pay framework. We will continue to take note of the views of our stakeholders, including Members, colleagues and Ofwat to ensure that our remuneration structures and outcomes take account of the wider stakeholder experience of our customers, while also recognising the need to retain our high-calibre and dedicated Executive Team.

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

As noted above, we will continue to monitor our internal systems for ethnicity and other diversity pay reporting, as part of our commitment to attracting and retaining a diverse and engaged workforce.

Finally, the Committee values the inputs and feedback received from 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

16 June 2023

CORPORATE GOVERNANCE REPORT CONTINUED

5 Remuneration – continued

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 page 04 of this Annual 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 Remuneration Principles that apply to the Committee's work. The Principles, listed in the table below, were last shared with Members at the 2020 AGM. As the 2023 Policy Review is an interim review taking us to the end of the AMP7 regulatory cycle, there has been no change to the Principles.

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.

When developing the Remuneration Policy and considering its implementation for 2023, the Committee was mindful of the objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance, and the FRC's 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 on matters of 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.
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.

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 setting the Remuneration Policy and determining pay outcomes, 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'.

This report includes an explanation of the Company's executive pay policy and how the criteria for awarding short and long-term variable remuneration elements are linked to stretching delivery for customers and are rigorously applied.

Linking pay to the perspectives of our main stakeholders

Our Remuneration Policy for Executive Directors considers the perspectives of our internal and external stakeholders, including our customers, employees, Members, relevant regulatory bodies and wider society. We look at this in terms of how stakeholders should influence the setting of remuneration policies, as well as their influence on pay outcomes. Throughout all such decisions, there is the need to balance stakeholder expectations with the need to attract and retain key individuals with the relevant experience and capabilities.

	Members	Customer and wider society	Employees	Regulatory bodies (e.g. Ofwat, the Welsh Government)
How do we engage on pay?	Members play an essential governance role in approving our remuneration policy and outcomes. We engage annually at the AGM and ensure the Remuneration Committee Chair is available to discuss pay issues with Members as required. At our July 2023 AGM, a binding vote will be held on our Remuneration Policy, and an advisory vote on the rest of the Directors' Remuneration Report.	We do not hold a specific engagement program with our customers on executive remuneration matters. However, as one of the largest companies in Wales with a significant impact on the socio-economic landscape, the Committee is very sensitive to the high public profile of remuneration, and the sentiment of customers as well as society as a whole. This frames all of our decisions on executive remuneration.	As part of our broad colleague engagement programme, at least one session (December 2022), included a focused 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 of such discussions are fed back to the Remuneration Committee.	Where the regulator seeks to directly engage on pay matters we respond appropriately. For example, during FY 23, the Chair of the Remuneration Committee wrote to, and met with, the Chief Executive of Ofwat in response to questions regarding the governance of pay in the water industry.

CORPORATE GOVERNANCE REPORT CONTINUED

5 Remuneration – continued

	Members	Customer and wider society	Employees	Regulatory bodies (e.g. Ofwat, the Welsh Government)
Link to remuneration principle(s) number	1 2 3 10 11	1 2 3	2 11 12	3 4 5
Impact on remuneration outcomes (examples)	• All Executive pay decisions are made taking into account the views of Members. • While there are not specific targets within our variable pay schemes in relation to Member experience, the Remuneration Committee's discretionary powers mean that all pay outcomes are determined based on ensuring accountability to Members (among other stakeholders).	• Variable pay, both short-term and long-term is focused heavily on the underlying performance of the Company in delivering for our customers. – Customer service is directly measured in our AVPS, through our C-MeX and D-MeX ratings (Ofwat's customer experience and delivery ratings). • In the LTVPS half of the scorecard is focussed on delivering against our AMP7 customer commitments. • The Remuneration Committee may exercise its discretion on remuneration outcomes to take account of customer experience.	• Executive pay decisions are made against the context of the wider workforce – for example, one of the main reference points the Committee uses for setting salaries is the percentage increase across the business. • Where we feel it is appropriate, employee metrics are included in the variable pay schemes. For FY 24 an example metric is the % of female senior manager appointments. We have removed employee engagement as a metric as we already score very favourably here so we look to maintain, rather than improve this.	• Our remuneration framework is built around our five-year regulatory cycles. At the time of each AMP determination we look closely at our Remuneration Policy to ensure it most appropriately incentivises its delivery of commitments under the AMP, but without undue risk taking. • Hence, the majority of the AVPS and LTVPS scorecards are directly connected with the delivery of the regulatory determination for the current AMP7 period, around which all our business plans are based. • The Remuneration Committee may exercise its discretion on remuneration outcomes taking into account wider business performance, which can include regulatory breaches.

Section 3: Proposed Directors' remuneration policy for the remainder of AMP7 (2020-25)

This section sets out the structure of the Remuneration Policy which will be put to Glas Members for approval at the 2023 AGM. The aim of Welsh Water's Remuneration Policy is to promote the long-term success of the Company and to retain and incentivise the Executive Directors to deliver strong and sustainable performance aligned with the Company's long-term strategy and objectives.

The new Policy is a continuation of the current Policy approved in 2020 for AMP7, retaining the AVPS and LTVPS structures that we have applied since 2020. However, based on our experiences so far during AMP7 minor wording changes are proposed to improve flexibility to respond to changing circumstances and regulatory expectations, in particular the weighting of AVPS measures may be reviewed year-on-year with a commitment to maintain at least 75% of the overall opportunity being based on customer and operational performance measures.

The Policy includes broad Remuneration Committee discretion over both AVPS and LTVPS outcomes to ensure outcomes are fair for both management and customers, and the Committee intends to continue to evaluate variable pay outcomes for the remainder of AMP7.

In line with our regulatory cycle, the Committee intends to put forward a new Policy at the 2025 AGM to align with the start of the next AMP.

Summary of Remuneration Policy for 2023-25

In developing our Remuneration Policy we have sought to understand, and where appropriate reflect, the views of our stakeholders on remuneration, and to have regard to our not-for-shareholder status. Our aim is cost-effectively to attract, motivate, and retain executive directors with the competencies and experience to deliver our long-term strategic objectives alongside high standards of near-term operational performance.

The individual components of the Executive Directors' Remuneration Policy for the remaining portion of AMP7, which will be put to the Glas Members for approval at the 2023 AGM, are set out in the table below.

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary	To help attract, retain and motivate high calibre employees.	Normally reviewed annually and any increases typically applied with effect from 1 April. Salary reviews will reflect: • Role, experience and performance • Wider economic conditions • Increases awarded throughout the rest of the workforce • Periodic reviews of remuneration within the water sector.	Annual 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 may be eligible for private health cover and 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
Pension	To help attract and retain high-calibre employees.	All employees, including Executive Directors, are entitled to a maximum employer pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance. If the maximum employer contribution rate for the wider workforce changes then this new rate would also apply to Executive Directors. 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 maximum cash allowance is equivalent to the employer contribution of 11% of salary less employer NI contribution.	None

CORPORATE GOVERNANCE REPORT CONTINUED

5 Remuneration – continued

	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. Awards earned are paid as cash, are not pensionable, and are subject to clawback provisions (see details below). AVPS awards may be varied (either increased or decreased) at the discretion of the Committee to better align with the performance achieved, including to reflect the experience of customers. The AVPS rules allow the Committee to defer the payment of any awards until the completion of an ongoing investigation.	Maximum AVPS potential of 100% of salary, for the achievement of stretching performance targets.	Measures are selected by the Committee each year with at least 75% of the award based on % on Customer and Operational measures aligned to regulatory measures contained within our Business Plan.
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, normally capped at the overall target opportunity for the year, unless the Committee determines otherwise. LTVPS awards may be varied (either increased or decreased) at the discretion of the Committee to better align with the performance achieved, including to reflect the experience of customers. Awards are subject to clawback provisions (see details below). The LTVPS rules allow the Committee to defer the payment of any awards until the completion of an ongoing investigation.	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 other Executive Directors, the maximum potential award is 300% of salary over the five-year regulatory period (to a maximum potential award of 60% per annum).	Unless the Remuneration Committee determines otherwise, 50% based on Totex performance and 50% based on a range of performance development measures relevant to achieving the Company's long-term goals and aligned to regulatory measures contained within our Business Plan.

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Non-Executive Directors' Fees	To provide an appropriate level of fee to attract and retain individuals with a broad range of experience and skill to support the Board in the delivery of its duties.	The Remuneration Committee determines the fee payable to the Chair of the Board. Separately, the Executive Directors and the Chair approve the fees payable to the Non-Executive Directors. The Company may make a payment in respect of any associated tax liability where this is considered to be appropriate.	Non-Executive Directors receive a base fee. Additional fees may be paid to reflect additional time commitments and/or responsibilities, for example to the Senior Independent Director.	Annual Review

New appointments	• Base salary levels will be set to reflect the experience of the individual, tested against market benchmark data and internal relativities. If it is considered appropriate to appoint a new Executive Director on a below-market salary, they may be subject to a series of increases to the salary positioning over a logical timeframe subject to performance in post. This approach will apply to both internal and external appointments, when appropriate. • The policy is for the new Executive Director to participate in the remuneration structure detailed above. Exceptions to this could be setting different measures or implementing transitional arrangements should an Executive Director join part-way through the five-year regulatory period. For internal promotions to Executive Director, entitlement to previously accrued AVPS, up to the appointment date will be unaffected. • New Executive Directors are either enrolled in the DCWW Group Personal Pension Plan with a maximum employer contribution of 11% of salary, or can elect to opt out and receive a cash allowance of 11% of salary less employer NI contribution. • If the Remuneration Committee considers it necessary to buy out remuneration which an individual would forfeit on leaving their current employer, such compensation, where possible, will be structured so that the terms of the buyout mirror the form and structure of the remuneration being replaced. • Other elements of remuneration may be included in appropriate circumstances, such as (i) an interim appointment being made to fill an Executive Director role on a short-term basis (including, if exceptional circumstances require, that the Chair or other Non-Executive Director takes on an executive function); or (ii) if an Executive Director is recruited at a time in the year when it would be inappropriate to provide an AVPS or LTVPS for that year. Subject to the AVPS and LTVPS limits in this Policy, the maximum opportunity in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis.

CORPORATE GOVERNANCE REPORT CONTINUED

5 Remuneration – continued

Policy for departing executives	• The Executive Directors have service contracts that are subject to a 12-month notice period and which do not provide for compensation to be payable in the event of early termination by the Company. At the Company's discretion, an Executive Director may be paid base salary alone in lieu of notice. A significant element of mitigation is built into the contract should the Company choose to exercise its option to make a payment in lieu of notice. The Company may also choose to continue to provide certain benefits for the remainder of any notice period. • In the event that an Executive Director leaves via redundancy and is not required to work their notice period, they will be entitled to Statutory Redundancy and Enhanced Redundancy in line with the Company's redundancy policy, plus up to 12 months' pay in lieu of notice, together with pay in lieu of accrued but untaken holidays. • In addition, and consistent with market practice, in the event of the termination for any reason of an Executive Director's service contract, the Company may make a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements. • Should an Executive Director resign, they will be expected to work their notice period unless an alternative arrangement such as garden leave or a reduced notice period is agreed. • In the event that the Company terminates the Executive's employment, the Company will take legal advice and will pay to the Executive only such amount as the Executive is legally entitled to receive. • In the event of cessation of employment AVPS and LTVPS awards will be treated in line with the relevant scheme rules which describe the treatment of any payment with reference to 'good' or 'bad' leaver terms. Good leavers would include departure due to ill-health, disability, death, or any other reason at the discretion of the Remuneration Committee. • Under the AVPS bad leavers will normally forfeit all unpaid awards. The Remuneration Committee may decide whether to make a payment for the year of departure, whether awards are reduced for the time in employment, when performance conditions are assessed, when any payment is be made, and whether any additional conditions should apply. • Under the LTVPS, if an Executive Director were to leave due to dismissal or misconduct they would forfeit any unpaid interim or final-year awards. Other leavers may be eligible for a final-year payment based on performance achieved in respect of AMP7, less any interim payments made. For good leavers, the Remuneration Committee may decide whether to make an interim payment for the year of departure. Any interim or final year payment would be reduced for the proportion of the performance period in employment. • The Remuneration Committee may choose to accelerate payment to leavers in certain circumstances, for example, in cases of death.

Legacy awards

The Committee reserves the right to make remuneration payments and payments for loss of office, and to exercise any discretion available in relation to any such payment, notwithstanding that they are not in line with the Policy set out above:

- where the terms of the payment were agreed before the Policy came into effect; and
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company.

Minor policy amendments

The Committee reserves the right to make minor amendments to the 2023 Policy, for regulatory, tax or administrative purposes or to take account of a change in legislation, without seeking Member approval.

Clawback provisions

The Committee may clawback AVPS and/or LTVPS awards in the following circumstances:

- Material misstatement or a calculation error in assessing any Glas Cymru Group (Group) member company's results
- Material failure of risk management in any Group member company or a relevant business unit
- Gross misconduct or reputational damage caused to Dŵr Cymru (the Company) or a Group member company
- Material corporate failure in any Group member company or a relevant business unit.

AVPS awards can be clawed back either prior to the payment of the award for a particular performance year or in the following performance year.

LTVPS awards can be 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.

Consideration of Glas Member views

The Committee maintains a regular dialogue with Glas Members, and the comments raised in these discussions help to inform the Committee's discussions around potential changes to the Policy. The Committee will continue to monitor trends and developments in corporate governance, market practice and the views of Glas Members to ensure the structure of the executive remuneration remains appropriate.

Other considerations

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.

The 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 for the Policy and the Committee decisions 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.

Illustration of pay opportunities for Executive Directors under the Policy

The graphs below show the opportunities for each Executive Director for FY 24 under the proposed Policy in three performance scenarios:

- 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 AVPS and the LTVPS; and
- The maximum level of remuneration, if all AVPS and LTVPS performance targets are fully achieved.

Section 4: Pay

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. In FY 23, employees received an increase of 4.8% in accordance with the AMP7 Working Together Agreement.

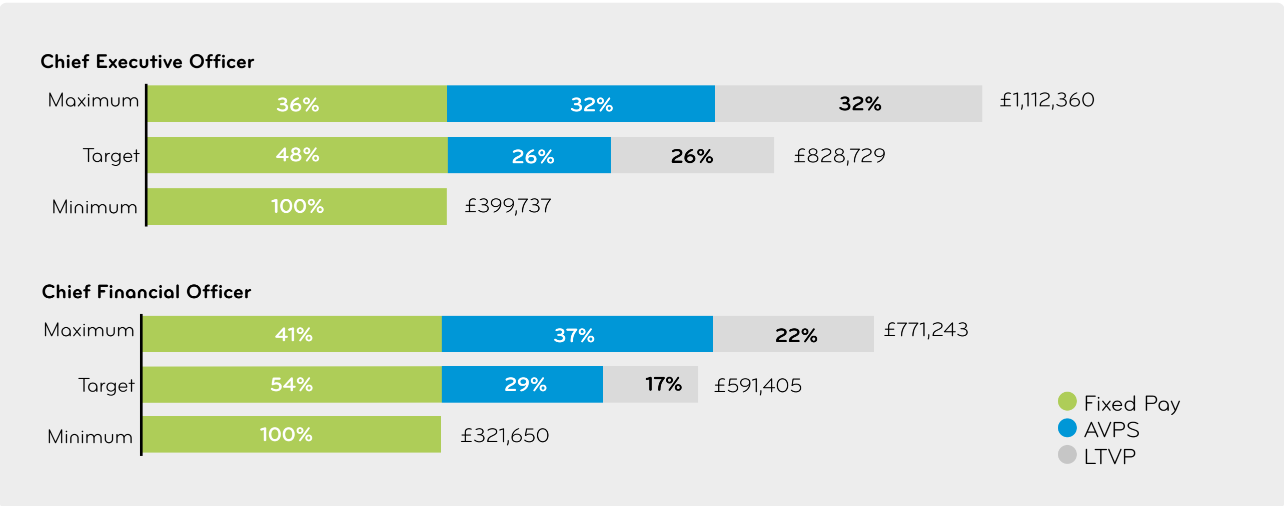
Pension benefits are aligned across the Company with all Group Personal Pension Plan members entitled to receive the same employer contribution as a percentage of salary, in line with best practice.

Variable pay

The Annual Variable Pay Scheme (AVPS) (for colleagues below Executive Director level and above Band 5) and the Colleague Reward Scheme (Bands 1-5) utilise a number of shared key metrics – notably those linked to Customer, Performance and Expenditure. This ensures transparency and a sense of shared ownership of the targets.

The AVPS for colleagues above Band 5 includes an element of opportunity based on achievement of personal objectives, as well as on the Company's performance. Maximum opportunity ranges from 10% to 60% of base salary, depending on band.

The Colleague Reward scheme, which applies to all other employees, does not include a personal element, and the level of payout is based entirely on the Company's performance against the identified metrics. The maximum opportunity under the Colleague Reward scheme is £1,500. The actual payout in respect of the FY 2FY 23 performance year is £1,000 (FY 22: £1,000).



CORPORATE GOVERNANCE REPORT CONTINUED

5 Remuneration – continued

Pay for Executive Directors

How much Executive Directors were paid for FY 23 (Audited)

		Peter Perry		Mike Davis	
		FY 23 £'000s	FY 22 £'000s	FY 23 £'000s	FY 22 £'000s
Fixed Pay	Salary	**341**	332	**270**	263
	Benefits[1]	**1**	1	**1**	1
	Other	**5**	5[2]	**–**	3[3]
	Pension and pension accrual	**445**[4]	105	**26**	25
	Total Fixed Pay	**792**	443	**297**	292
Variable Pay	Annual variable pay – AVPS	**–**	133	**–**	105
	Long-term incentive – LTVPS	**–**	99	**–**	47
	Total Variable Pay	**–**	232	**–**	152
Total Single Figure of Remuneration		**792**	675	**297**	444
Less Defined Benefit Pension Accrual		**(412)**	(73)	**–**	–
Total Single Figure of Remuneration excluding DB Accrual		**380**	602	**297**	444

1 Taxable benefits relate to private health cover.

2 For Peter Perry this represents a £5,000 per annum car allowance.

3 Payment in line with company Transfer of Base policy due to Nelson closure.

4 The total of £445k is made up of £412,521 Defined Benefit pension accrual (see below) and £32,869 pension alternative cash plan payments equivalent to 11% of salary less Employer NIC.

The £412,521 was not paid in the year and relates to future pension provision in line with pension scheme rules and legislation. The figure is based on the HMRC's prescribed method of valuing the Defined Benefit pension accrued in the year as a result of the increase in Final Pensionable Pay.

Final Pensionable Pay is defined in the scheme rules as the greater of a) Pensionable Pay in the last 12 months, and b) the highest yearly average of Pensionable Pay for three consecutive tax years within the last 10-year period. Under definition b) the Pensionable Pay figures for past tax years are revalued in line with the Retail Prices Index (RPI) to current day values before the average is calculated, and it is this second definition which applies this year because of the significant increase in the RPI. This Final Pensionable Pay figure is used in the calculation of pension at year end, resulting in a higher value of accrual over the year compared to the previous year.

The presentation above includes Total Single Figures of Remuneration both including and excluding the DB pension accrual in the year, to aid understanding of users of this report and reflecting the intrinsically different nature of post-retirement benefits and other elements of Executive remuneration.

Pensions (Audited)

Pension benefits for all employees who participated in the DCWW Pension Scheme, a defined benefit scheme, continue to increase in line with increases in their pensionable salary. These increases are also provided for in the Employer Funded Retirement Benefits Scheme in which Peter Perry participates. The pension accrued by Peter Perry during the year is shown below.

	Normal retirement age	Accrued annual pension at 31 March 2022	Capitalised value of accrued pension at 31 March 2022	Revalued capitalised value of accrued pension at 31 March 2022	Accrued annual pension at 31 March 2023	Capitalised value of accrued pension at 31 March 2023	Member contributions paid during the year 2023	Pension Input Amount (net of member contributions) 2023
Peter Perry	60	198,166	3,963,311	4,086,173	£224,935	4,498,695	–	412,521

Annual variable pay (AVPS) – outcome for FY 23

The table below shows the breakdown of performance against the targets for AVPS for FY 23. Where the final outcome for a particular target is not available as at the date of this report, the award reported is based on a current best estimate. These values may therefore change.

Up to 100% of salary can be earned in any year for both Peter Perry and Mike Davis. Performance achieved in FY 23, under each metric against the target ranges set is shown below:

Element	Weighting	Metric	Threshold performance	Target performance	Maximum performance	FY 23 Performance achieved
Customer service	40%	C-MeX (Ranking)	6th	3rd	1st	4th
		D-MeX (Ranking)	12th	9th	6th	12th
		B-MeX (Score out of 5)	4.4	4.4	4.5	4.4
Total % of Salary for Customer Service			4	24	40	16.08
Operational performance	40%	**Water:** Tap water quality (Score)	9.46	2.80	2.0	5.40
		Interruptions to supply (mm:ss)	16:12	09:36	08:00	44:13
		Leakage (%)	5.10	8.80	10.30	(11.50)
		Acceptability of Water (contacts/1000)	2.44	2.35	1.91	2.35
		Wastewater: W and WW Treatment Works compliance (%)	98.49	99.16	100	98.49
		Pollution Incidents (Incidents)	99	85	71	89
		Internal sewer flooding (Incidents)	253	230	203	169
Total % of Salary for Operational Performance			4	24	40	13.31
Strategic Goals	20%	PR24 preparation	Achieved	Exceeded	Outstanding	Exceeded
		%	0.80	4.80	8.00	4.8
		Employee engagement	69	75	80	75
		%	0.40	2.4	4.00	2.40
		Credit Rating performance	1 notch downgrade	Negative outlook	Current Ratings	Negative outlook
		%	0.40	2.4	4.00	2.4
		Number of female senior management appointments	24	27	30	27
		%	0.4	2.4	4.00	2.4
Total % of Salary for Strategic Goals			2	12	20	12.00
Total % Award Achieved						41.39

CORPORATE GOVERNANCE REPORT CONTINUED

5 Remuneration – continued

The overall performance achieved for FY 23 in the Executive Directors' AVPS was 41.39%. This level of performance resulted in total awards to the Executive Directors of:

Peter Perry: £141,099 (41.39% of salary) which would have been paid in July 2023 but the Committee accepted offer to waive the payment.

Mike Davies: £111,831 (41.39% of salary) which would have been paid in July 2023 but the Committee accepted offer to waive the payment.

Long-term variable pay (LTVPS) – outcome for FY 23

Under the LTVPS for the period 2020 to 2025, performance is assessed annually against interim goals. Interim payments are made up to 60% of maximum for each of the two elements: Totex performance; and Overall ODI outcomes for performance development measures. Overall performance is assessed over the five-year period of the AMP. This could result in payment or recovery of any under or overpaid amounts in the final year.

For FY 23, the performance achieved for each target was 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%	£694m	£659m	£643m	£687m	10.1
Overall ODI outcomes for performance development measures	50%	£(3.1)m	£(1.8)m	£1.4	£(8.1)m	–
Total (as % of maximum award)						10.1

Details of the performance achieved for each of the performance development measures which contributed to the overall LTVPS assessment for FY 23 was 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 population	2.64	2.56	1.91	2.35	(1.1)
Water mains bursts	# per 1,000km of Mains	132.7	130.8	135.1	156.2	(2.2)
Lead supply pipes replaced	Number	4,200	4,200	4,200	1,731	–
Leakage	%	5.0	8.8	8.8	(11.5)	(4.5)
Sewer collapses	# per 1,000km of Sewer	7.2	7.2	7.2	6.7	–
Community education	Individuals	72,000	73,000	73,000	80,194	–
Visitors to recreational facilities	Individuals	675,000	720,000	720,000	739,294	–
Per capita consumption	%	1.4	2.1	3.0	(6.2)	(1.8)
Investment programme measures						
Km of river improved	Km	25	25	110	122	1.4
Surface water removed from sewers	m^3	141,900	141,900	141,900	10,752	(0.1)
Combined sewer overflow storage systems	m^3	–	–	–	–	–

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
Delivery of reservoir enhancement programme	Sites	13	13	13	14	–
Delivery of zonal studies programme	Zones	N/A	N/A	N/A	N/A	–
Direct procurement for customers: Cwm Taf Water supply strategy scheme (underperformance)	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	10	10	10	2	–
Total		(3.1)	(1.8)	1.4	N/A	(8.1)

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 FY 23. The overall performance achieved for FY 23 was 10.1% of maximum, below the target level of 60% of maximum.

In respect of FY 23, this would have resulted in LTVPS awards to Executive Directors of:

- Peter Perry: 10.1% of salary (£34,431) – would have been paid in July 2023
- Mike Davis: 6% of salary (£16,211) – would have been paid in July 2023

Waiver of Executive Directors' Variable Pay for 2023

The scorecard outcomes under both the AVPS and LTVPS were, in the Committee's view, a balanced reflection of the business performance in a very challenging year for the business and the wider water industry. However, as announced on 11 May 2023, the Executive Directors have elected to waive their entitlement to a variable payout in respect of FY 23 under both the AVPS and the LTVPS and the Committee accepted this. While a number of the AVPS and LTVPS targets were either partially or fully met, this decision reflects the individuals' recognition of their duties to manage the environmental impact of our operations (particularly river water quality). The Executive Directors are aware of the high level of public sentiment in this regard, and in a year when the extreme weather events impacted our wider ability to manage these challenges, Peter Perry and Mike Davis did not feel it appropriate to receive variable pay for FY 23.

Fees for chair and Non-Executive Directors (Audited)

	Total Fees £'000	
Non-Executive Directors	**FY 23**	**FY 22[1]**
Alastair Lyons	228	222
Graham Edwards[2]	75	73
Joanne Kenrick	63	62
Debra Bowen Rees	63	62
Tom Crick	63	59
Jane Hanson	63	62
Lila Thompson[3]	35	–
Barbara Moorhouse[4]	13	–

1 Fees in 2021 were reduced after the Chair of the Board and the then serving Non-Executive Directors requested that their fees for May, June and July 2020 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 his fees reflect this

3 Lila Thompson joined the Board on 6 September 2022

4 Barbara Moorhouse joined the Board on 16 January 2023

No Non-Executive Director received any benefits or additional remuneration above their base fees.

CORPORATE GOVERNANCE REPORT CONTINUED

5 Remuneration – continued

Section 5: Pay decisions for FY 24

Pay for Executive Directors

	Base salary FY 24	Base salary FY 23
Peter Perry	**£354,539**	£340,903
Mike Davis	**£280,996**	£270,189

Base salary

When reviewing Executive salaries the Committee considered the proposed increases for the wider workforce and business and individual performance to date in FY 23. 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. The wider workforce had an agreement in place to award an increase in line with CPIH in December. However in partnership with our trade unions we agreed an increase of 6.2%, (3% lower than CPIH in December 2022) and a cost of living payment of £2,000. The Executive Team members were awarded a 4.0% increase. All increases were with effect from April 2023.

Benefits and pension

Benefits and pension arrangements will not change for FY 24, with the exception that the car allowance for the Executive Directors will be increased with effect from 1 April 2023.

The Committee reviewed the car allowance level for the Executive Directors in March 2023, and found this was well below market rate. As a result, the car allowance for FY 24 will be increased by £3,500, to £8,500.

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 9.7%. Benefits in the year will include private health insurance and car allowances.

Annual variable pay

For FY 24 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 (AMP7) business plan.

Details of the measures and their weightings are set out below.

	Customer Service	Operational Performance	Strategic Goals
Measures (percentages are as proportion of the total under that area)	• C-MeX (18.75%)* • B-MeX (5.625%)* • D-MeX (5.625%)* *Ofwat's measures of customer service for household, business, and developer customer satisfaction, respectively.	Water: • Water quality compliance (6.25.%) • Interruptions to supply (6.25%) • Acceptability of water (6.25%) • Leakage performance (6.25%) Waste: • Waste water compliance (12.5%) • Pollution incidents from waste water (6.25%) • Internal sewer flooding on customer property (6.25%)	• PR24 preparation (8%) • Sustainability (km of river improved) (4%) • Credit rating performance (4%) • Improve gender balance at senior manager level (4%)
How much of the scheme?	30%	50%	20%

Long-term variable pay scheme

The LTVPS will continue to 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%)

Fees for Chair of the Board and Non-Executive Directors

The fees payable to the Chair of the Board were reviewed in March 2023 and the Committee (in the absence of the Chair) resolved that the Chair of the Board's fee should be increased by 4% in line with the Executive Directors.

In March 2023, the Chair of the Board and the Executive Directors reviewed the fees for the Non-Executive Directors and resolved that the base fee should be maintained at £63,376, with an additional fee paid for chairing the Audit, Environmental, Social and Governance, Quality and Safety, Remuneration, and Technology Committees and, from when the current Senior Independent Director steps down in July 2023, for the role of Senior Independent Director.

Fees for FY 24 will be as follows:

Role	Fee FY 24	Fee FY 23
Chair	**£237,315**	£228,213
Senior Independent Director until 31 March 2023[1]	**N/A**	£74,992
Non-Executive Directors' base fee	**£63,376**	£63,376
Fees for additional Board responsibilities (added to the NED base fee)		
Senior Independent Director (from July 2023)	**£10,000**	–
Audit Committee Chair	**£10,000**	–
Quality and Safety Committee Chair	**£10,000**	–
Remuneration Committee Chair	**£7,500**	–
Environment, Social and Governance (ESG) Committee Chair	**£2,500**	–
Technology Committee Chair	**£2,500**	–

1 Until 31 March 2023, Graham Edwards received a composite fee of £74,992 covering all his Board responsibilities (namely being the Senior Independent Director and Chair of the Quality, and Safety Committee). With effect from 1 April 2023, his fee structure was amended to align with the new policy and, when Graham retires from the Board in July, the new Senior Independent Director's fee will follow the same structure

Section 6: Other important information

Workforce pay across DŴR Cymru

CEO pay ratio

This is the fourth 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, which the Committee considers is the most accurate and robust method.

Year	Methodology	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
FY 23	**A**	**11:1**	**8:1**	**7:1**
FY 22	A	19:1	15:1	12:1

The median ratio this year represents a significant decrease from last year. This is mainly due to the CEO not receiving any variable pay for FY 23 following acceptance of his offer to waive the payments. Further factors include the 4.8% pay increase awarded to employees in April 2022 which was 2% higher than the increase awarded to executives and cost of living payments of between £1,000 and £2,000 being made to eligible employees, the lower paid receiving £2,000.

If the CEO had received the variable pay in line with the formulaic outcome outlined on page 187, the CEO Pay Ratio would have been:

Year	Methodology	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
FY 23	**A**	**16:1**	**12:1**	**10:1**

CORPORATE GOVERNANCE REPORT CONTINUED

5 Remuneration – continued

This ratio including variable pay is also lower than last year and in addition to the other factors influencing the ratio also reflects a lower formulaic outturn in LTVPS in comparison with the previous year.

The 25th percentile, median, and 75th percentile employees were determined on 8 June 2023 using total pay for the year ended 31 March 2023 for all employees as at 31 March 2023. Pay details for the individuals on a full time-time equivalent basis are set out below:

FY 23	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Salary	29,564	26,451	34,403
Total pay	35,271	45,627	57,923

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 2023.
- New hire salaries and annual variable payments have been altered to reflect a full time equivalent.
- Part time salaries and annual variable payments, including cost of living payments have been altered to reflect a full time equivalent.
- Defined Benefit Pension accrual has been excluded for both the CEO and the wider workforce. This is due to the significant variation in the accrual for the CEO which affects the ratio and is not representative for a comparison in remuneration for the year between the CEO and our employees. In FY 23 the pension accrual was higher than all other earnings as a total. The defined benefit accrual figures for the wider workforce are also not included as they are not available.

Gender pay gap

The Gender Pay Gap is defined as the overall gender pay and bonus gap when looking at the mean and median of each gender (based on hourly rate of pay at the snapshot date of 5 April 2022 and bonuses paid in the year to 5 April 2022) 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 (see link below) highlights the key initiatives we are undertaking to promote diversity and inclusivity at Dŵr Cymru.

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 128 within our Sustainability Progress section.

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 4.2% in 2021 to 3.6% in 2022, and the mean gap has reduced from 6.6% in 2021 to 6.0% in 2022. We are pleased with our continued reduction and we also understand that we have a lot to do to increase the number of women that are recruited into the organisation and ensure that we attract and retain talent.

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 8.1% in 2021 to 6.8% in 2022.

Our full report is available for reading on our website at https://dwrcymru.com/genderreport.

Ethnicity pay gap

During the year, the Committee continued to move towards the goal of reporting our ethnicity pay gap on a voluntary basis, in light of developing good practice and as part of our actions to support diversity throughout our organisation.

The disclosure rate for ethnicity as at the time of data capture for 2022 was 66.8%, following a number of campaigns to request that all colleagues update their personal information in their profiles. An employee disclosure rate of above 80% is recommended to calculate the gap meaningfully. We are pleased to confirm that we have reached over 80% disclosure rate for the April 2023 data capture and we continue to work towards voluntarily publishing our Ethnicity Pay Gap in the future.

Annual change in pay for Board Directors and all employees

The following table sets out the change in the remuneration paid to Board Directors for the last three financial years compared with the average percentage change for Dŵr Cymru employees:

	FY 23			FY 22			FY 21		
	% change in salary/ fees	% change in benefits	% change in AVP	% change in salary/ fees	% change in benefits	% change in AVP	% change in salary/ fees	% change in benefits	% change in AVP
Executive Directors:									
Peter Perry	**2.8**	**–**	**(100)**	2	(5.1)	(19.7)	2	(2.3)	(6.3)
Mike Davis	**2.8**	**(70.5)**	**(100)**	2	(5.1)	(19.7)	2	22	51.7
Non-Executive Directors:									
Alastair Lyons	**2.8**	**–**	**–**	–	–	–	–	–	–
Graham Edwards	**2.8**	**–**	**–**	–	–	–	–	–	–
Joanne Kenrick	**2.8**	**–**	**–**	–	–	–	–	–	–
Jane Hanson	**2.8**	**–**	**–**	–	–	–	–	–	–
Debra Bowen Rees	**2.8**	**–**	**–**	–	–	–	–	–	–
Tom Crick	**2.8**	**–**	**–**	–	–	–	–	–	–
Lila Thompson	**N/A**	**N/A**	**N/A**	N/A	N/A	N/A	N/A	N/A	N/A
Barbara Moorhouse	**N/A**	**N/A**	**N/A**	N/A	N/A	N/A	N/A	N/A	N/A
John Warren	**N/A**	**N/A**	**N/A**	–	–	–	–	–	–
Average Dŵr Cymru Employee	**7.9**	**–**	**1.5**	4.5	–	1	4.5	–	4.1

How does the Chief Executive's pay compare to previous years?

	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Total remuneration for Managing Director/Chief Executive (£'000)	742	974	746	629	679	607	685	892	675	**792**
Total remuneration net of pension accrual (£'000)	520	690	604	629	601	624	678	555	602	**380**
Annual variable pay outcome	51%	79%	70%	75%	65%	67%	60%	50.8%	40%	**nil**
Long-term plan outcome	78%	91%	65%	65%	27%	25%	19%	23.1%	30%*	**nil**

* 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	
	FY 22	FY 23	£m	%
Total expenditure	744.9	**826.4**	81.5	10.9
Employee remuneration costs	150	**167.4**	17.4	11.6
Customer return of value	13	**12**	(1)	-7.7
Executive Director remuneration costs	1.1	**1.1**	–	–

CORPORATE GOVERNANCE REPORT CONTINUED

5 Remuneration – continued

Board 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 2023 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
Lila Thompson 6 September 2022	**Barbara Moorhouse** 16 January 2023		

Enquiries for the inspection by Members of the above service contracts and letters of appointment should be made via email to the Company Secretary at company.secretary@dwrcymru.com

Summary of Member votes on the Remuneration Policy and Annual Report on Remuneration

Members approved the Remuneration Policy for AMP7 at the 2020 AGM, and last approved the Annual Report on Remuneration at the 2022 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 – 2022 AGM	96%
Members (present in person or by proxy) who approved the Directors' Remuneration Policy for 2020-2025 – 2020 AGM	90%

DIRECTORS' REPORT

The Directors present their report together with the Group's audited Financial Statements for the financial year ended 31 March 2023 (FY 23)

The performance review of the Company can be found within the Strategic Report on pages 48 to 66. This provides detailed information relating to the Group, its business model and longer-term strategy, the operation of its businesses, future developments and the results and financial position for FY 23. The Corporate Governance Report set out on pages 134 to 197 is incorporated by reference to this report and, accordingly, should be read as part of this report.

Details of the Group's process for addressing the principal risks and uncertainties facing the Group are set out in the Risk Management section from pages 90 to 99.

Financial performance

The Group is in a strong financial position as at 31 March 2023; gearing remains in line with the Board's range at 58% (FY 22: 58%) and we have retained our strong credit ratings. Read more within the Chief Financial Officer's Review from pages 34 to 39.

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. The current Dividend Policy was approved by the Board in February 2022 and by Ofwat in April 2022. See https://dwrcymru.com/dividendpolicy

Financial instruments

Financial risk management and information on financial instruments is covered in notes 1, 15 and 16 to the financial statements.

Research and development

With the support of our customers, regulators, and governments alike for improved services and reducing our carbon and environmental footprint, we continue to look for better ways of working or advances in technology. We have made good progress delivering the agenda set out in our Innovation Strategy, with links to over 100 academic and other institutions, technology specialists, and global innovation concerns. For details on our investment and research into technical and innovation projects see page 129 of our Strategic Report.

Directors

The Directors of the Company who were in office during the year, and up to the date of the signing of the financial statements, are set out on pages 140 to 143.

Directors' indemnity

The Company has in place Directors' and Officers' insurance giving cover against legal action brought against the Directors and an indemnity in circumstances where a Director has not acted fraudulently or dishonestly. The indemnity is a qualifying indemnity for the purpose of the Companies Act and is for the benefit of all Directors. No claims have been made against this policy since the date of the last report.

Employees

The Board recognises the importance of attracting, developing and retaining the right people. In accordance with best practice, we have employment policies in place which provide equal opportunities for all employees, irrespective of sex, race, colour, disability, sexual orientation, religious beliefs or marital status. Information on the Board's methods for engaging with the workforce are on pages 71 and 135.

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 68 to 73.

Corporate governance

During FY 23 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 144 and 145.

Amendment of articles of association

Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by a special resolution of the Company's Members.

Political donations

It is Board policy not to make donations to political parties or to incur political expenditure. A payment of £28,136 was made in May 2022 to Step Change to support the work the charity does in providing debt advice to our customers.

DIRECTORS' REPORT CONTINUED

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

As appropriate for a Company with our corporate structure, we do not engage in corporate sponsorship. However, we continue to support WaterAid.

Persons of significant control

We maintain a Register of People with Significant Control to comply with the requirements of the Small Business, Enterprise and Employment Act 2015 (2015 Act). The Company has identified registrable relevant legal entities (RRLEs) within the Group structure.

Greenhouse gas emissions

Due to our commitment to transparent and best practice reporting, we have included our streamlined energy and carbon reporting (SECR) disclosures on pages 120 and 121 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 FY 23

KPMG LLP act as Auditor to Glas Cymru Group (the Group) for the accounts for the year ended 31 March 2023. 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 Auditor is aware of that information. We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the Group's performance;
- the Strategic Report includes a fair review of the performance of the business, its risks and strategy for the future; and
- the Directors consider the Annual Report to be fair, balanced and understandable.

In considering the development of the system of controls, the management team reviews the materiality and the relative cost benefit associated with each identified significant risk. The internal control systems are designed to provide reasonable assurance against misstatements, loss or failure. The process to review the effectiveness of internal control includes discussion with management on significant risk issues and a review of plans for, and results from, internal and external audit.

The Audit 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 Safety Committee and from management, and relies on its routine monitoring of key performance indicators and monthly reports of financial and operational performance.

Taken as a whole, these processes enable the Board to review the effectiveness of the internal control system during the course of the year.

KPMG LLP will not be subject to re-appointment as Auditor to the Group (see Auditor FY 24).

Auditor FY 24

Following a re-tender of external audit services completed during FY 23, a decision to appoint Deloitte LLP as Auditor to the Group was approved by the Glas Cymru Board, subject to Members' approval at the AGM in July 2023. Deloitte LLP will act as Auditor of the Group for the accounts for the year ending 31 March 2024 and be subject to annual re-appointment by the Members at the AGM in respect of each subsequent financial year. Accordingly, in accordance with Section 489 of the Companies Act 2006, a resolution proposing the appointment of Deloitte LLP as Auditor of the Group will be put to the Members at the forthcoming AGM.

Human rights

We are committed to respecting human rights in relation to colleagues, and our supply chain (see page 111 for information on our Sustainable Procurement Policy, Supply Chain Compliance Standards, and Anti-Slavery Policy). Our internal Code of Conduct is supported by several Group policies including, Anti-bullying and Harassment, Whistleblowing, Anti-bribery and Corruption, and Anti-Fraud.

Data protection and information security

Welsh Water is committed to ensuring that we handle the personal information of our customers and employees in a responsible and honest way, including respecting their data protection rights in compliance with legislation. Our Privacy Statement is available on our website at https://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 Chief Financial Officer's Review on pages 34 to 39.

Annual general meeting (AGM)

The Glas Cymru AGM will be held on Friday 7 July 2023.

Going concern

The financial statements for FY 23 have been prepared on the going concern basis. For the Directors' Going Concern statement and detail of why the Going Concern assumption is considered appropriate (see page 215).

By order of the Board

Nicola Foreman
Company Secretary

16 June 2023

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.

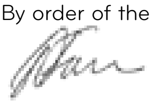
The Directors have decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

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.

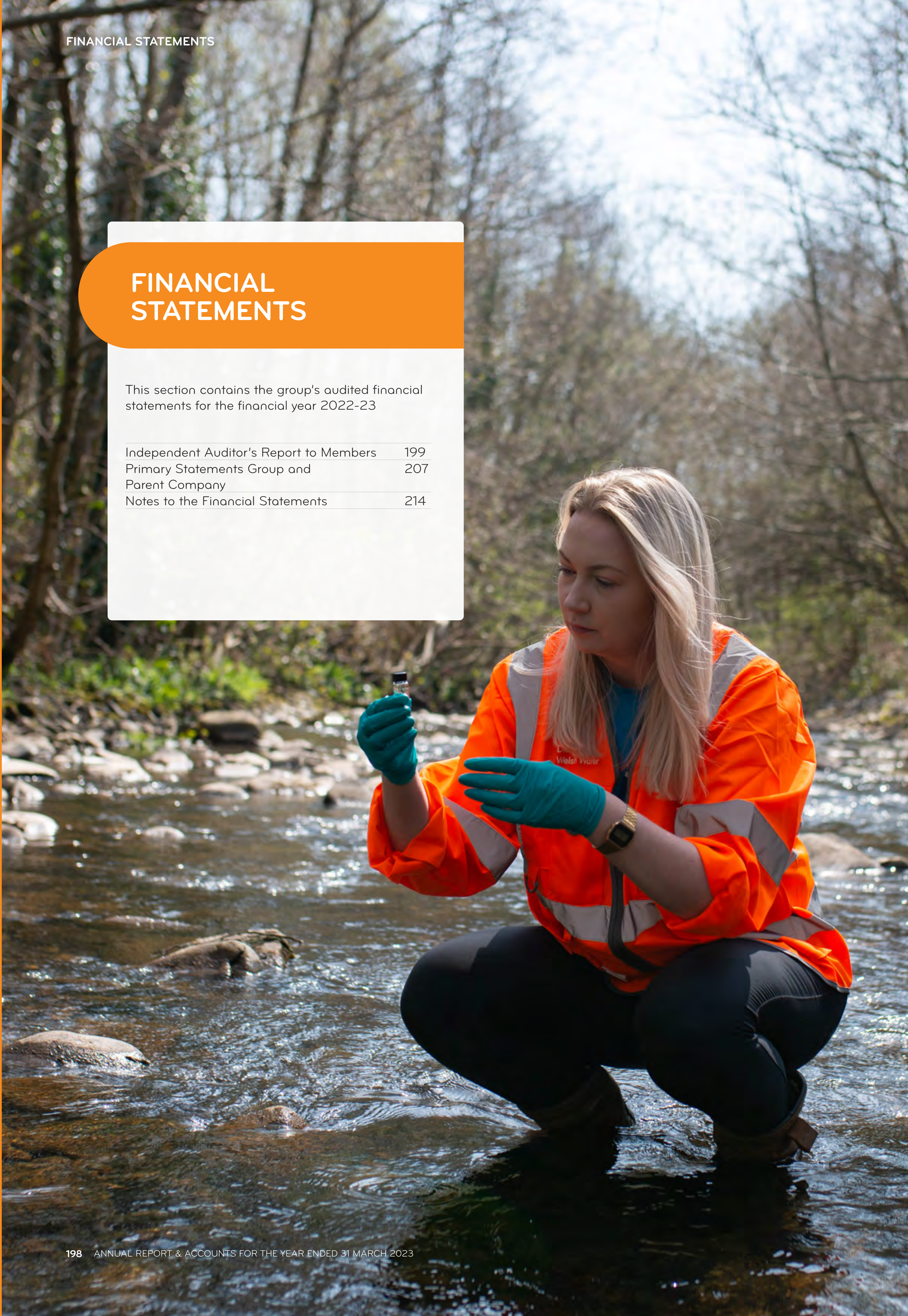
We consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provides the information necessary for stakeholders to assess the Group's position and performance, business model and strategy.

By order of the Board



Nicola Foreman
Company Secretary

16 June 2023



FINANCIAL STATEMENTS

This section contains the group's audited financial statements for the financial year 2022-23

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 2023 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 2023 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 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. 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 (2022:£12m) 0.14% (2022: 0.15%) of Total Assets	
Coverage	100% (2022:100%) of Total Assets	
Key audit matters		**vs 2022**
Recurring risks	Group pension obligation	◀▶
	Provision for trade receivables	◀▶
	Classification of costs between operating expenditure and capital expenditure	◀▶
	New: Pension benefit increase	▲
Parent Company only	Valuation of parent company's investment in subsidiaries	◀▶

INDEPENDENT AUDITOR'S REPORT CONTINUED

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:

	The risk	Our response
Group pension obligation (£397.4 million; 2022: £504.5m) *Refer to page 163 (Audit Committee Report), page 219 (accounting policy) and page 247 (financial disclosures).*	**Subjective estimate:** Small changes in the assumptions used to value the group's pension obligation such as discount rates, inflation rates and mortality 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 valuation 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 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 surplus 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 (£73.2 million; 2022: £69.5m) *Refer to page 163 (Audit Committee Report), page 219 (accounting policy) and page 236 (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 sector, historical trends, operational performance and economic trends; — **Sector experience:** we have challenged the directors' assumptions over the ongoing impact of the 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 Plant, Property & Equipment Additions net of grants and contributions (£421.1 million; 2022: £307.4m) *Refer to page 163 (Audit Committee Report), page 217 (accounting policy) and page 233 (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 own 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 own 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. We performed the tests above rather than seek to rely on any of the group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.
Pension benefit increase Exceptional item (£30.8 million; 2022: £0m) *Refer to page 163 (Audit Committee Report), page 219 (accounting policy) and page 227 (financial disclosures).*	**Accounting treatment** Pension benefits have been paid above a previously assumed inflation cap of 5% and an accounting judgement exists in relation to the treatment of the benefit increase. The amounts involved are significant to the financial statements, and the application of the accounting standards is inherently subjective. Given that the group has covenants attached to its debt and the treatment of this item could impact those covenants, there is an incentive to present the pension benefit increase in a way that does not impact covenant calculations.	Our procedures included: — **Accounting analysis:** with the support of our own actuarial specialists, we have challenged the accounting treatment of the pension benefit increases by considering the requirements of IAS 19; — **Assessing transparency:** we have considered the adequacy of the group's disclosures in respect of reasons for the increases to be treated as exceptional. 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

2. Key audit matters: our assessment of risks of material misstatement

	The risk	Our response
Valuation of parent company's investment in subsidiaries: (£4,095.7 million; 2022: £4,201.5m): *Refer to page 163 (Audit Committee Report), page 217 (accounting policy) and page 235 (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. They 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 investment has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: — **Methodology implementation:** we have assessed whether the calculation incorporates the appropriate inputs, including reasonable forecasts and assumptions about the future prospects of the subsidiaries; — **Historical comparisons:** we have evaluated the Director's forecasting ability by comparing previous forecasts to actual results; — **Benchmarking assumptions:** we have 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:** we have assessed the discount rate used in the discounted cash flow with reference to latest benchmarks. 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 the group's total assets, of which it represents 0.14% (2022: 0.15%).

We consider total assets to be the most appropriate benchmark on which to calculate materiality. The Group is primarily an infrastructure Group that generates revenues almost entirely through using its assets. Given its revenues are to a large extent regulated by Ofwat we assess that, aligned to the key focus of the Group on the maintenance and investment in the assets it owns and operates, that the asset base is the appropriate benchmark.

Materiality for the parent company financial statements as a whole was set at £8.4m (2022: £7.9m), determined with reference to a benchmark of parent company total assets, of which it represents 0.20% (2022: 0.19%).

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% (2022: 75%) of materiality for the financial statements as a whole, which equates to £9m (2022: £9m) for the Group and £6.3m (2022: £5.9m) 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 (2022: £0.6m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

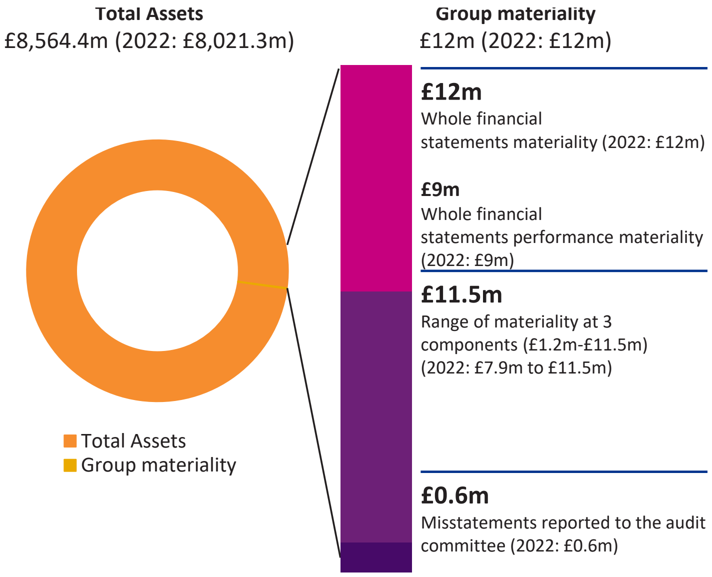
Of the Group's 12 (2022: 12) reporting components, we subjected 3 (2022: 3) to full scope audits for Group purposes.

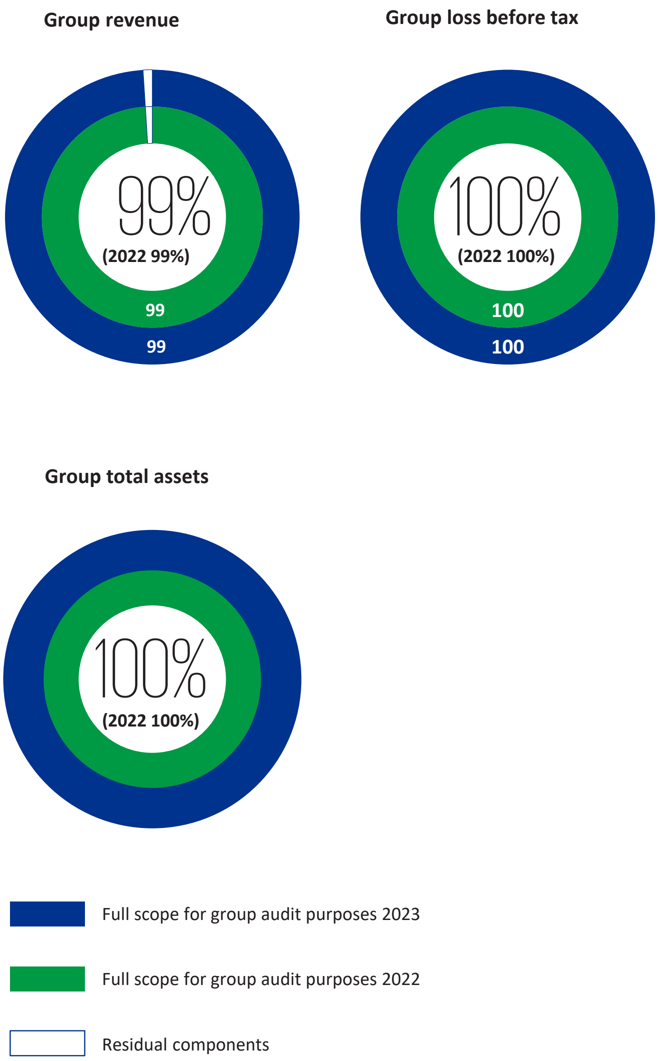
The components within the scope of our work accounted for the percentages illustrated opposite.

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 £1.2m to £11.5m (2022: £7.9m to £11.5m), 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.





INDEPENDENT AUDITOR'S REPORT CONTINUED

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 recognised and limited opportunity or incentive for management to manipulate these revenues.

We also identified a fraud risk related to the inappropriate accounting treatment of pension benefit increases in response to possible impacts on covenant compliance.

Further details in respect of pension benefit increases are set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Challenging the accounting treatment of the pension benefit increases by considering the requirements of IAS 19;
- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included fixed asset, borrowings and cash entries made to unrelated accounts,
- Assessing significant accounting estimates for bias.

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), 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.

Fraud and breaches of laws and regulations – ability to detect

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, Wales Act, 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.

For the leakage and per capita consumption reporting matter discussed in note 17 we assessed accounting treatment and disclosures against our understanding from regulatory correspondence and independent third party reports.

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 fraud 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 100, 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

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.

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.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 198, 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

16 June 2023

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March

Continuing activities	Note	**2023 £m**	2022 £m
Revenue	2	**843.8**	810.2
Operating costs:			
Operational expenditure	3	**(376.1)**	(324.9)
Impairment of trade and other receivables	3	**(24.8)**	(23.7)
Other operating income	3	**5.3**	6.0
Exceptional item	3	**(30.8)**	3.8
Infrastructure renewals expenditure	3	**(78.0)**	(61.8)
Depreciation and amortisation	3	**(346.8)**	(328.9)
	3	**(851.2)**	(729.5)
Operating (loss)/profit		**(7.4)**	80.7
Profit on disposal of fixed assets		**0.3**	0.6
(Loss)/profit before interest		**(7.1)**	81.3
Financial expenses:			
Financial income	4a	**14.9**	4.1
Financial expenses	4a	**(318.5)**	(187.1)
Fair value gains/(losses) on derivative financial instruments	4b	**160.2**	(113.5)
		(143.4)	(296.5)
Loss before taxation		**(150.5)**	(215.2)
Taxation	5	**25.8**	(8.4)
Loss for the year		**(124.7)**	(223.6)

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 2023 was £1.5 million (2022: £1.2 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March

	Note	2023 £m	2022 £m
Loss for the year		**(124.7)**	(223.6)
Items that will not be reclassified to profit or loss			
Actuarial gain recognised in the pension scheme	21	**124.5**	10.5
Related deferred tax	6	**(31.1)**	2.7
Revaluation of property, plant and equipment	7	**593.4**	448.4
Related deferred tax	6	**(148.4)**	(192.3)
Total items that will not be reclassified to profit or loss		**538.4**	269.3
Total comprehensive gain for the year		**413.7**	45.7

CONSOLIDATED BALANCE SHEET

As at 31 March

	Note	2023 £m	2022 £m
Assets			
Non-current assets			
Property, plant and equipment	8	**6,970.2**	6,275.4
Intangible assets	9	**202.6**	203.6
Trade and other receivables	11	**0.7**	0.7
Other financial assets:			
– derivative financial instruments	15	**318.5**	344.0
– employee benefits	21	**12.0**	–
		7,504.0	6,823.7
Current assets			
Inventories		**5.3**	4.3
Trade and other receivables	11	**648.6**	594.0
Cash and cash equivalents	12	**379.4**	515.1
Other financial assets:			
– derivative financial instruments	15	**27.1**	84.1
		1,060.4	1,197.5
Total assets		**8,564.4**	8,021.2
Liabilities			
Current liabilities			
Trade and other payables	13	**(685.8)**	(614.1)
Provisions	17	**(17.8)**	(2.8)
Other financial liabilities:			
– borrowings	14	**(94.7)**	(85.3)
– derivative financial instruments	15	**(26.3)**	(56.7)
		(824.6)	(758.9)
Net current assets		**235.8**	438.6
Non-current liabilities			
Trade and other payables	13	**(540.8)**	(447.2)
Employee benefits	21	**–**	(80.7)
Provisions	17	**(5.4)**	(5.7)
Other financial liabilities:			
– borrowings	14	**(4,090.9)**	(3,981.2)
– derivative financial instruments	15	**(753.9)**	(966.2)
Deferred tax – net	6	**(822.1)**	(668.3)
		(6,213.1)	(6,149.3)
Total liabilities		**(7,037.7)**	(6,908.2)
Net assets		**1,526.7**	1,113.0
Reserves			
Revaluation reserve	7	**1,692.0**	1,339.7
Retained earnings		**(165.3)**	(226.7)
Total reserves		**1,526.7**	1,113.0

The financial statements on pages 207 to 249 were approved by the Board of Directors on 16 June 2023 and were signed on its behalf by:

P Perry

M Davis

P Perry
Chief Executive Officer

M Davis
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

For the year ended 31 March

	Revaluation reserve £m	Retained earnings £m	**Total reserves £m**
At 1 April 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**
Loss for the year	–	(124.7)	**(124.7)**
Actuarial gain net of tax	–	93.4	**93.4**
Revaluation net of tax	445.0	–	**445.0**
Transfer to retained earnings	(92.7)	92.7	**–**
At 31 March 2023	**1,692.0**	**(165.3)**	**1,526.7**

PARENT COMPANY BALANCE SHEET

As at 31 March

	Note	2023 £m	2022 £m
Assets			
Non-current assets			
Investment in subsidiaries	10	**4,095.7**	4,201.5
Other financial assets:			
– loans to Group undertakings	11	**21.6**	21.6
		4,117.3	4,223.1
Current assets			
Trade and other receivables		**4.0**	4.4
Cash and cash equivalents	12	**10.6**	8.7
		14.6	13.1
Net assets		**4,131.9**	4,236.2
Reserves			
Retained earnings		**36.2**	34.7
Revaluation reserve	7	**4,095.7**	4,201.5
Total reserves		**4,131.9**	4,236.2

The financial statements on pages 207 to 249 were approved by the Board of Directors on 16 June 2023 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 2023

	Revaluation reserve £m	Retained earnings £m	**Total reserves £m**
At 1 April 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**
Profit for the year	**–**	**1.5**	**1.5**
Revaluation	**(105.8)**	**–**	**(105.8)**
At 31 March 2023	**4,095.7**	**36.2**	**4,131.9**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March

	Note	2023 £m	2022 £m
Cash flow from operating activities			
Cash generated from operations*	18a	**380.1**	429.3
Interest paid	18b	**(149.6)**	(116.6)
Income tax received received		**0.6**	2.3
Net cash flow from operating activities		**231.1**	315.0
Cash flow from investing activities			
Interest received		**13.4**	4.0
Purchase of property, plant and equipment		**(296.6)**	(237.1)
Purchase of intangible assets		**(38.6)**	(37.3)
Proceeds from sale of plant and equipment		**0.4**	0.8
Grants and contributions received		**30.5**	23.1
Net cash outflow from investing activities		**(290.9)**	(246.5)
Net cash flow before financing activities		**(59.8)**	68.5
Cash flows from financing activities			
Bond issue		**–**	300.0
Bond issue costs		**–**	(2.9)
Term loan repayments		**(58.4)**	(55.8)
Payment of lease liabilities		**(17.5)**	(15.6)
Net cash flow from financing activities		**(75.9)**	225.7
(Decrease)/increase in cash and cash equivalents	19b	**(135.7)**	294.2
Cash and cash equivalents at 1 April		**515.1**	220.9
Cash and cash equivalents at 31 March	12	**379.4**	515.1

* Exceptional items are excluded from cash flows generated from operations, per note 18.

PARENT COMPANY CASH FLOW STATEMENT

For the year ended 31 March

	Note	**2023 £m**	2022 £m
Cash flow from investing activities			
Interest received		1.9	–
Net cash flow from investing activities		**1.9**	**–**
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	**10.6**	**8.7**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

Accounting policies for the year ended 31 March 2023

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 UK-adopted international accounting standards ("UK-adopted IFRS"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed assets, other financial assets and liabilities (including derivative financial instruments) and parent company investment at fair value through profit or loss. The presentational currency of these accounts is GBP and all balances are shown rounded in £million.

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 221.

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; and an extension of revolving credit facilities. The Directors have also assessed the potential impacts resulting from the cost-of-living crisis and interest rates presently affecting the UK, and although they generate a negative on our financials, none of these factors pose a significant concern to disclose in relation to the Group's ability to continue as a going concern.

Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain headroom within the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken our financial metrics, they remain within the investment grade credit rating and in compliance with our borrowing covenants.

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.

1. Accounting policies, financial risk management and accounting estimates continued

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 April 2022:

Amendments

- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020

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

FUTURE CHANGES TO ACCOUNTING STANDARDS

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 Disclosure of Accounting Policies.
- IAS 8 Definition of Accounting Estimates.
- IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction.
- IFRS 17 Insurance Contracts.

During the financial year, we reviewed our exposure to IFRS 17 and concluded that we do not anticipate any impact arising from the new standard. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

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 2023 the total value of tangible and intangible fixed assets has been revalued to the 'shadow-RCV' of Dŵr Cymru Cyfyngedig, being the 31 March 2023 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.

1. Accounting policies, financial risk management and accounting estimates continued

BORROWING COSTS

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

INTANGIBLE ASSETS

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

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 2022.

The asset recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less present value of the defined benefit obligation at the end of the reporting period. 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 2023, only one of the Group's derivatives qualified for hedge accounting (2022: none), but the company elected not to apply hedge accounting. These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

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, restatement of leakage and per capita consumption performance, 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. The provision of £15 million for the restatement of leakage and per capita performance represents the Board's decision to apply a £10 refund to every customer in financial year 2023/24. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

CREDIT RISK

The Group's Board approved treasury policy adopts a prudent approach to cash management and timed deposits are placed for a maximum of 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 2023 the maximum cash investment with a single counterparty was £100 million (2022: £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 2023, the Group had hedges covering 100% of its total outstanding financial liabilities into either index-linked or fixed rate obligations, including free cash balances (2022: 100%). 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 £4,135 million as at 31 March 2023 (2022: £4,019 million), none related to floating rate debt (2022: none). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2023, 97.0% (2022: 94.6%) 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 £435 million in the balance sheet at 31 March 2023 (2022: £595 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 £4,135 million (2022: £4,019 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.

As at 31 March 2023, the Group had committed undrawn borrowing facilities of £200 million (2022: £200 million) and cash and cash equivalents (excluding debt service payments account) of £379 million (2022: £473 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 2023 there was also a special liquidity facility of £135 million (2022: £135 million); this is required in order to meet certain interest and other obligations that may not be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the Group's debt financing covenants. The facility has been provided by an insurance provider and is renewable on a rolling five-year evergreen basis.

CAPITAL RISK

The Group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the Group operates, 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 2023 the measure of regulatory gearing was 58% (2022: 58%).

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

1. Accounting policies, financial risk management and accounting estimates continued

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

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 data:
- 100% of debt not recovered for a period of over two years old;
- 99% of debt between 1-2 years; and
- 5% of debt less than a year old.

Unmeasured debt based on historical data:

- 100% of debt not recovered for a period of over two years old;
- 99% of debt between 1-2 years; and
- 8% 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 as shown in the bullet points above, 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:

- 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 £3.7 million (2022: £5.5 million).

PARENT COMPANY'S EXPECTED CREDIT LOSSES

The Company approached its impairment assessment of intercompany loans via historical and forward-looking analyses, using both qualitative and quantitative information. A core focus of the forward-looking analysis was cash flow forecasts for the next two years, to 31 March 2025. This is aligned with the end of Dŵr Cymru Cyfyngedig (DCC, the group's operating company)'s current period of regulated revenues during which there is certainty of billed turnover values. In addition, consideration was made to the long-term viability assessment with a review period over seven years, available on pages •• to ••.

The above assessment led management to concluded that the Company's intercompany loan is of low credit risk, and this is supported by the Group's high-quality credit (ratings of A3, A- and A from Moody's, S&P and Fitch respectively). As such, the loan falls within 'stage 1' of IFRS 9's impairment model and 12-month expected credit losses can be calculated. These were determined to be immaterial and therefore no adjustment to carrying values nor additional disclosures were considered necessary.

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 2023 would increase or reduce by £5.7 million (2022: £8.8 million). The key assumptions include: discount rates, price inflation and life expectancy. 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. Sensitivities in respect of the assumptions used during the year are disclosed in note 21.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

PENSION BENEFITS continued

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 £412 million (2022: £427.5 million), assets with a fair value of £114.8 million (2022: £99.9 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 £5.7 million (2022: £5 million). (See also note 21.)

ACCOUNTING JUDGEMENT IMPACT ON PENSION BENEFITS

The mortality assumption used to calculate the present value of the pension obligations is broken down into two distinct parts. Firstly, current mortality rates (base table), and secondly, how these rates should allow for future improvements. For the present value calculation, the S3PxA base tables have been used, adjusted for weightings of 101% for males and 104% for females allowing approximately for the error in the S3PxA tables notified by the Continuous Mortality Investigation (CMI) in June 2022, with improvements in line with the CMI 2021 projection model, with a long-term trend rate of 1.0% p.a. We have applied the parameters of A=0.5, S kappa=7.0 and W=10% to the CMI 2021 assumptions. This represents the only change from the judgements adopted last year and has been updated to reflect the mortality experience noted by the CMI in the current year. The CMI model is used by UK pension schemes and insurance companies which need to make assumptions about future mortality rates.

ACCOUNTING FOR LEAKAGE AND PER CAPITA CONSUMPTION RESTATEMENT

The Group is proposing a customer redress package totalling £29 million to address the restatement of the Group's leakage and per capita consumption performance. On 25 May 2023, Ofwat launched an investigation into "Welsh Water leakage performance". Pending Ofwat's investigation and formal acceptance of our proposed customer redress package, the ultimate financial impact remains uncertain. The customer redress package proposed, being made up of an immediate rebate to customers and the foregoing of Regulatory Capital Value (RCV) uplift, which will reduce bills in future periods, represents Ofwat's likely outcome of their investigation, referencing prior enforcement orders issued by Ofwat.

Accounting estimate: The total customer redress package proposed reflects 3.7% of the Group's 2022 regulated revenue, being the Group's best estimate as at 31 March 2023 of Ofwat's likely imposed redress. Were this percentage to increase by 0.1% in absolute terms, the financial impact would increase by £0.8 million.

Accounting judgement: The Group has applied judgement to the proposed structure of the package, splitting the redress between immediate customer rebate and foregoing future RCV. The Group's proposed customer redress package consists of £15 million, representing the Board's decision to apply a £10 refund to every customer in financial year 2023/24, and £14 million for the RCV uplift the Group will forego at PR24. A provision has been recognised for the £15m element as an obligation arose during the year and will be credited to all account holders as at 31 March 2023 in the next 6 months.

A provision is not recognised at 31 March 2013 for the £14m redress element as it represents lower expected prices to be charged to customers to be agreed at a future date through the regulatory mechanism. Under the regulatory mechanism for PR24, the Group is entitled to recover regulatory overspend for 2020/21 and 2021/22 that is attributable to leakage expenditure, but the Group will not take this into account in our RCV uplift on 1 April 2025.

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 2023 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 expected Cost of Debt for PR24 provisionally set by Ofwat. This is a change in methodology from prior year, which used PR19's Cost of Debt set by Ofwat. The change was made as the projected PR24 Cost of Debt represents a larger portion of the forecasted period, covering 5 of the 15 years we project our forecasts over, compared to the remaining 2 years of PR19. 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 £135 million (2022: £123 million). (See also note 10).

1. Accounting policies, financial risk management and accounting estimates continued

PARENT COMPANY GUARANTEE

The Company has provided a guarantee for each of the following subsidiaries in order for them to take the exemption from the requirement of an audit, in line with the requirements of S479A of the Companies Act 2006:

- Cambrian Utilites Limited
- Welsh Water Infrastructure Limited
- Welsh Water Holdings Limited
- Welsh Water Organic Waste Limited

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.

At 31 March 2023 the fair values of derivatives were as follows:

Level 2:

Assets: trading derivatives £10.0 million, treasury derivatives £335.6 million (2022: trading derivatives £17.1 million, treasury derivatives £389.0 million).

Liabilities: trading derivatives £nil, treasury derivatives £780.2 million (2022: trading derivatives £nil, treasury derivatives £1,022.9 million).

Level 3:

Assets: trading derivatives £nil, (2022: trading derivatives £22.0 million).

Liabilities: trading derivatives £nil, (2022: trading 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. We capitalise expenditure relating to employee costs on both a direct and an indirect basis, through the use of timesheets and estimation of overhead costs that is attributable to a capital project, which is reviewed at a minimum annually. Were our capitalisation percentage to increase or decrease by 5% this would result in a financial impact of £9.3m, based on total employment costs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

This is monitored continually through a process of capital programme cost challenge and operating cost scrutiny, complemented by a third-party analysis of the capital programme breakdown between maintenance costs charged to the income statement and property, plant and equipment additions to the balance sheet.

USEFUL ECONOMIC LIFE IMPACT ON DEPRECIATION

The estimated useful economic lives of Property Plant and Equipment (PPE) and intangible assets is based on management's experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE and intangibles investment to the Group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively. As such, this is a key source of estimation uncertainty. The depreciation and amortisation expense for the year was £346.8 million. A 10 per cent increase in average asset lives would have resulted in a £31.5 million reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £34.6 million increase in this figure.

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 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 in our TCFD disclosures on pages 74 to 89.

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	**2023 £m**	2022 £m
Regulated revenue		
Water	**330.6**	321.6
Sewerage	**457.3**	424.2
Retail	**46.9**	55.0
Total regulated revenue	**834.8**	800.8
Other (non-regulated)	**9.0**	9.4
Total revenue	**843.8**	810.2

Regulated revenue relates to the provision of water, sewerage and related retail services operating under Dŵr Cymru Cyfyngedig's licence as part of the water industry 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.

On 25 May 2023, Ofwat launched an investigation into "Welsh Water's reporting of leakage and PCC and on 31 May 2023 served a S203 Notice under the Water Industry Act 1991 requiring further information from the Company.

To compensate customers, the Group is proposing customer redress totalling £29 million, of which £15 million has been provided for during the year, with further information available in note 17. The provision has been accounted for in the table above within our regulated Water revenue for the year.

3. Operating profit

The following items have been included in arriving at the operating (loss)/profit:

Group	2023 £m	2022 £m
Operating expenditure		
Power	**74.3**	62.7
Chemicals	**21.9**	10.5
Materials and equipment	**9.7**	8.9
Vehicles and plant	**6.6**	7.6
Office expenses	**5.9**	5.7
Property costs	**3.5**	3.5
Insurance	**6.6**	6.8
Water and sewerage contractors	**27.1**	22.4
Laboratories and analytical services	**1.4**	1.3
Collection commissions	**1.9**	3.1
IT contracts	**14.9**	12.9
Bought-in services and other costs	**52.8**	39.3
Employee costs (note 20)	**185.0**	165.0
Staff costs capitalised	**(79.1)**	(67.5)
Research and development credit	**(0.5)**	(0.6)
Rates	**27.0**	26.3
Natural Resources Wales/Environment Agency charges	**16.4**	16.5
Fees payable to Auditors	**0.7**	0.5
Total operational expenditure	**376.1**	324.9
Impairment of trade and other receivables	**24.8**	23.7
Other operating income	**(5.3)**	(6.0)
Exceptional item	**30.8**	(3.8)
Infrastructure renewals expenditure	**78.0**	61.8
Depreciation and amortisation		
Depreciation of property plant and equipment	**319.6**	301.4
Release of deferred income	**(12.4)**	(10.2)
Amortisation of intangible assets	**39.6**	37.7
Total depreciation and amortisation	**346.8**	328.9
Total operating costs	**851.2**	729.5

The Group incurred insignificant expenses relating to short-term leases, leases of low-value assets or variable lease payments in 2023 and 2022.

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 £82.6 million (2022: £76.7 million) and we exported £15.0 million (2022: £14.0 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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	2023 £000	2022 £000
Audit fees		
Audit of parent company and consolidated financial statements	**68**	35
Audit of subsidiary companies	**467**	355
Total audit fees	**535**	390
Audit-related assurance services		
Review of interim financial statements	**60**	33
Regulatory audit services pursuant to legislation	**111**	92
Investor report reviews	**8**	4
Price review assurance	**3**	–
Bond issuance assurance	**–**	25
Environment Agency levy assurance work	**–**	6
Total audit and audit-related assurance services	**717**	550
Total cost of services provided by the Group's Auditors	**717**	550

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 2023, we have recognised an exceptional item totalling £30.8 million. This item represents awards of pension increases above a 5% cap. Under a 'best endeavours' clause in our pension scheme rules full RPI increases could only be awarded if certain criteria were met. In the current year scheme awards above a 5% cap have been paid by the pension scheme and, as the scheme is now in surplus, these conditions are expected to be paid in the future. Therefore, the expense in the year represents the additional awards given. In the future it is expected that changes to this assumption will be presented in Other Comprehensive Income as required under IAS19. This is disclosed as exceptional in FY 23 as the accounting treatment of these increases through the profit and loss account will only occur this year, it is of a significant value, and it does not closely reflect day-to-day operational expenditure. For the avoidance of doubt management will make consideration of the 'best endeavours' clause in all future periods and as such any movement in estimate will be presented as Other Comprehensive Income as required under IAS19.

In the year to 31 March 2022 we recognised an exceptional item totalling £(3.8) million. This item represented 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 prior year; this was disclosed as exceptional due to its nature.

4. Financing costs

A) FINANCE COST BEFORE FAIR VALUE GAIN/(LOSSES) ON DERIVATIVE FINANCIAL INSTRUMENTS

Group	2023 £m	2022 £m
Finance income	**14.9**	4.1
Financial expenses:		
Interest payable on bonds	**(54.8)**	(51.1)
Indexation on index-linked bonds	**(161.4)**	(67.0)
Indexation on index-linked loan	**(30.3)**	(17.9)
Interest payable on leases (including swaps to RPI)	**(66.3)**	(37.9)
Other loan interest	**(24.9)**	(22.2)
Other interest payable and finance costs	**(7.0)**	(5.8)
Net interest charge on pension scheme liabilities	**(2.1)**	(1.6)
Capitalisation of borrowing costs under IAS 23 (2023: 7.9%; 2022: 5.1%)	**28.3**	16.4
Financial expenses	**(318.5)**	(187.1)
Net finance cost before fair value adjustments	**(303.6)**	(183.0)

B) FAIR VALUE GAIN/(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	2023 £m	2022 £m
Fair value gain/(losses) on interest rate swaps	**32.1**	(158.4)
Fair value gains on index-linked swaps	**157.2**	13.5
Fair value (losses)/gains on trading derivatives	**(29.1)**	31.4
Fair value gain/(losses) on derivative financial instruments	**160.2**	(113.5)

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	2023 £m	2022 £m
Current tax		
Current tax on loss for the year	**–**	–
Current tax on research and development credit	**(0.1)**	(0.1)
Adjustment in respect of prior years	**0.1**	0.1
Total current tax	**–**	–
Deferred tax		
Origination and reversal of timing differences	**46.1**	39.5
Adjustment in respect of prior years	**(20.3)**	(0.1)
Effect of tax rate change	**–**	(47.8)
Total deferred tax (note 6)	**25.8**	(8.4)
Taxation	**25.8**	(8.4)

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. Taxation continued

Operating expenditure includes a Research & Development tax credit of £0.6 million (2022: £0.6 million). The tax credit is taxable and the corresponding charge of £0.1 million (2022: £0.1 million) is shown above. The Research & Development Expenditure Credit claimed is a government incentive that provides tax credits for qualifying R&D 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 (2022: £0.1 million) relate to tax credits for R&D, energy efficient capital expenditure and the remediation of contaminated land.

Deferred taxes in respect of prior years includes a £21.0 million charge (2022: £nil) arising from movements in deferred taxes resulting from changes to the valuation of interest rate and inflation linked swaps during the year. At 31 March 2022, the underlying temporary difference was expected to reverse after March 2023 when the corporation tax rate would be 25%, and accordingly deferred taxes were calculated using this rate. Following fluctuations in interest rates and inflation during the period, there has been a reversal in the current period in which the corporation tax rate is 19%. The effect of the difference between these tax rates gives rise to a change in the deferred tax balance and therefore an additional tax charge of £21.0 million. This has been shown as a prior year item as it relates to a change in estimate made in a previous period.

Prior year deferred taxes also include a credit of £0.6 million (2022: £0.1 million charge) relating to adjustments to deferred tax balances in respect of capital expenditure. The Group estimates that expenditure of £49 million will qualify for a 130% 'super deduction' (2022: £26 million) which reduces the deferred tax liability. Consequently, a tax credit of £2.8 million (£49 million x 30% x 19%) has arisen in the period (2022: £1.5 million). The effective rate of tax for the year is lower (2022: lower) than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

Group	**2023 £m**	2022 £m
Loss before tax	**(150.5)**	(215.2)
Loss before tax multiplied by the corporation tax rate in the UK of 19% (2022: 19%)	**28.6**	40.9
Effect of:		
Adjustments in respect of prior years	**(20.2)**	–
Depreciation charged on non-qualifying assets	**(1.9)**	(2.9)
Expenses not deductible for tax purposes	**0.1**	(0.1)
130% super-deduction for plant and machinery	**2.8**	1.5
Effect of changing rate for deferred tax from 19% to 25%	**–**	(47.8)
Difference in standard rate of corporation tax (19%) and rate used for deferred tax (25%)	**16.6**	–
Taxation	**25.8**	(8.4)

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	**2023 £m**	2022 £m
Loss before tax	**(150.5)**	(215.2)
Expected tax charge (19%)	**28.6**	40.9
Depreciation in excess of capital allowances	**(34.8)**	(38.3)
Pension costs in excess of payments	**(6.2)**	(0.3)
Expenses not deductible for tax purposes	**(0.2)**	(0.2)
Corporate interest restriction	**–**	(0.5)
Fair value movements in derivatives – non taxable	**66.1**	(3.7)
IFRIC 18 – release of income not taxable	**2.3**	1.9
Movement in provisions deductible when paid	**0.3**	1.2
Capitalised interest – tax deductible when capitalised	**5.4**	3.1
R&D Expenditure Credits taxed in prior years	**0.1**	0.1
Adjustments in respect of prior years	**0.1**	0.1
Tax losses carried forward	**(61.7)**	(4.3)
Taxation	**–**	–

5. Taxation continued

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. During the year the Group elected to be treated as "qualifying infrastructure companies" under the Public Benefit Infrastructure Exemption provided for within the corporate interest restriction legislation. As a result there is no interest restriction for the current period (2022: £0.5 million).

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2022: 25%).

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

Group	2023 £m	2022 £m
At 1 April	**668.4**	470.3
(Credit)/charge to income statement	**(25.8)**	8.4
Charge/(credit) to the Statement of comprehensive income	**31.1**	(2.7)
Charge/(credit) to revaluation reserve	**148.4**	192.3
At 31 March	**822.1**	668.4

Analysis of amounts charged to the Statement of Comprehensive Income and revaluation reserve:

Group	2023 £m	2022 £m
Defined benefit pension scheme	**31.1**	2.0
Increase in corporation tax rate – pension scheme	**–**	(4.7)
Charged/(credited) to the Statement of Comprehensive Income	**31.1**	(2.7)
Revaluation of fixed assets	**148.4**	85.2
Increase in corporation tax rate – revaluation of fixed assets	**–**	107.1
Charged to the revaluation reserve	**148.4**	192.3

Group	2023 £m	2022 £m
Effect of:		
Tax allowances in excess of depreciation	**366.2**	357.4
Deferred tax on revaluation of fixed assets	**565.9**	446.1
Capital gains rolled over	**4.0**	4.0
Deferred tax on tax losses carried forward	**(93.4)**	(8.6)
Deferred tax on losses on derivative financial instruments	**(22.5)**	(109.3)
Pensions	**3.7**	(19.3)
Other tax differences	**(1.8)**	(2.0)
Deferred tax	**822.1**	668.3

Deferred taxes have been recognised on the temporary difference between the carrying amount of the fixed assets in the accounts and the amounts that will be deductible for tax purposes (capital allowances) in future years. As capital allowances have exceeded the depreciation charged on the fixed assets to date, there is a deferred tax liability of £366.2 million at the balance sheet date (2022: £357.4 million).

A deferred tax liability of £565.9 million (2022: £446.1 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 £22.5 million (2022: £109.3 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/deducible 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 liability of £3.7 million (2022: £19.3 million asset) has been recognised in relation to the surplus (2022: deficit) on the pension scheme – see note 21. Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. These deferred tax assets will be recovered against the deferred tax liabilities in relation to fixed assets which will reverse in the same periods. The Group has the ability to determine the amount of capital allowances it claims, enabling taxable profits to be available in the periods in which deferred tax assets are recovered. The group has tax losses of £374.0 million carried forward at 31 March 2023 (2022: £34.5 million).

Deferred tax has not been provided on £133.0 million of chargeable gains which have been rolled over where the new asset has been classified as operational structure e.g. concrete tanks. These assets are typically demolished or scrapped at the end of their useful economic life and therefore we do not expect a chargeable gain will arise in the future.

6. Deferred Tax continued

If deferred tax were recognised in respect of these gains, then the deferred tax liability at 31 March 2023 would increase by £33.3 million (2022: £33.3 million) being the rolled over gain multiplied by the rate used to calculate deferred taxes of 25% (2022: 25%).

The Company has no deferred tax balance (2022: nil).

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 2023 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 2023 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	**2023 £m**	2022 £m
Revaluation reserve as at 1 April	**1,339.7**	1,157.1
Revaluation of assets to RCV	**593.4**	448.4
Depreciation charge on revalued assets	**(114.5)**	(90.7)
	478.9	357.7
Deferred tax on revaluation	**(148.4)**	(192.3)
Deferred tax on depreciation charge	**21.8**	17.2
	(126.6)	(175.1)
Revaluation reserve as at 31 March	**1,692.0**	1,339.7

The movement in the parent company's revaluation reserve relates solely to the reduction in the value of the Company's investment in subsidiaries during the year by £105.8 million, from £4,201.5 million to £4,095.7 million (2022: increase of £243.5 million, from £3,958.0 million to £4,201.5 million). This is reflected in the Statement of Changes in Reserves.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. Property, plant and equipment

Group – 2023	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2022	42.6	3,029.4	4,908.2	281.2	8,261.4
Revaluation	–	210.8	–	–	210.8
Additions net of grants and contributions	–	205.1	215.7	0.3	421.1
Disposal	(0.6)	–	–	(2.7)	(3.3)
At 31 March 2023	**42.0**	**3,445.3**	**5,123.9**	**278.8**	**8,890.0**
Accumulated depreciation					
At 1 April 2022	25.0	–	1,688.0	273.0	1,986.0
Revaluation	–	(71.7)	(310.9)	–	(382.6)
Charge for the year	0.8	71.7	244.3	2.8	319.6
Released on disposal	(0.6)	–	–	(2.6)	(3.2)
At 31 March 2023	**25.2**	**–**	**1,621.4**	**273.2**	**1,919.8**
Net book value					
At 31 March 2023	**16.8**	**3,445.3**	**3,502.5**	**5.6**	**6,970.2**
At 31 March 2023 (historic cost basis)	16.8	2,275.8	2,408.8	5.6	4,707.0

The net book value of property, plant and equipment includes £343.3 million in respect of assets in the course of construction (2022: £297.3 million).

The net book value of property, plant and equipment includes £118.0 million of borrowing costs capitalised in accordance with IAS 23 (2022: £96.5 million) of which £25.1 million were additions in the year (2022: £14.3 million).

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**

8. Property, plant and equipment continued

RIGHT-OF-USE ASSETS

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

Group – 2023	**Infrastructure assets £m**	**Operational structures £m**	**Total £m**
Net book value at 1 April 2022	657.0	26.4	683.4
Disposal	–	(26.9)	(26.9)
Revaluation	81.6	3.4	85.0
Depreciation	(54.0)	(2.8)	(56.8)
Net book value at 31 March 2023	**684.6**	**0.1**	**684.7**
Net book value at 31 March 2023 (historical cost)	**452.2**	**0.1**	**452.3**

The disposal of £26.9 million represents the termination of a lease arrangement, with the Group retaining ownership of the underlying asset.

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

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 – 2023	**Cost £m**	**Amortisation £m**	**Net book value £m**
At 1 April 2022	499.8	(296.2)	203.6
Additions/(charge) for the year	38.6	(39.6)	(1.0)
At 31 March 2023	**538.4**	**(335.8)**	**202.6**

Intangible assets principally comprise computer software and related system developments.

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

The net book value of intangible assets includes £33.0 million in respect of assets in the course of construction (2022: £45.1 million). The net book value of intangible assets includes £12.6 million of borrowing costs capitalised in accordance with IAS 23 (2022: £10.6 million), of which £3.1 million were additions in the year (2022: £2.1 million).

The parent company owns no intangible assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 https://dwrcymru.com/companystructure.

Investment in subsidiaries	**2023 £m**	2022 £m
At 1 April	**4,201.5**	3,958.1
Revaluation	**(105.8)**	243.4
At 31 March	**4,095.7**	4,201.5

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 2.3%, being the expected Cost of Embedded Debt at PR24 published by Ofwat.

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 2023 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	2023 £m	2022 £m
Current		
Trade receivables	**597.1**	558.4
Provision for impairment of receivables	**(73.2)**	(69.5)
Trade receivables – net	**523.9**	488.9
Prepayments and accrued income	**109.6**	94.9
Other receivables	**15.1**	10.2
	648.6	594.0
Non-current		
Other receivables	**0.7**	0.7
Total trade and other receivables	**649.3**	594.7

As at 31 March 2023, based on a review of historical collection rates, it was considered that £73.2 million (2022: £69.5 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.

2023 Trade receivables	**Total £m**	**Provided for £m**	**Net £m**
Billed in advance	**408.1**	**–**	**408.1**
Under one month	**23.1**	**(0.9)**	**22.2**
Between one and six months	**40.2**	**(1.6)**	**38.6**
Between six months and one year	**28.2**	**(1.1)**	**27.1**
Between one and two years	**42.6**	**(32.8)**	**9.8**
Between two and three years	**26.4**	**(24.2)**	**2.2**
Over three years	**28.5**	**(12.6)**	**15.9**
	597.1	**(73.2)**	**523.9**

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. Trade and other receivables continued

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

	2023 £m	2022 £m
At 1 April	**69.5**	77.8
Charge to Income Statement	**23.7**	18.8
Receivables written off during the year as uncollectable	**(20.0)**	(27.1)
At 31 March	**73.2**	69.5

During the year the Group has written off £20.0 million of debt which had been provided for in full (2022: £27.1 million).

The charge to bad debt provision in note 3 includes £1.1 million written off debt from third-party companies who bill on our behalf and is not included in the provision for impairment of trade receivables.

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

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

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

The tables below illustrate the impact of applying the "expected loss" model in accordance with IFRS 9. Debt provisioning is based on historical experience as adjusted for certain forward-looking factors, including the impact of charging orders which improve the underlying collectability of debt. The Group holds around 7,400 charging orders as collateral against £12 million of debt (2022: 7,000 orders against £12 million of debt).

2023	Historical default rates %	Forward-looking adjustment %	Adjustment total %	Historical impairment £m	Forward-looking adjustment £m	Total impairment £m
Billed in advance	–	–	–	–	–	–
Under one month	5.2%	(1.2%)	4.1%	1.2	(0.3)	0.9
Between one and six months	5.2%	(1.2%)	4.1%	2.1	(0.5)	1.6
Between six months and one year	5.2%	(1.2%)	4.1%	1.5	(0.3)	1.2
Between one and two years	79.4%	(2.6%)	76.8%	33.9	(1.1)	32.8
Between two and three years	93.3%	(1.5%)	91.8%	24.6	(0.4)	24.2
Over three years	82.3%	(9.4%)	72.9%	15.1	(2.6)	12.5
				78.4	(5.2)	73.2

11. Trade and other receivables continued

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

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 2023 is £4.1 million, being a revenue provision of 5% against a gross balance of £82.0 million (2022: 5% and £4.0 million).

The parent company's loan to Group undertakings of £21.6 million (2022: £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 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
Cash at bank and in hand	**35.1**	57.2	**–**	–
Short-term deposits	**344.3**	457.9	**10.6**	8.7
	379.4	515.1	**10.6**	8.7

The effective interest rate on short-term deposits as at 31 March 2023 was 3.9% (2022: 0.7%) and these deposits had an average maturity of 44 days (2022: 30 days). All cash and cash equivalents were held in sterling.

13. Trade and other payables

Group **Current**	**2023 £m**	2022 £m
Trade payables	**64.6**	50.2
Capital payables	**56.1**	38.4
Social security and other taxes	**3.6**	3.8
Accruals and deferred income	**561.5**	521.7
	685.8	614.1

Group **Non-current**	**2023 £m**	2022 £m
Deferred income	**540.8**	447.2

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. Other financial liabilities – borrowings

Group Current	2023 £m	2022 £m
Interest accruals	**30.3**	12.1
Bonds	**(0.7)**	(0.7)
Term loans	**64.2**	56.3
Lease liabilities	**0.9**	17.6
	94.7	85.3

Group Non-current	2023 £m	2022 £m
Interest accruals	**20.0**	35.7
Bonds	**3,148.7**	2,986.5
Term loans	**545.0**	581.0
Lease liabilities	**377.2**	378.0
	4,090.9	3,981.2

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 £1,141 million (2022: £1,075 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 £1,517 million (2022: £1,422 million).

The Group's Class C bonds of £500 million (2022 £500 million) were rated by Baa2/BBB/BBB+ by Moody's Standard & Poor and Fitch respectively.

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 – 2023**	**Assets** **£m**	**Liabilities** **£m**
Current		
Index-linked swaps	**18.0**	**(21.0)**
Interest rate swaps	**3.3**	**(5.3)**
Power hedging swaps	**5.8**	**–**
	27.1	**(26.3)**
Non-current		
Index-linked swaps	**307.7**	**(723.2)**
Interest rate swaps	**6.5**	**(30.7)**
Power hedging swaps	**4.3**	**–**
	318.5	**(753.9)**
Total	**345.6**	**(780.2)**

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)

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 2023 an interest rate swap fixed the interest rate on £192 million (2022: £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 £378 million (2022: £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 2023 was £384 million (2022: £389 million), representing the average balance on the leases subject to floating interest rates for the year to 31 March 2023. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Other financial assets and liabilities – derivative financial instruments continued

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

Notional amount	£384 million amortising (2022: £389 million amortising)
Average swap maturity	12 years (2022: 14 years)
Average interest rate	1.64% fixed plus RPI (2022: 1.63% 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 (2022: £1,250 million).

The principal terms are as follows:

Indexed notional amount	£1,595 million (2022: £1,407 million)
Swap maturity	15 years (2022: 17 years)
Interest rate	(0.16)% indexed by RPI (2022: (0.16)% 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 [219]. 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:

	2023	2022
Assets:		
Cash and cash equivalents	**3.9%**	0.7%
Liabilities:		
Bonds	**4.5%**	3.1%
Term loans	**3.0%**	0.6%
Other unsecured loans	**4.6%**	4.3%
Lease liabilities	**6.1%**	2.3%

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 – 2023	**< 1 year £m**	**1 – 2 years £m**	**2 – 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	**379.4**	**–**	**–**	**–**	**379.4**
Trade and other receivables	**649.3**	**–**	**–**	**–**	**649.3**
	1,028.7	**–**	**–**	**–**	**1,028.7**
Liabilities:					
Bonds	**0.8**	**0.8**	**950.5**	**2,208.1**	**3,160.2**
Term loans	**64.0**	**88.5**	**219.6**	**236.8**	**608.9**
Other unsecured loans	**0.2**	**–**	**–**	**–**	**0.2**
Finance lease obligations	**0.9**	**250.8**	**33.0**	**93.4**	**378.1**
Trade and other payables	**685.8**	**12.4**	**37.1**	**491.3**	**1,226.6**
Future interest payable	**171.7**	**157.5**	**357.3**	**725.0**	**1,411.5**
	923.4	**510.0**	**1,597.5**	**3,754.6**	**6,785.5**

16. Financing risk management continued

Group – 2022	Within 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	594.7	–	–	–	594.7
	1,109.8	–	–	–	1,109.8
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

The minimum lease payments under leases fall due as follows:

	2023 £m	2022 £m
Gross lease liabilities		
Within one year	**24.0**	24.5
Between two and five years	**319.5**	257.5
After five years	**127.4**	167.6
	470.9	449.6
Future interest	**(92.8)**	(54.0)
Net lease liabilities	**378.1**	395.6
Net lease liabilities are repayable as follows:		
Within one year (note 14)	**0.9**	17.6
Between two and five years	**283.8**	283.6
After five years	**93.4**	94.4
Total over one year (note 14)	**377.2**	378.0

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.

	2023		2022	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bonds	**3,160.2**	**2,973.7**	2,999.5	3,604.2

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. Financing risk management continued

D) BORROWING FACILITIES

As at 31 March 2023, 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 (2022: £200 million).

	2023 £m	2022 £m
Expiring in more than one year:		
Revolving credit facilities	200.0	200.0
	200.0	200.0

At 31 March 2023 Dŵr Cymru (Financing) UK PLC had a special liquidity facility of £135 million (2022: £135 million), which it is required to maintain in order to meet certain Group interest and other obligations that cannot be funded through operating cashflow of the Group, in the event of a standstill being declared by the Security Trustee. A standstill would arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. The facility is a 5 year evergreen facility provided by an insurance provider.

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

E) CAPITAL RISK MANAGEMENT

Gearing ratios	2023 £m	2022 £m
Total borrowings	(4,185.6)	(4,066.5)
Less: cash and cash equivalents	379.4	515.1
Net debt	(3,806.2)	(3,551.4)
Regulatory Capital Value (RCV)	7,161.3	6,460.3
Total capital	3,355.1	2,908.9
Less: unamortised bond costs and swap indexation	(357.2)	(170.7)
Total capital per bond covenants	2,997.9	2,738.2
Gearing ratio	58%	58%

As set out on page 220 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.

17. Provisions

Group – 2023	**Restructuring provision £m**	**Uninsured loss provision £m**	**Other provisions £m**	**Total £m**
At 1 April 2022	**3.7**	**4.3**	**0.5**	**8.5**
Charged to Income Statement	**–**	**1.1**	**15.0**	**16.1**
Unused amounts reversed	**–**	**–**	**–**	**–**
Utilised in year	**(0.6)**	**(0.8)**	**–**	**(1.4)**
At 31 March 2023	**3.1**	**4.6**	**15.5**	**23.2**
Split as amounts to be utilised:				
Within one year	**1.4**	**1.4**	**15.0**	**17.8**
After more than one year	**1.7**	**3.2**	**0.5**	**5.4**
At 31 March 2023	**3.1**	**4.6**	**15.5**	**23.2**

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

The parent company had no provisions at 31 March 2023 (2022: none).

RESTRUCTURING PROVISION

This provides for the cost of a reduction in the headcount of 182 to meet a challenging cost efficiency target for the regulatory period 2020 to 2025. This forecast is reassessed each year.

For the year to 31 March 2022, £4.8 million restructuring cost was released following lower-than-expected headcount reductions in the prior year, partially recovered through natural attrition and a delay in the profiling of reductions. This amount was written back to the income statement.

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.

Glas Cymru's 2021/22 Annual Report and Accounts disclosed that reported leakage and per capita consumption (PCC) data for 2020/21 and 2021/22 was subject to an ongoing internal review. This included an independent report into leakage and PCC reporting which identified two main areas of non-compliance with the Ofwat prescribed methodology for reporting Leakage and PCC. The reviews concluded that reported leakage performance had been understated for the two years and that reported PCC data had been overstated for the same period. We shared with Ofwat the detailed findings of our review, including remedial actions to be taken to address the control weaknesses identified, and our proposed customer redress. On 25 May 2023, Ofwat launched an investigation into "Welsh Water's reporting of leakage and PCC and on 31 May 2023 served a S203 Notice under the Water Industry Act 1991 requiring further information from the Group.

To compensate customers, the Group is proposing customer redress totalling £29 million. Our ultimate financial liability for this matter remains uncertain pending Ofwat's formal acceptance of our proposed customer redress package and the outcome of its own investigation. Having due regard to these uncertainties, we have, under other provisions, provided for £15 million of the total £29 million customer redress package, representing the Board's decision to apply a £10 refund to every customer in financial year 2023/24. The remaining £14 million represents the Regulatory Capital Value (RCV) uplift the Group will forego at PR24.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. Provisions continued

Under the regulatory mechanism for PR24, the Group is entitled to recover regulatory overspend for 2020/21 and 2021/22 that is attributable to leakage expenditure, but we will not take this into account in our RCV uplift on 1 April 2025. As we are unable to set a provision in the financial statements for changes to future RCV, this element of the customer redress package is only disclosed in the financial statements.

18. Net cash inflow from operating activities

A) CASH GENERATED FROM OPERATIONS

Reconciliation of operating profit to cash generated from operations:

Group	**2023 £m**	2022 £m
Operating (loss)/profit	**(7.4)**	80.7
Adjustments for:		
Depreciation and amortisation	**346.8**	328.9
Changes in working capital:		
Increase in trade and other receivables	**(54.6)**	(25.0)
(Decrease)/Increase in inventories	**(1.0)**	0.1
Increase in trade and other payables	**50.8**	51.7
Exceptional item – pension increase	**30.8**	–
Increase/(decrease) in provisions	**14.7**	(7.1)
	40.7	19.7
Cash generated from operations	**380.1**	429.3

We have recognised an exceptional item which represents the award of pension increases above a 5% cap. Under a 'best endeavours' clause in our pension scheme rules full RPI increases could only be awarded if certain criteria were met. No additional cash contributions were required by the Group to award these increases.

B) INTEREST PAID

Group	**2023 £m**	2022 £m
Interest payable per Income Statement	**318.5**	187.1
Less non-cash items:		
Indexation on index-linked bonds	**(161.4)**	(67.0)
Indexation on index-linked debt	**(30.3)**	(17.9)
Amortisation of bond issue costs	**(1.5)**	(1.5)
Interest charge on pension scheme liabilities	**(2.1)**	(1.6)
Amortisation of bond issue premium	**0.8**	0.8
Effect of capitalisation under IAS 23	**28.3**	16.4
(Decrease)/Increase in accruals	**(2.7)**	0.3
	(168.9)	(70.5)
Interest paid	**149.6**	116.6

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	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Cash and cash equivalents	**379.4**	515.1	**10.6**	8.7
Debt due after one year	**(3,693.7)**	(3,567.5)	**–**	–
Debt due within one year	**(63.5)**	(55.6)	**–**	–
Lease liabilities	**(378.1)**	(395.6)	**–**	–
Accrued interest	**(50.3)**	(47.8)	**3.8**	4.3
	(4,185.6)	(4,066.5)	**3.8**	4.3
Net (debt)/funds	**(3,806.2)**	(3,551.4)	**14.4**	13.0

B) THE MOVEMENT IN NET (DEBT)/FUNDS DURING THE YEAR MAY BE SUMMARISED AS:

	Group		Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Net (debt)/funds at 1 April	**(3,551.4)**	(3,534.0)	**13.1**	11.8
Movement in net cash	**(135.7)**	294.2	**1.9**	–
Movement in debt arising from cash flows	**75.9**	(227.1)	**–**	–
Movement in net (debt)/funds arising from cash flows	**(59.8)**	67.1	**1.9**	–
Movement in accrued interest	**(2.5)**	0.4	**(0.6)**	1.2
Indexation of index-linked debt	**(192.5)**	(84.9)	**–**	–
Other non-cash movements	**–**	–	**–**	–
Movement in net (debt)/funds	**254.8**	(17.4)	**1.3**	1.2
Net (debt)/funds at 31 March	**(3,806.2)**	(3,551.4)	**14.4**	13.0

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

	2023 £m	2022 £m
Wages and salaries	**156.3**	137.9
Social security costs	**17.6**	14.9
Other pension costs	**11.1**	12.2
	185.0	165.0

Of the above, £87.5 million (2022: £67.5 million) has been capitalised, being the investment cost of employees' work on the capital programme.

	2023 Number	2022 Number
Average number of people employed by the Group (including Executive Directors)	**3,554**	3,547

For further information see the Remuneration Report on page 173.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 Group put arrangements in place via an Employer-Financed Retirement Benefit Scheme (EFRBS) for four 'capped' Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the DCWW Pension Scheme. At 31 March 2023: there were two Executive Members with entitlements under this arrangement, one of whom is in receipt of his benefits.

RISKS

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

- Asset volatility:

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

- Movement in bond yields:

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

- Inflation risk:

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

- 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 2022 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 2023 and the principal assumptions made by the actuary were:

	2023	2022
Discount rate	**4.6%**	2.8%
RPI inflation assumption	**3.3%**	3.7%
Rate of uncapped pension increases	**3.3%**	N/A
Rate of capped pension increases	**3.2%**	3.5%
Post retirement mortality (life expectancy)		
– Current pensioners aged 65 – males	**86.8 years**	86.8 years
– Current pensioners aged 65 – females	**89.0 years**	89.2 years
– Future pensioners aged 65 (currently aged 45) – males	**87.8 years**	87.8 years
– Future pensioners aged 65 (currently aged 45) – females	**90.2 years**	90.3 years

Mortality experience since 2020 does not provide reliable data to set a future assumption due to the effects of COVID 19. The disclosures at 31 March 2023 therefore use the CMI 2021 mortality projection model with an initial improvement parameter of 0.5 and a 10% weighting applied to 2020 and 2021 mortality experience. Other CMI parameters are as in the core model, with a long-term trend rate of 1.0% p.a.

The inflation risk premium (IRP) remains the same as the prior year at 0.4%

21. Pension commitments continued

Changes in the defined benefit obligation are as follows:

	2023 £m	2022 £m
At 1 April	**504.5**	528.9
Current service cost	**0.2**	0.4
Interest expense	**14.0**	10.3
Remeasurement: gain from change in financial assumptions	**(135.7)**	(18.5)
Benefits paid	**(16.4)**	(16.6)
Past service cost	**30.8**	–
At 31 March	**397.4**	504.5

Changes in the fair value plan assets are as follows:

	2023 £m	2022 £m
At 1 April	**427.5**	442.7
Interest income	**11.7**	8.7
Actuarial losses	**(11.2)**	(8.0)
Contributions	**0.5**	0.7
Benefits paid	**(16.4)**	(16.6)
At 31 March	**412.1**	427.5

Scheme assets	2023 £m	2022 £m
Cash	**9.7**	5.3
Equity and Bonds	**287.6**	322.3
Other	**114.8**	99.9
Total assets	**412.1**	427.5

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 £114.8 million are Level 3 financial assets (2022: £99.9 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 and changes in the actuarial assumption during the year.

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

	2023 £m	2022 £m
Income statement:		
Service costs	**0.2**	0.4
Interest costs	**2.2**	1.6
Exceptional pension increases	**30.8**	–
Total charged to the income statement	**33.2**	2.0
Statement of comprehensive income:		
Actuarial loss on plan assets	**(11.2)**	(8.0)
Actuarial gain on defined benefit obligation	**135.7**	18.5
Total credit to the statement of comprehensive income	**124.5**	10.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. Pension commitments continued

A past service cost of £30.8 million has been recognised during the year representing the award of pension increases under the 'best endeavours' clause in our pension scheme rules where full RPI increases are awarded if certain criteria are met. This has been recognised as an exceptional item as our defined benefit liability at 31 March 2023 provides for future pension increases above the 5% 'best endeavours' clause cap and as such any movement in estimate in future periods will be presented as Other Comprehensive Income as required under IAS 19. Further information on the recognition of the exceptional item is available in note 3 on page 225.

	2023 £m	2022 £m
Present value of funded obligations	(397.4)	(504.5)
Fair value of plan assets	412.1	427.5
	14.7	(77.0)
EFRBS unfunded liability	(2.7)	(3.7)
Net defined benefit asset (liability) recognised in the balance sheet	12.0	(80.7)

The difference between the two amounts is recognised as a surplus or obligation in the statement of financial position. Where this difference results in a defined benefit surplus, this is recognised in accordance with IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', on the basis that the Group has an unconditional right to any excess funds that may exist following the closure of the pension scheme once all members have left the plan and their benefits have been settled.

	Change in assumption	Movement in liabilities £m
Discount rate	0.30%	17.1
Price inflation	0.30%	17.1
Life expectancy	1 year	9.6

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. We have updated the above sensitivity to 0.3%, from 0.1% in the prior year, to reflect the present volatility seen in the markets.

EFFECT ON FUTURE CASH FLOWS

The level of contributions is reviewed at each triennial valuation. the latest of which was 31 March 2022.

Under the current Schedule of Contributions, no deficit recovery contributions are expected to be paid for the year-ending 31 March 2024. Future service contributions (consisting of amounts payable by members and the Company) will be in the region of £0.2 million.

The duration of the Scheme's liabilities is approximately 14 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.

HIGH INFLATION

For most Scheme Sections, pensions in payment (and in some instances deferred benefits) are increased on 1 April each year by the Retail Prices Index ("RPI") as measured over the relevant period, being the annual change in RPI announced for the previous September, December or January.

As a result of current high levels of inflation, many Scheme sections received a full RPI increase in both April 2022 and April 2023 via a 'best endeavours' rule (broadly a pension increase cap that is waived if the Scheme can afford to pay higher increases without requiring Company contributions). The Trustee and Group also agreed to provide an 3% discretionary pension increase, on top of the capped increase of 5% to Scheme sections that have a cap and are not subject to the best endeavours rule.

21. Pension commitments continued

REDUCTION IN DURATION

Since the preparation of the accounting disclosures at 31 March 2022, the duration of the Scheme's liabilities is expected to have fallen from 19 years to 14 years at 31 March 2023. This is due to an increase in the yields used to set the discount rate and the impact of a new actuarial valuation as at 31 March 2022.

22. Lessor

Operating lease

	2023 **£m**	2022 £m
Lease income	**0.1**	0.1

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

The remaining term of the lease is 9 years, with the total undiscounted current minimum lease receipts amounting to £0.9 million, recognised evenly over the remaining term.

23. CAPITAL AND OTHER FINANCIAL COMMITMENTS

The Group's business plan at 31 March 2023 forecasts net capital expenditure and infrastructure renewals expenditure of £429 million (2022: £400 million) during the next financial year. While only a portion of this amount has been formally contracted for, the Group is effectively committed to a majority of the total as part of the capital investment programme approved by its regulator, Ofwat.

24. RELATED PARTY TRANSACTIONS

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

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 2023, the balance on this loan stood at £21,553,698 (2022: £21,553,698). Interest is chargeable at a fixed rate of 5% and £1,332,435 was charged during the year (2022: £1,287,515). As at 31 March 2023, accrued interest receivable relating to this totalled £3,825,984 (2022: £4,809,716).

25. 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.

26. 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 2023 the market value of the trust fund was £90.0 million (2022: £109.0 million).

Interest receivable includes £3.5 million (2022: £3.2 million) in respect of distributions from the Elan Valley Trust Fund.

27. 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 that follow define terms used throughout this annual report and accounts and explain the measures of success against which we track our performance

GLOSSARY

Name	Description
AMP6	AMP6 ran from 2015 to 2020
AMP7	Asset Management Plan 7 runs from 2020 to 2025
AMP8	AMP8 will run from 2025 to 2030
Anaerobic digestion	A process by which organic material is broken down by bacteria and other micro-organisms to generate renewable energy
Assets	These include infrastructure such as water mains and sewers, dams and reservoirs, water and sewage treatment works, pumping stations, company laboratories, depots and workshops
AVPS	Annual Variable Pay Scheme – a performance-related element of 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)
CAW	Carbon Accounting Workbook
CCW	Consumer Council for Wales
CCWater	Consumer Council for Water
CHP	Combined Heat and Power Engine
CIPS	Chartered Institute of Procurement and Supply
C-MeX	The customer measure of experience (C-MeX) is a measure of customer satisfaction. A company's C-MeX score is calculated as the weighted average of customer satisfaction (CSAT) scores from customer service (CS) and customer experience (CE) surveys
Combined storm overflow	Combined storm overflow is a system for sewage and rain water runoff
Company limited by guarantee	A private company that does not have shareholders or share capital
CPIH	Consumer Prices Index – including owner occupiers' housing costs
CPNI	Centre for the Protection of National Infrastructure
Credit rating	Credit ratings provide an assessment of the credit quality of a company which can affect the cost of borrowing
CRI	Compliance Risk Index
CRO	Chief Risk Officer
CSO	Combined Storm Overflows act as relief valves which prevent the overloading of sewers which could otherwise lead to flooding of properties and sewage treatment works
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%
Defra	Department for Environment, Food and Rural Affairs
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

GLOSSARY CONTINUED

Name	Description
DPC	Direct Procurement for Customers
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
DWI	Drinking Water Inspectorate
DWMP	Drainage and Wastewater Management Plan
DWRP	Drinking Water Recovery Plan
EA	The Environment Agency
EDM	Even Duration Monitor
Effluent	Water that flows from a sewage treatment plant after it has been treated.
eNGO	Environmental non-governmental agency
Environment Agency	An executive, non-departmental Government body that has a statutory duty to protect and enhance the environment in England.
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
FD	Final Determination
FFO	Funds From Operations
Financeability	The ability of appointed water companies to finance their functions through debt, equity or retained earnings.
GDP	Gross Domestic Product
Gearing	Net debt expressed as a percentage of regulatory capital value.
GHG	Greenhouse gas
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
GVA	Gross Value Added
HR	Human Resources
HSOC	Hybrid Security and Operations Centre
ICG	Independent Challenge Group
ICT	Information and communications technology.
IEAP	Independent Environmental Advisory Panel is an advisory panel to Welsh Water, consisting of representatives from front-line environmental organisations in Wales and England, and leading academics in specialist areas
IED	Industrial Emissions Directive

Name	Description
INNS	Invasive non-native species
IPCC	Intergovernmental Panel on Climate Change
ISO	International Standard Organisation
IT	Information technology
KPI	Key Performance Indicators
Leakage	Water lost between the treatment works and the customer's home or business
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
LTDS	Long-Term Delivery Strategy
LTVPS	Long-term Variable Pay Scheme. A performance-related element of emoluments
Mean Zonal Compliance	Mean Zonal Compliance is a measure of compliance in all the water quality zones for 39 key chemical and bacteriological parameters derived from the statutory monitoring programme of samples taken from customers' taps
Megalitres	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
ML	See Megalitres
Natural Resources Wales	Welsh Government-sponsored body whose purpose it is to ensure that the natural resources of Wales are sustainably maintained, enhanced and used
NBS	Nature-based solution
NED	Non-executive director
NEP	National Environmental Plan
NMB	Nutrient Management Board
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 page 117 for further details of their role
NRW	Natural Resources Wales
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
Opex	See Operating Costs
OT	Operational technology
PC	Performance Commitment
PCC	Per capita consumption
PFAS	Perfluoroalkyl and polyfluoroalkyl substances, colloquially known as forever chemicals
PFET	Peak Flow Equivalent Treatment

GLOSSARY CONTINUED

Name	Description
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
PPC	Prompt Payment Code
PR19	Ofwat's Price Review process 2019, the five-year regulatory price-setting prices 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
QSC	Quality and Safety Committee
RainScape	Glas Cymru's approach to managing surface water and overloaded sewers (sustainable urban drainage systems)
RCP	Representation Concentration Pathways
RCV	See Regulatory Capital Value
Real terms	The change in a financial number after removing the effect of inflation
Regulatory Capital Value	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
Return of Value	Payments and investment made for the benefit of our customers funded from distributable profits, that could otherwise be paid out to shareholders as dividends in a shareholder-owned company
Rising main	A pumped pipeline that carries wastewater
RPI	Retail Price Index
RSPB	The Royal Society for the Protection of Birds
SAC	Special Areas of Conservation
Safety Takes Every Person	Behavioural safety training which emphasises that each individual has responsibility for Health and Safety issues
SCC	Supplier Code of Conduct
Scorecard	A statistical record used by Welsh Water to measure achievement or progress towards a particular goal
SDG	Sustainable Development Goal
Security and Emergency	Issued by Welsh Government and DEFRA to the water sector to provide guidance on how to respond to major incidents
SEMD	Security and Emergency Measures (Water and Sewerage undertakers and Water Supply licence) Directive
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

Name	Description
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
SOAF	Storm Overflow Assessment Framework
SSSI	Site of Special Scientific Interest
STEP	See Safety Takes Every Person
Storm tank	A tank into which, in wet weather, stormwater and wastewater is stored until the wastewater treatment works can treat it
SUD	See Sustainable Urban Drainage
Surface water	Run-off from rainwater that falls on to customers' properties (such as roofs, paths and driveways)
Surface water drainage	The removal of rainwater, snow or melted ice from exterior areas of a property (such as roofs and driveways) often to a surface water sewer or combined sewer
Sustainable Urban Drainage	A sustainable drainage system is designed to reduce the potential impact of new and existing developments with respect to surface water drainage discharges
TNFD	Taskforce on Nature-Related Financial Disclosures
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 working 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
WASC	Water and Sewerage Company
Wastewater	Waste matter from household or non-household properties that is carried away from properties in sewers or drains
Wastewater treatment works	Wastewater treatment works are designed to remove biological or chemical waste products from water before it is returned to water sources
Water main	A large pipe that carries treated water to households
Water Resource Management Plan	This outlines how a water company will maintain a sustainable balance between water supplies and demand over the next 25 years
Water treatment works	Water treatment plants produce drinking water for public consumption or industrial water for manufacturing or other business operations
WOC	Water Only Company
WQ	Water quality
WRMP	See Water Resource Management Plan
WTW	See Water Treatment Works
WWTW	See Waste Water Treatment Works

REGULATION OF WATER COMPANIES IN WALES

Name	Description
Welsh Government	The Welsh Government has devolved authority over most matters pertaining to the regulation of the water industry in Wales.
Drinking Water Inspectorate (DWI)	The Drinking Water Inspectorate is a statutory body with duties and powers to develop and update drinking water quality regulations (which derive from EU legislation), monitor compliance with such regulations, and implement enforcement action where required. The Chief Inspector is appointed by the Secretary of State and by Welsh Ministers.
Natural Resources Wales (NRW) Environment Agency (EA)	Natural Resources Wales and the Environment Agency are the environmental regulators for Wales and England respectively, with important roles with respect to the regulation and planning of water companies. They set out water companies' environmental obligations in the National Environment Programme (NEP) in Wales, and the Water Industry National Environment Programme (WINEP) in England.
Consumer Council for Water (CCW)	The Consumer Council for Water (CCW) is a non-departmental public body of DEFRA and the Welsh Government established under the Water Industry Act 1991 (as amended) to represent the interests of consumers by handling complaints, acquiring and publishing information, providing advice, and investigating matters of interest to consumers. CCW is supported by regional committees established under the Act including a Wales Committee.
Ofwat	Ofwat is the economic regulator for the water industry. Its duties include protecting the interests of consumers, ensuring that water companies carry out their statutory functions, and furthering the resilience of water companies. Ofwat has a range of powers, including setting price limits and performance targets through the five-yearly Price Review process.
Department for environment, food and rural affairs (DEFRA)	Defra is responsible for improving and protecting the environment and so has a broad remit to play a major role in people's day-to-day life, from the food we eat and the air we breathe, to the water we drink. Defra aims to make our air purer, our water cleaner, our land greener and our food more sustainable. Its mission is 'to restore and enhance the environment for the next generation, leaving it in a better state than we found it'.

PR19 PERFORMANCE COMMITMENTS: DEFINITIONS

	Name	Description
Wt1	**Water quality compliance (CRI)**	Water Quality Compliance is assessed using the Compliance Risk Index (CRI). CRI measures risk arising from treated water compliance failures. A CRI score is calculated for every individual compliance failure at water supply zones, supply points and treatment works and service reservoirs. The annual CRI for a company, for any given calendar year, is the sum of the individual CRI scores for every compliance failure reported during the year.
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.
Wt4	**Mains Repairs**	This includes all physical repair work to mains from which water is lost. It is reported as the number of mains repairs per thousand kilometres of the entire water main network (excluding communication and supply pipes).
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).
En4	**Leakage (% reduction) – 3-year average**	Leakage describes the water that is lost between the treatment works and the customer premises. We have a target to reduce leakage and this is measured using the percentage reduction of 3-year average leakage in Megalitres per day from the 2019/20 starting baseline.
En5	**Per Capita Consumption (% reduction) – 3-year average**	Per capita consumption (PCC) is the average amount of water used by each person each day. We have a target to reduce PCC and this is measured using the percentage reduction of 3-year average PCC from the 2019/20 starting baseline.
Sv1	**C-MeX**	C-MeX is a customer measure of experience and customer satisfaction. It is comprised of two survey elements: 1. Customer Experience Survey – a customer satisfaction survey amongst a random sample of the water company's customers; and 2. Customer Service Survey – a customer satisfaction survey amongst 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 CONTINUED

	Name	Description
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).
BI3	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.
BI2	Vulnerable customers on social tariffs	The number of residential customers receiving financial support via our social tariffs.
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.

TCFD
RISK ASSESSMENT CRITERIA

The consequence thresholds and risk rating matrix are unchanged from the Welsh Water ERM framework. We have adopted a different approach for the likelihood thresholds, to reflect the changing needs of likelihood scales across climate scenarios and multiple time periods. These are reflected in the likelihood summaries below and were refined during the risk prioritisation workshop.

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

Likelihood

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

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