

2020/21 Annual Performance Report

Parts 4 to 9 including Supporting Information v2



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Introduction

In line with the Ofwat Regulatory Accounting Guidelines, and in particular, RAG 3.12: Guidelines for the format and disclosures for the Annual Performance Report and RAG 4.09: Guideline for the table definitions in the Annual Performance Report, this Annual Performance Report (APR) document includes a link to the full schedule of all Ofwat APR excel tables and, where relevant, we have included in this document any relevant associated commentary to help explain certain lines of data. This document, reporting commentary by exception, can be read alongside the full suite of [APR tables](#).

We are required to publish a single Annual Performance Report in a format prescribed by Ofwat which contains nine parts as listed in the table below. For each part a hyperlink is available to allow the reader to view the Excel data tables.

Part	Content
1 - Regulatory financial reporting	A baseline level of historical cost financial information aligned to the way in which price controls (and associated regulatory performance commitments and incentives) have been set.
2 - Price review and other segmental reporting	Further disaggregation of revenue and costs to allow stakeholders to review companies' performance against final determinations.
3 - Performance summary	A high level report of the performance of the appointed business, including outcome delivery and the regulatory financial results of the regulated business. As a minimum it will include reporting on outcomes and delivery service levels and cost performance.
4 - Additional regulatory information - service level	Additional financial and non-financial information, including (but not limited to) analysis of debt, totex analysis, major project expenditure, and properties, customers and population – non-financial information.
5 - Additional regulatory information - water resources	Additional financial and non-financial information, including (but not limited to) asset and volumes data plus operating cost analysis for water resources.
6 - Additional regulatory information - water network plus	Additional financial and non-financial information, including (but not limited to) raw water transport, raw water storage, water treatment data, treated water distribution mains analysis, communication pipes, metering and leakage activities.
7 - Additional regulatory information - wastewater network plus	Additional financial and non-financial information, including (but not limited to) load, costs and number of sewage treatment works within size bands, sewer and volume data, and energy consumption data.
8 - Additional regulatory information - bioresources	Additional financial and non-financial information, including (but not limited to) bioresources sludge data, operating expenditure analysis, bioresources energy and liquors analysis and sludge treatment and disposal data.
9 - Additional regulatory information - innovation competition	Additional financial and non-financial information, including (but not limited to) revenue collected for the purposes of the innovation competition.

In addition to the Ofwat APR Excel tables and this document, there are also separate standalone APR documents covering parts 1, 2 and 3 available from the hyperlinks given above.

The remainder of this document focusses on the APR parts 4 to 9.

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Annual Performance Report (APR)

APR Part 4

This part of the APR covers additional financial and non-financial information, including (but not limited to) analysis of debt, totex analysis, major project expenditure, and properties, customers and population – non-financial information. In total there are 18 tables within part 4 of the APR as listed below:

Table Number	Table Description	Table Number	Table Description
Pro forma 4A	Water bulk supply information for the 12 months ended 31 March 2021	Pro forma 4J	Base expenditure analysis for the 12 months ended 31 March 2021 - water resources and water network+
Pro forma 4B	Analysis of debt	Pro forma 4K	Base expenditure analysis for the 12 months ended 31 March 2021 - wastewater network+ and bioresources
Pro forma 4C	Impact of price control performance to date on RCV	Pro forma 4L	Enhancement expenditure for the 12 months ended 31 March 2021 - water resources and water network+
Pro forma 4D	Totex analysis for the 12 months ended 31 March 2021 - water resources and water network+	Pro forma 4M	Enhancement expenditure for the 12 months ended 31 March 2021 - wastewater network+ and bioresources
Pro forma 4E	Totex analysis for the 12 months ended 31 March 2021 - wastewater network+ and bioresources	Pro forma 4N	Developer services expenditure for the 12 months ended 31 March 2021 - water resources and water network+
Pro forma 4F	Major project expenditure for wholesale water by purpose for the 12 months ended 31 March 2021	Pro forma 4O	Developer services expenditure for the 12 months ended 31 March 2021 - wastewater network+ and bioresources
Pro forma 4G	Major project expenditure for wholesale wastewater by purpose for the 12 months ended 31 March 2021	Pro forma 4P	Expenditure on non-price control diversions for the 12 months ended 31 March 2021
Pro forma 4H	Financial metrics for the 12 months ended 31 March 2021	Pro forma 4Q	Developer services - new connections, properties and mains
Pro forma 4I	Financial derivatives	Pro forma 4R	Connected properties, customers and population

The following commentary is provided to help give the reader further clarity on the reported data.

Table 4A – Water bulk supply information for the 12 months ended 31 March 2021

Line	Line Description	Volume	Operating Costs	Revenue	Comments
	Units	MI	£m	£m	
	DPs	3	3	3	
11	Total bulk supply exports	109,147.832	1.539	7.287	Due to the limitations of this table, we have grouped together our exports by water resource zone.

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Table 4B – Analysis of debt

Line	Line Description	Instrument identifier	Interest cost (full year equivalent)	Comments
	Units	%	£m	
808	Indicative weighted average nominal interest rate	2.77	104.812	These values differ to table 1E as a result of £12.39m finance lease inflation swaps being included in the calculated values of table 1E. The impact on the indicative weighted average interest rate is 0.33%.
809	Indicative weighted average cash interest rate	1.80	68.066	

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Table 4C – Impact of price control performance to date on RCV

Line	Line description	Units	DPs	12 months ended 31 March 2021/Price control period to date					Comments
				Water resources	Water network+	Wastewater network+	Bioresources	Total	
3	Transition expenditure	£m	3	0	0	25.752	0	25.752	This line includes £25.7m Transition expenditure on the Loughor Estuary as reported in our PR19 Blind Year Submission for our PR14 Incentive Mechanisms.

Line	Line description	Units	DPs	12 months ended 31 March 2021/Price control period to date					Comments
				Water resources	Water network+	Wastewater network+	Bioresources	Total	
4	Disallowable costs	£m	3	3.826	6.095	8.840	0.164	18.925	Disallowable costs are costs for which it is inappropriate to share any over (or under) spend with customers. This line includes £0.614m for compensation claims. We have also included £18.311m of 'return of value' (discretionary expenditure to benefit customers), as a result of our not-for-shareholder model) in disallowable costs to remove this from the cost sharing mechanism.

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Table 4C - Impact of price control performance to date on RCV (continued)

Line	Line description	Units	DPs	12 months ended 31 March 2021/Price control period to date					Comments
				Water resources	Water network+	Wastewater network+	Bioresources	Total	
6	Variance	£m	3	2.954	9.492	-7.146	16.212	21.512	<p>This section compares our actual wholesale expenditure for the year to the PR19 Final Determination. Our capital programme has been rephased from the Final Determination, which includes bringing forward expenditure, in particular on our Dam Safety programme and rephasing of other schemes to later years of the AMP.</p> <p>Water</p> <p>After adjusting for timing differences in the capital programme, we have incurred additional expenditure of £21m for year for water. This includes £13m for water as a result Covid-19 and increased expenditure on leakage due to undertaking additional mains repairs in order to achieve our performance commitments. As a result of Covid we have also incurred additional expenditure due to delays to some of our efficiency initiatives that were planned for 2020-21 and an additional £3m as a result of adverse weather events.</p>
7	Variance due to timing of expenditure	£m	3	8	(16)	(8)	0	(16)	

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Table 4C - Impact of price control performance to date on RCV (continued)

Line	Line description	Units	DPs	12 months ended 31 March 2021/Price control period to date					Comments
				Water resources	Water network+	Wastewater network+	Bioresources	Total	
8	Variance due to efficiency	£m	3	-5.046	25.492	0.854	16.212	37.512	Wastewater After adjusting for timing differences in the capital programme, we have incurred additional expenditure of £17m for year for wastewater. This includes £8m for wastewater as a result Covid-19 and additional expenditure of £13m on our Five Fords and Cog Moors sludge treatment centres. As a result of Covid we have also incurred additional expenditure due to delays to some of our efficiency initiatives that were planned for 2020-21 and an additional £1m as a result of adverse weather events.

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Table 4C - Impact of price control performance to date on RCV (continued)

Line	Line description	Units	DPs	12 months ended 31 March 2021/Price control period to date					Comments
				Water resources	Water network+	Wastewater network+	Bioresources	Total	
9	Customer cost sharing rate	£m	3	0.570	0.570	0.420	1.000	2.560	This line reports the customer cost sharing rate as published in Ofwat's Financial Flow data. Within the table we have applied the sharing rate so that 43% of the water overspend is added onto the RCV and 58% of the wastewater network+ underspend is deducted from the RCV, in line with our Final Determination. The Bio-resources price control does not have cost sharing, so we have set the rate at 100%.
20	Variance - 100% company allocation	£m	3	-4.690	-8.018	-0.279	0.000	-12.987	This line compares the actual costs not subject to cost sharing to the Final Determination. Third party costs for water resources were lower than forecast as a result of lower expenditure on our section 20 reservoirs. The variance for water network+ is negative, which is mostly due to income offset which has not been applied as the Developer Services Charges Rules in England do not apply in Wales. The income offset is applied to the Requisition charges and as such the requisition income in lines 2E.11 (water) and 2E.22 (wastewater) is net of an income offset of £3.425m (Water), -£0.574m (Wastewater). Note that the negative figure on wastewater represents a timing difference between a significant scheme being advanced by the developer and the works being carried out.

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Table 4C - Impact of price control performance to date on RCV (continued)

Line	Line description	Units	DPs	Price control period to date					Comments
				Water resources	Water network+	Wastewater network+	Bioresources	Total	
27	Projected 'shadow' RCV	£m	3	225.509	1766.467	3786.493	226.405	6004.874	The projected 'shadow' RCV is calculated as the RCV determined at FD at 31 March plus the company share of over and under-spend. Line 4C.20 calculates the share of over and underspend for costs that are not subject to cost sharing. These costs should not be included in the shadow RCV, therefore the shadow RCV should report £6,012m.

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Table 4D – Totex analysis for the 12 months ended 31 March 2021 – Water resources and water network+
Atypical costs

Line	Line description	Units	DPs	Expenditure in report year					Total	Comments														
				Water resources	Water network+																			
					Raw water transport	Raw water storage	Water treatment	Treated water distribution																
1	Base operating expenditure	£m	3	34.106	4.376	1.156	45.268	106.121	191.027	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Water resources</td><td>0.815</td></tr><tr><td>Raw water transport</td><td>0.433</td></tr><tr><td>Raw water storage</td><td>0.027</td></tr><tr><td>Water treatment</td><td>5.592</td></tr><tr><td>Treated water distribution</td><td>9.997</td></tr><tr><td>Total</td><td>16.864</td></tr></table>	Area	£m	Water resources	0.815	Raw water transport	0.433	Raw water storage	0.027	Water treatment	5.592	Treated water distribution	9.997	Total	16.864
Area	£m																							
Water resources	0.815																							
Raw water transport	0.433																							
Raw water storage	0.027																							
Water treatment	5.592																							
Treated water distribution	9.997																							
Total	16.864																							
8	Base capital expenditure	£m	3	5.864	0.332	0.039	23.424	49.814	79.473	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Water resources</td><td>-</td></tr><tr><td>Raw water transport</td><td>-</td></tr><tr><td>Raw water storage</td><td>-</td></tr><tr><td>Water treatment</td><td>0.755</td></tr><tr><td>Treated water distribution</td><td>0.114</td></tr><tr><td>Total</td><td>0.869</td></tr></table>	Area	£m	Water resources	-	Raw water transport	-	Raw water storage	-	Water treatment	0.755	Treated water distribution	0.114	Total	0.869
Area	£m																							
Water resources	-																							
Raw water transport	-																							
Raw water storage	-																							
Water treatment	0.755																							
Treated water distribution	0.114																							
Total	0.869																							

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Table 4E – Totex analysis for the 12 months ended 31 March 2021 – Wastewater network+ and bioresources
Atypical costs

Line	Line description	Units	DPs	Expenditure in report year									Comments																				
				Network+ sewerage collection			Network+ sewerage treatment		Bioresources			Total																					
				Foul	Surface water drainage	Highway drainage	Sewerage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal																						
1	Base operating expenditure	£m	3	42.633	14.963	7.345	65.997	3.694	5.330	8.993	4.417	153.372	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Foul</td><td>6.261</td></tr><tr><td>Surface WD</td><td>0.398</td></tr><tr><td>Highway drainage</td><td>0.255</td></tr><tr><td>Sewerage TD</td><td>4.179</td></tr><tr><td>Imported Sludge LT</td><td>0.118</td></tr><tr><td>Sludge transport</td><td>0.130</td></tr><tr><td>Sludge treatment</td><td>0.367</td></tr><tr><td>Sludge disposal</td><td>0.104</td></tr><tr><td>Total</td><td>11.812</td></tr></table>	Area	£m	Foul	6.261	Surface WD	0.398	Highway drainage	0.255	Sewerage TD	4.179	Imported Sludge LT	0.118	Sludge transport	0.130	Sludge treatment	0.367	Sludge disposal	0.104	Total	11.812
Area	£m																																
Foul	6.261																																
Surface WD	0.398																																
Highway drainage	0.255																																
Sewerage TD	4.179																																
Imported Sludge LT	0.118																																
Sludge transport	0.130																																
Sludge treatment	0.367																																
Sludge disposal	0.104																																
Total	11.812																																

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Table 4E – Totex analysis for the 12 months ended 31 March 2021 – Wastewater network+ and bioresources (continued)

Atypical costs

Line	Line description	Units	DPs	Expenditure in report year									Comments																				
				Network+ sewerage collection			Network+ sewerage treatment		Bioresources			Total																					
				Foul	Surface water drainage	Highway drainage	Sewerage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal																						
8	Base capital expenditure	£m	3	15.398	7.953	3.979	39.135	0	0.027	21.244	0.037	87.773	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Foul</td><td>0.472</td></tr><tr><td>Surface WD</td><td>-</td></tr><tr><td>Highway drainage</td><td>-</td></tr><tr><td>Sewerage TD</td><td>-</td></tr><tr><td>Imported Sludge LT</td><td>-</td></tr><tr><td>Sludge transport</td><td>-</td></tr><tr><td>Sludge treatment</td><td>-</td></tr><tr><td>Sludge disposal</td><td>-</td></tr><tr><td>Total</td><td>0.472</td></tr></table>	Area	£m	Foul	0.472	Surface WD	-	Highway drainage	-	Sewerage TD	-	Imported Sludge LT	-	Sludge transport	-	Sludge treatment	-	Sludge disposal	-	Total	0.472
Area	£m																																
Foul	0.472																																
Surface WD	-																																
Highway drainage	-																																
Sewerage TD	-																																
Imported Sludge LT	-																																
Sludge transport	-																																
Sludge treatment	-																																
Sludge disposal	-																																
Total	0.472																																

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Table 4I – Financial derivatives

Line	Line description	Units	DPs	Expenditure in report year					Comments
				Nominal value by maturity (net)			Total value at 31 March		
				1 – 2 years	2 - 5 years	Over 5 years	Nominal value (net)	Mark to Market	
26	Other financial derivatives	£m	3	31.750	3.780	-	35.530	(7.728)	Other financial derivatives are power hedges; these are operating obligations rather than financing obligations; however, they have been included so as to agree back to total financial derivatives per table 1C.

Line	Line description	Units	DPs	Expenditure in report year					Comments	
				Nominal value by maturity (net)			Total value at 31 March			
				1 – 2 years	2 - 5 years	Over 5 years	Nominal value (net)	Mark to Market		
27	Total financial derivatives	£m	3	31.750	36.111	645.110	712.971	262.457	Reconciliation to table 1C	£m
									Non-current assets	
									Financial instruments	3.300
									Current assets	
									Financial instruments	4.500
									Current liabilities	
									Financial instruments	(32.554)
									Non-current liabilities	
									Financial instruments	(237.703)
									Total financial instruments	(262.457)

The Company holds no financial derivatives other than those reported in the table above.

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Table 4J – Base expenditure analysis for the 12 months ended 31 March 2021 – Water resources and water network+
Atypical costs

Line	Line description	Units	DPs	Expenditure in report year						Comments															
				Water resources	Water network+				Total																
					Raw water transport	Raw water storage	Water treatment	Treated water distribution																	
1	Power	£m	3	6.509	2.330	0.008	7.266	13.253	29.366	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Water resources</td><td>0.369</td></tr><tr><td>Raw water transport</td><td>0.233</td></tr><tr><td>Raw water storage</td><td>-</td></tr><tr><td>Water treatment</td><td>0.711</td></tr><tr><td>Treated water distribution</td><td>1.097</td></tr><tr><td>Total</td><td>2.410</td></tr></table>		Area	£m	Water resources	0.369	Raw water transport	0.233	Raw water storage	-	Water treatment	0.711	Treated water distribution	1.097	Total	2.410
Area	£m																								
Water resources	0.369																								
Raw water transport	0.233																								
Raw water storage	-																								
Water treatment	0.711																								
Treated water distribution	1.097																								
Total	2.410																								
4	Renewals expensed in year (infrastructure)	£m	3	12.386	0.276	0	0	35.862	48.524	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Water resources</td><td>0.034</td></tr><tr><td>Raw water transport</td><td>-</td></tr><tr><td>Raw water storage</td><td>-</td></tr><tr><td>Water treatment</td><td>-</td></tr><tr><td>Treated water distribution</td><td>3.027</td></tr><tr><td>Total</td><td>3.061</td></tr></table>		Area	£m	Water resources	0.034	Raw water transport	-	Raw water storage	-	Water treatment	-	Treated water distribution	3.027	Total	3.061
Area	£m																								
Water resources	0.034																								
Raw water transport	-																								
Raw water storage	-																								
Water treatment	-																								
Treated water distribution	3.027																								
Total	3.061																								

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Table 4J – Base expenditure analysis for the 12 months ended 31 March 2021 – Water resources and water network+ (continued)

Atypical costs

Line	Line description	Units	DPs	Expenditure in report year						Comments														
				Water resources	Water network+				Total															
					Raw water transport	Raw water storage	Water treatment	Treated water distribution																
6	Other operating expenditure	£m	3	9.228	1.496	0.846	38.195	44.367	94.132	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Water resources</td><td>0.412</td></tr><tr><td>Raw water transport</td><td>0.200</td></tr><tr><td>Raw water storage</td><td>0.027</td></tr><tr><td>Water treatment</td><td>4.881</td></tr><tr><td>Treated water distribution</td><td>5.873</td></tr><tr><td>Total</td><td>11.393</td></tr></table>	Area	£m	Water resources	0.412	Raw water transport	0.200	Raw water storage	0.027	Water treatment	4.881	Treated water distribution	5.873	Total	11.393
Area	£m																							
Water resources	0.412																							
Raw water transport	0.200																							
Raw water storage	0.027																							
Water treatment	4.881																							
Treated water distribution	5.873																							
Total	11.393																							
16	Maintaining the long-term capability of the assets – non-infra	£m	3	3.295	0.332	0.039	23.424	39.124	66.214	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Water resources</td><td>-</td></tr><tr><td>Raw water transport</td><td>-</td></tr><tr><td>Raw water storage</td><td>-</td></tr><tr><td>Water treatment</td><td>0.755</td></tr><tr><td>Treated water distribution</td><td>0.114</td></tr><tr><td>Total</td><td>0.869</td></tr></table>	Area	£m	Water resources	-	Raw water transport	-	Raw water storage	-	Water treatment	0.755	Treated water distribution	0.114	Total	0.869
Area	£m																							
Water resources	-																							
Raw water transport	-																							
Raw water storage	-																							
Water treatment	0.755																							
Treated water distribution	0.114																							
Total	0.869																							

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Table 4K – Base expenditure analysis for the 12 months ended 31 March 2021 – Wastewater network+ and bioresources
Atypical costs

Line	Line description	Units	DPs	Expenditure in report year									Comments																				
				Network+ sewerage collection			Network+ sewerage treatment		Bioresources			Total																					
				Foul	Surface water drainage	Highway drainage	Sewerage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal																						
1	Power	£m	3	4.062	1.334	0.667	21.804	2.280	0.662	2.308	0.019	33.136	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Foul</td><td>0.183</td></tr><tr><td>Surface WD</td><td>0.061</td></tr><tr><td>Highway drainage</td><td>0.031</td></tr><tr><td>Sewerage TD</td><td>1.099</td></tr><tr><td>Imported Sludge LT</td><td>0.116</td></tr><tr><td>Sludge transport</td><td>0.030</td></tr><tr><td>Sludge treatment</td><td>0.124</td></tr><tr><td>Sludge disposal</td><td>0.021</td></tr><tr><td>Total</td><td>1.665</td></tr></table>	Area	£m	Foul	0.183	Surface WD	0.061	Highway drainage	0.031	Sewerage TD	1.099	Imported Sludge LT	0.116	Sludge transport	0.030	Sludge treatment	0.124	Sludge disposal	0.021	Total	1.665
Area	£m																																
Foul	0.183																																
Surface WD	0.061																																
Highway drainage	0.031																																
Sewerage TD	1.099																																
Imported Sludge LT	0.116																																
Sludge transport	0.030																																
Sludge treatment	0.124																																
Sludge disposal	0.021																																
Total	1.665																																

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Table 4K – Base expenditure analysis for the 12 months ended 31 March 2021 – Wastewater network+ and bioresources (continued)

Atypical costs

Line	Line description	Units	DPs	Expenditure in report year									Comments																				
				Network+ sewerage collection			Network+ sewerage treatment		Bioresources			Total																					
				Foul	Surface water drainage	Highway drainage	Sewerage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal																						
4	Renewals expensed in year (infrastructure)	£m	3	14.895	7.325	4.241	0	0	0	0	0	26.461	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Foul</td><td>3.385</td></tr><tr><td>Surface WD</td><td>-</td></tr><tr><td>Highway drainage</td><td>-</td></tr><tr><td>Sewerage TD</td><td>0.020</td></tr><tr><td>Imported Sludge LT</td><td>-</td></tr><tr><td>Sludge transport</td><td>-</td></tr><tr><td>Sludge treatment</td><td>-</td></tr><tr><td>Sludge disposal</td><td>-</td></tr><tr><td>Total</td><td>3.405</td></tr></table>	Area	£m	Foul	3.385	Surface WD	-	Highway drainage	-	Sewerage TD	0.020	Imported Sludge LT	-	Sludge transport	-	Sludge treatment	-	Sludge disposal	-	Total	3.405
Area	£m																																
Foul	3.385																																
Surface WD	-																																
Highway drainage	-																																
Sewerage TD	0.020																																
Imported Sludge LT	-																																
Sludge transport	-																																
Sludge treatment	-																																
Sludge disposal	-																																
Total	3.405																																

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Table 4K – Base expenditure analysis for the 12 months ended 31 March 2021 – Wastewater network+ and bioresources (continued)

Atypical costs

Line	Line description	Units	DPs	Expenditure in report year									Comments																				
				Network+ sewerage collection			Network+ sewerage treatment		Bioresources			Total																					
				Foul	Surface water drainage	Highway drainage	Sewerage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal																						
6	Other operating expenditure	£m	3	22.548	5.938	2.257	34.445	2.327	4.664	10.232	4.395	86.806	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Foul</td><td>2.693</td></tr><tr><td>Surface WD</td><td>0.337</td></tr><tr><td>Highway drainage</td><td>0.224</td></tr><tr><td>Sewerage TD</td><td>3.060</td></tr><tr><td>Imported Sludge LT</td><td>0.002</td></tr><tr><td>Sludge transport</td><td>0.100</td></tr><tr><td>Sludge treatment</td><td>0.243</td></tr><tr><td>Sludge disposal</td><td>0.083</td></tr><tr><td>Total</td><td>6.742</td></tr></table>	Area	£m	Foul	2.693	Surface WD	0.337	Highway drainage	0.224	Sewerage TD	3.060	Imported Sludge LT	0.002	Sludge transport	0.100	Sludge treatment	0.243	Sludge disposal	0.083	Total	6.742
Area	£m																																
Foul	2.693																																
Surface WD	0.337																																
Highway drainage	0.224																																
Sewerage TD	3.060																																
Imported Sludge LT	0.002																																
Sludge transport	0.100																																
Sludge treatment	0.243																																
Sludge disposal	0.083																																
Total	6.742																																

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Table 4K – Base expenditure analysis for the 12 months ended 31 March 2021 – Wastewater network+ and bioresources (continued)

Atypical costs

Line	Line description	Units	DPs	Expenditure in report year									Comments																				
				Network+ sewerage collection			Network+ sewerage treatment		Bioresources			Total																					
				Foul	Surface water drainage	Highway drainage	Sewerage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal																						
16	Maintaining the long-term capability of the assets – non-infra	£m	3	9.380	5.461	2.595	39.135	0.000	0.027	21.244	0.037	77.879	Atypical costs impact the figures as follows: <table><tr><th>Area</th><th>£m</th></tr><tr><td>Foul</td><td>0.472</td></tr><tr><td>Surface WD</td><td>-</td></tr><tr><td>Highway drainage</td><td>-</td></tr><tr><td>Sewerage TD</td><td>-</td></tr><tr><td>Imported Sludge LT</td><td>-</td></tr><tr><td>Sludge transport</td><td>-</td></tr><tr><td>Sludge treatment</td><td>-</td></tr><tr><td>Sludge disposal</td><td>-</td></tr><tr><td>Total</td><td>0.472</td></tr></table>	Area	£m	Foul	0.472	Surface WD	-	Highway drainage	-	Sewerage TD	-	Imported Sludge LT	-	Sludge transport	-	Sludge treatment	-	Sludge disposal	-	Total	0.472
Area	£m																																
Foul	0.472																																
Surface WD	-																																
Highway drainage	-																																
Sewerage TD	-																																
Imported Sludge LT	-																																
Sludge transport	-																																
Sludge treatment	-																																
Sludge disposal	-																																
Total	0.472																																

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Table 4L - Enhancement expenditure for the 12 months ended 31 March 2021 – Water resources and water network+
Supply-demand and strategic regional water resource solutions

Line	Line description	Units		DPs	Expenditure in report year						Comments
					Water resources	Water network+				Total	
						Raw water transport	Raw water storage	Water treatment	Treated water distribution		
38	Total supply demand expenditure	Totex	£m	3	0.202	0.643	0	0	1.789	2.634	Commentary on the position of individual capital schemes can be found below:

Capital Schemes

Within our WRMP19 we identified three capital schemes to be delivered during AMP7 to improve our drought resilience. We also have one scheme carried over from AMP6. Work is underway on all four as described below.

Pembrokeshire

We remain on track to deliver the upgrades needed to improve the abstraction efficiency between the regulation water released from our Llys-y-frân reservoir and the abstraction from our raw water pumping station on the Eastern Cleddau River at Canaston Bridge, by the end of Year 3. Feasibility studies have identified several potential options to minimise the difference between the daily peak and average rates of abstraction at Canaston Bridge. The decision on which option to be taken forward will be taken by summer 2021.

The Llys-y-frân to Preseli pump back scheme, which was carried over from AMP6, is scheduled for completion by the end of Year 3. Phase 1 of the scheme has been completed, which included the laying of new mains adjacent to our visitor centre. These mains were upgraded to withstand the higher pressures and higher flows that will be experienced once the scheme is complete. Phase 2 will commence later this year and will include the replacement of the existing 5 MI/d pumping station with a new 10 MI/d pumping station, as well as further pipework upgrades and new connections at the Preseli WTW inlet.

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Table 4L - Enhancement expenditure for the 12 months ended 31 March 2021 – Water resources and water network+ (continued)

Supply-demand and strategic regional water resource solutions (continued)

Vowchurch

We have commissioned consultants to undertake the first stage of pipeline pressure testing and building of a hydraulic model for the Vowchurch and Hereford potable network system which will inform the design of the required network upgrade. The overall programme for this scheme has completion by the end of Year 4 which is slightly later than that anticipated in our WRMP19 but with the existing supply from the boreholes still available and our ability to tanker water into the zone, we are confident this doesn't introduce significant additional risk to customer supplies.

Tywyn Aberdyfi

To resolve the forecast supply demand imbalance and improve our long-term drought resilience we are developing a scheme to deliver a new source of water from the Afon Dysynni to our Penybont treatment works. The scheme is currently scheduled for delivery by the end of Year 3 and feasibility work has identified three possible sites for the new abstraction point. The first set of sample data has been positive for each of the three locations with further samples to be completed before the end of the summer. Our intention is to continue with water quality sampling for the remainder of 2021 as the choice of abstraction location will significantly impact the final scheme design.

Cartref

We have included a scheme to deliver our Cartref programme of works in the first year of the AMP. Whilst significantly impacted by Covid-19 we were able to progress the majority of elements to some extent. Our Cartref programme, will identify customer side leakage, including plumbing loss and offer a range of free repair services. We will also work with our customers to help them become more water efficient and sign post them to other Welsh Water schemes.

Private leakage

Private leakage work continued throughout the year where safe to do so but was impacted by Covid lockdown.

Private leakage renewals and repairs were undertaken in line with our policy.

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Table 4L - Enhancement expenditure for the 12 months ended 31 March 2021 – Water resources and water network+ (continued)

Additional freeform line information

1 - Water Growth Scheme

Line	Line description	Units		DPs	Expenditure in report year						Comments
					Water resources	Water network+				Total	
						Raw water transport	Raw water storage	Water treatment	Treated water distribution		
70	Additional line 1 - Water Growth Scheme	Capex	£m	3	0	0	0	0	0.287	0.287	This expenditure relates to the AMP 6 growth scheme at H52 Hereford City 18 and 15 Trunk Mains.

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Table 4L - Enhancement expenditure for the 12 months ended 31 March 2021 – Water resources and water network+ (continued)

2 - Cwm Taf Water Supply Strategy

Line	Line description	Units		DPs	Expenditure in report year						Comments
					Water resources	Water network+				Total	
						Raw water transport	Raw water storage	Water treatment	Treated water distribution		
72	Additional line 2 - Cwm Taf Water Supply Strategy	Capex	£m	3	0	0	0	0.837	0	0.837	Expenditure of £0.837m in year 1 includes: •Establishment of the DPC team structure, procedure, and processes •Production on the Strategic Outline Case completing Stage 2 of the Ofwat DPC process •Undertake initial market engagement regarding our plans and •Undertake initial stakeholder consultations In Year 2 we plan: •Production on the Outline Business Case completing Stage 3 of the Ofwat DPC process •Development of tender documentation •Undertake detailed stakeholder engagements and reaching agreement on major principle permissions •Substantially complete enabling survey work •Negotiate and secure land purchase requirements The Scheme is due to complete by March 2030.

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Table 4L - Enhancement expenditure for the 12 months ended 31 March 2021 – Water resources and water network+ (continued)

3 - Impounding Reservoirs

Line	Line description	Units		DPs	Expenditure in report year					Comments	
					Water resources	Water network+					Total
						Raw water transport	Raw water storage	Water treatment	Treated water distribution		
74	Additional line 3 - Impounding Reservoirs	Capex	£m	3	17.031	0	0	0	0	17.031	We have numerous schemes at impounding reservoirs where the table below shows which schemes have been completed and costs associated with these schemes are residual and snagging issues and those that are still ongoing but are on track to deliver by the output dates.

Scheme	Status	Scheme	Status
Llanishen Reservoir Section 9 Requiremen	Completed	Lluest Wen - Hydraulic Modelling Remedia	On Track to Deliver Outputs
Cantref spillway leak	Completed	Pontsticill - Spillway and Tunnel Refurb	On Track to Deliver Outputs
Talybont Reservoir - Consolidated IB for	Completed	Wentwood - S10 Investigations	On Track to Deliver Outputs
LLANGYNIDR UPPER CARNO RES Pipes & Valve	Completed	Usk Tunnel Pipework Replacement	On Track to Deliver Outputs
Talybont Habitats Directive Enhanced Res	Completed	Ynysyfro Upper - MITIOS	On Track to Deliver Outputs
Usk Spillway Upgrade	Completed	Wentwood - Drawdown Improvement	On Track to Deliver Outputs
PRESELI ROSEBUSH RES Stability Analysis	Completed	Craig Goch - Section 10 Drawdown Improve	On Track to Deliver Outputs
Plas Uchaf - Spillway Upgrade (MITIOS)	Completed	Upper Carno - Asset Rehab(See Long Text)	On Track to Deliver Outputs
Craig Y Pystyll Ground Investigation & S	Completed	Brithdir Mawr – Valves and Pipework (MIT	On Track to Deliver Outputs
YNYSYFRO (Upper & Lower) Res MITIOS Pipe	On Track to Deliver Outputs	Llyn Bran - Development of Compensatory	On Track to Deliver Outputs
Lower Carno Spillway and Pipes & Valves	On Track to Deliver Outputs	Dolwen - Spillway Upgrade (MITIOS)	On Track to Deliver Outputs
Usk Tunnel Pipework Replacement	On Track to Deliver Outputs	PRESELI ROSEBUSH Res Rosebush Valves, Dr	On Track to Deliver Outputs
Llanishen Reservoir – Restoration to Ope	On Track to Deliver Outputs		

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Table 4L - Enhancement expenditure for the 12 months ended 31 March 2021 – Water resources and water network+ (continued)

5 - Visitor Centre

Line	Line description	Units		DPs	Expenditure in report year						Comments
					Water resources	Water network+				Total	
						Raw water transport	Raw water storage	Water treatment	Treated water distribution		
76	Additional line 4 - Visitor Centre	Capex	£m	3	3.207	0	0	0	0	3.207	The costs on this line relate to the Visitor Centre at Llys-y-Fran.

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Table 4M - Enhancement expenditure for the 12 months ended 31 March 2021 – Wastewater network+ and bioresources
Additional freeform line information

1 - Sustainable Drainage Plan

Line	Line description	Units		DPs	Expenditure in report year						Comments
					Wastewater network+				Bioresources	Total	
					Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge treatment		
68	Additional line 1 - Sustainable Drainage Plans	Capex	£m	3	1.094	0.441	0.229	0.035	0	1.799	We have numerous schemes to support our Sustainable Drainage Plans which includes our Brava Modelling schemes.

2 - Loughor L2

Line	Line description	Units		DPs	Expenditure in report year						Comments
					Wastewater network+				Bioresources	Total	
					Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge treatment		
70	Additional line 2 - Loughor L2	Capex	£m	3	1.647	0.664	0.345	12.168	0.055	14.879	We have expenditure of £14.880m for schemes in the Loughor area to address L2 drivers. We are in the closing stages of this programme of works and are expecting to complete the programme in year 2.

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Table 4M - Enhancement expenditure for the 12 months ended 31 March 2021 – Wastewater network+ and bioresources (continued)

3 - Loughor UWWTD

Line	Line description	Units		DPs	Expenditure in report year						Comments
					Wastewater network+				Bioresources	Total	
					Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge treatment		
72	Additional line 3 - Gowerton /Llanelli UWWTD	Capex	£m	3	0.337	0.136	0.071	0	0	0.544	Most of the schemes associated with the Llanelli Gowerton Area to address the UWWTD drivers are complete with residual costs being posted. However, we have completed one scheme at Pwll SPS this year with one scheme outstanding to complete next year. Our expenditure in the year was £0.544m.

4 – Strategic Sludge Storage

Line	Line description	Units		DPs	Expenditure in report year						Comments
					Wastewater network+				Bioresources	Total	
					Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge treatment		
74	Additional line 4 - Strategic Sludge Storage	Capex	£m	3	0	0	0	0	0.257	0.257	We have one scheme associated with the Strategic Sludge Storage scheme namely Strategic Sludge Storage - North Wales.

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Table 4N – Developer services expenditure for the 12 months ended 31 March 2021 – Water resources and water network+
Self-lay Asset payments

Line	Line description	Units		DPs	Expenditure in report year						Comments
					Water resources	Water network+				Total	
						Raw water transport	Raw water storage	Water treatment	Treated water distribution		
9	Other price controlled activities	Opex	£m	3	0	0	0	0	0.657	0.657	Self-lay payments amounting to £649k during the period have been included in line 4N.9.

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Table 4R - Connected properties, customers and population

Line	Line Description	Units	DPs	Water	Wastewater	Commentary
Population data						
26	Resident population	000s	3	3081.135	3093.998	<p>The resident population for Water and Wastewater represents the annual average resident population served and includes both households and businesses. It is based upon the 2019 Mid Year Estimate (MYE) of population at the postcode level which is mapped to our water and waste boundaries. Growth is added to MYE to bring the estimates up to the annual average reporting year and non-connected population excluded to provide an estimate of the population served / connected.</p> <p>Growth for water is based on / consistent with our Water Resource Management Plan (WRMP) Resident population growth. Population for waste is based on a year-on-year forecast of MYE as provided by CACI Ltd annually.</p> <p>Starting with the 2011 census data, CACI Ltd make use of the Office for National Statistics (ONS) data with births, deaths and migration levels to provide updated annual figures.</p>
27	Business population	000s	3		68.136	This figure has reduced from last year due to the impact of Covid-19 on tourism.

In response to query log 142, we can confirm no adjustment has been made to table 4R to include 'uneconomical to bill' properties as these properties are either not connected or are of a trivial value.

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APR Part 5

This part of the APR covers additional financial and non-financial information, including (but not limited to), Asset and volumes data plus operating cost analysis for water resources. In total there are two tables within part 4 of the APR as listed below:

Table Number	Table Description
Pro forma 5A	Water resources asset and volumes data for the 12 months ended 31 March 2021
Pro forma 5B	Water resources operating cost analysis for the 12 months ended 31 March 2021

The following commentary is provided to help give the reader further clarity on the reported data.

Table 5A - Water resources asset and volumes data for the 12 months ended 31 March 2021

Line	Line description	Units	DPs	Input	Comments
Water resources					
9	Number of impounding reservoirs	Nr	0	37	During the year we have abstracted water from Llys-y-frân reservoir to directly supply Preseli WTW. This change in operational use means that under Ofwat RAG 4.09 guidance, Llys-y-frân reservoir is now defined as a 'source' and has resulted in this figure increasing by one from last year.
18	Total number of water reservoirs	Nr	0	41	Correct number is 73 but as this is a calculated field we are unable to change (Ofwat query 137). A reduction of four from last year because Lower Neuadd Reservoir has now been decommissioned and three reservoirs are now reported in APR table 6A line 1 as they are balancing reservoirs.
19	Total volumetric capacity of water reservoirs	MI	0	459,228	See line 5A.18. This capacity relates to 73 water reservoirs.
23	Average pumping head – raw water abstraction	m.hd	2	39.44	<p>2019/20 - A system data error has been identified within the 2019/20 dataset, which when corrected would have moved performance for Average Pumping Head (APH) Raw Water Abstraction from 58.89m.hd to 31.99m.hd which primarily relates to the Nantgaredig sites which calculated erroneous values for 4 days in October 2019. The values changed from 12 bar to 3200 bar during this period, which had a significant effect on the AvPH calculation. As this was the first year live telemetry data was used for this site, there was no baseline for comparison.</p> <p>Overall APH performance in 2020/21 has seen a small increase when compared to the corrected 2019/20 figures (5A.23, 6A.6, 6A.31 and 6B.28).</p> <p>Measured pressure data is being used for 51% of our sites this year, which is a 6% increase on live data applied in 2019/20. Please see below for a breakdown of source pressure data used:</p>

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Line	Line description	Units	DPs	Input	Comments															
Water resources																				
					<table><tr><th>Source Data</th><th>%</th><th>Description</th></tr><tr><td>Measured</td><td>51%</td><td>Gathered using live Prism data</td></tr><tr><td>Measured Avg</td><td>10%</td><td>Calculated using the lift average of 2020/21 flow ranges</td></tr><tr><td>Corporate Systems</td><td>17%</td><td>Non live data from systems such as GIS, Prism and WOMS</td></tr><tr><td>Previously Validated</td><td>22%</td><td>Non live data validated in previous AMP6 years</td></tr></table>	Source Data	%	Description	Measured	51%	Gathered using live Prism data	Measured Avg	10%	Calculated using the lift average of 2020/21 flow ranges	Corporate Systems	17%	Non live data from systems such as GIS, Prism and WOMS	Previously Validated	22%	Non live data validated in previous AMP6 years
					Source Data	%	Description													
					Measured	51%	Gathered using live Prism data													
					Measured Avg	10%	Calculated using the lift average of 2020/21 flow ranges													
					Corporate Systems	17%	Non live data from systems such as GIS, Prism and WOMS													
					Previously Validated	22%	Non live data validated in previous AMP6 years													
					All bulk supply exports have been excluded in line with the RAG 2.08 reporting guidance on the Definition of average pumping head, the only exclusion is the Elan Valley bulk supply.															
27	Total number of raw water abstraction exports	Nr	0	1	This relates to the abstraction of raw water from Elan Valley to Severn Trent Water.															

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[APR Part 6](#)

Additional financial and non-financial information, including (but not limited to), Raw water transport, raw water storage, water treatment data, treated water distribution mains analysis, communication pipes, metering and leakage activities. In total there are four tables within part 6 of the APR as listed below:

Table Number	Table Description
Pro forma 6A	Raw water transport, raw water storage and water treatment data for the 12 months ended 31 March 2021.
Pro forma 6B	Treated water distribution - assets and operations for the 12 months ended 31 March 2021.
Pro forma 6C	Water network+ - Mains, communication pipes and other data for the 12 months ended 31 March 2021.
Pro forma 6D	Demand management - Metering and leakage activities for the 12 months ended 31 March 2012.

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Table 6A - Raw water transport, raw water storage and water treatment data for the 12 months ended 31 March 2021

Line	Line description	Units	DPs	Input	Comments															
Raw water transport and storage																				
6	Average pumping head - raw water transport	m.hd	2	17.15	<div>Measured pressure data is being used for 51% of our sites this year, which is a 6% increase on live data applied in 2019/20. Please see below for a breakdown of source pressure data used:</div> <table><tr><th>Source Data</th><th>%</th><th>Description</th></tr><tr><td>Measured</td><td>51%</td><td>Gathered using live Prism data</td></tr><tr><td>Measured Avg</td><td>10%</td><td>Calculated using the lift average of 2020/21 flow ranges</td></tr><tr><td>Corporate Systems</td><td>17%</td><td>Non live data from systems such as GIS, Prism and WOMS</td></tr><tr><td>Previously Validated</td><td>22%</td><td>Non live data validated in previous AMP6 years</td></tr></table> <div>All bulk supply exports have been excluded in line with the RAG 2.08 reporting guidance on the Definition of average pumping head, the only exclusion is the Elan Valley bulk supply.</div>	Source Data	%	Description	Measured	51%	Gathered using live Prism data	Measured Avg	10%	Calculated using the lift average of 2020/21 flow ranges	Corporate Systems	17%	Non live data from systems such as GIS, Prism and WOMS	Previously Validated	22%	Non live data validated in previous AMP6 years
Source Data	%	Description																		
Measured	51%	Gathered using live Prism data																		
Measured Avg	10%	Calculated using the lift average of 2020/21 flow ranges																		
Corporate Systems	17%	Non live data from systems such as GIS, Prism and WOMS																		
Previously Validated	22%	Non live data validated in previous AMP6 years																		
8	Total number of raw water transport imports	Nr	0	1	Import from United Utilities Heronbridge.															

Line	Water treatment – treatment type analysis	Surface water		Ground water		Commentary
		Water treated	Number of works	Water treated	Number of works	
		MI/d	Nr	MI/d	Nr	
		Units	DPs	Units	DPs	
17	W4 works	6.12	2	0.01	1	This includes three bulk import works from Severn Trent Water.
18	W5 works	644.78	29	26.79	14	This includes one bulk import works from Severn Trent Water.

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Table 6A - Raw water transport, raw water storage and water treatment data for the 12 months ended 31 March 2021 (continued)

Line	Water treatment – works size	% of total	Number of works	Commentary
	Units	DI	Nr	
	DPs	1	0	
20	WTWs in size band 1	0.1	7	The Maximum Production Capacity of the works is in line with the Peak Week Production Capacity used for the Unplanned Outage Performance Commitment.
21	WTWs in size band 2	2.9	16	See 6A.20.
22	WTWs in size band 3	3.0	8	See 6A.20.
23	WTWs in size band 4	9.4	11	See 6A.20.
24	WTWs in size band 5	12.2	9	See 6A.20.
25	WTWs in size band 6	27.3	10	See 6A.20.
26	WTWs in size band 7	17.0	2	See 6A.20.
27	WTWs in size band 8	28.0	2	See 6A.20.

Line	Line description	Units	DPs	Input	Comments															
Water treatment – other information																				
31	Average pumping head – water treatment	m.hd	2	41.58	<p>Measured pressure data is being used for 51% of our sites this year, which is a 6% increase on live data applied in 2019/20. Please see below for a breakdown of source pressure data used:</p> <table><tr><th>Source Data</th><th>%</th><th>Description</th></tr><tr><td>Measured</td><td>51%</td><td>Gathered using live Prism data</td></tr><tr><td>Measured Avg</td><td>10%</td><td>Calculated using the lift average of 2020/21 flow ranges</td></tr><tr><td>Corporate Systems</td><td>17%</td><td>Non live data from systems such as GIS, Prism and WOMS</td></tr><tr><td>Previously Validated</td><td>22%</td><td>Non live data validated in previous AMP6 years</td></tr></table> <p>All bulk supply exports have been excluded in line with the RAG 2.08 reporting guidance on the Definition of average pumping head, the only exclusion is the Elan Valley bulk supply.</p>	Source Data	%	Description	Measured	51%	Gathered using live Prism data	Measured Avg	10%	Calculated using the lift average of 2020/21 flow ranges	Corporate Systems	17%	Non live data from systems such as GIS, Prism and WOMS	Previously Validated	22%	Non live data validated in previous AMP6 years
Source Data	%	Description																		
Measured	51%	Gathered using live Prism data																		
Measured Avg	10%	Calculated using the lift average of 2020/21 flow ranges																		
Corporate Systems	17%	Non live data from systems such as GIS, Prism and WOMS																		
Previously Validated	22%	Non live data validated in previous AMP6 years																		

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Table 6B – Treated water distribution – assets and operations for the 12 months ended 31 March 2021

Line	Line description	Units	DPs	Input	Comments
6	Water delivered (potable)	MI/d	2	746.79	The increase is largely attributable to Covid-19 and weather conditions experienced over the year.
8	Water delivered (billed measured business)	MI/d	2	151.71	The decrease is largely attributable to Covid-19.
9	Total annual leakage	MI/d	2	163.62	See APR part 3 (En4 Leakage).
20	Total number of potable water pumping stations that pump into and within the treated water distribution system	Nr	0	579	Some movement has occurred due to incorrect classifications used in our response to an Ofwat request in September 2020 across data lines 6B.21, 6B.22, 6B.23 and 6B.24.
21	Number of potable water pumping stations delivering treated groundwater into the treated water distribution system	Nr	0	6	One additional ground water pumping station that was previously reported in 6B.24.
22	Number of potable water pumping stations delivering surface water into the treated water distribution system	Nr	0	35	Three additional surface water pumping stations that were previously reported in 6B.23.
23	Number of potable water pumping stations that re-pump water already within the treated water distribution system	Nr	0	538	A decrease of seven re-pumping water stations. Nine additional pumping stations that were previously reported in 6B.24 and a reduction of 16 pumping stations due to three now being reported in 6B.22 and the remainder either decommissioned or identified that no active pumps are in place.
24	Number of potable water pumping stations that pump water imported from a 3rd party supply into the treated water distribution system	Nr	0	0	See 6B.21 and 6B.23.
25	Total number of service reservoirs	Nr	0	447	A reduction from last years' reported figure of 462, as result of 16 service reservoirs being decommissioned and 1 new service reservoir (Bewdley Bank).
28	Average pumping head – treated water distribution	m.hd	2	46.83	<p>2019/20 - A system data error has been identified within the 2019/20 dataset, which when corrected would have moved performance for Average Pumping Head (APH) treated water distribution from 48.79m.hd to 48.28m.hd which related to one site which calculated erroneous values.</p> <p>Overall APH performance in 2020/21 has seen a small increase when compared to the corrected 2019/20 figures (5A.23, 6A.6, 6A.31 and 6B.28).</p> <p>Measured pressure data is being used for 51% of our sites this year, which is a 6% increase on live data applied in 2019/20. Please see below for a breakdown of source pressure data used:</p>

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Line	Line description	Units	DPs	Input	Comments															
					<table><tr><th>Source Data</th><th>%</th><th>Description</th></tr><tr><td>Measured</td><td>51%</td><td>Gathered using live Prism data</td></tr><tr><td>Measured Avg</td><td>10%</td><td>Calculated using the lift average of 2020/21 flow ranges</td></tr><tr><td>Corporate Systems</td><td>17%</td><td>Non live data from systems such as GIS, Prism and WOMS</td></tr><tr><td>Previously Validated</td><td>22%</td><td>Non live data validated in previous AMP6 years</td></tr></table> <p>All bulk supply exports have been excluded in line with the RAG 2.08 reporting guidance on the Definition of average pumping head, the only exclusion is the Elan Valley bulk supply.</p>	Source Data	%	Description	Measured	51%	Gathered using live Prism data	Measured Avg	10%	Calculated using the lift average of 2020/21 flow ranges	Corporate Systems	17%	Non live data from systems such as GIS, Prism and WOMS	Previously Validated	22%	Non live data validated in previous AMP6 years
Source Data	%	Description																		
Measured	51%	Gathered using live Prism data																		
Measured Avg	10%	Calculated using the lift average of 2020/21 flow ranges																		
Corporate Systems	17%	Non live data from systems such as GIS, Prism and WOMS																		
Previously Validated	22%	Non live data validated in previous AMP6 years																		

Table 6C – Water network+ - Mains, communication pipes and other data for the 12 months ended 31 March 2021

Line	Line description	Units	DPs	Input	Comments
10	Number of galvanised iron communication pipes	Nr	0	393	The increase is due to our improvement in process around determining the material of the communication pipes repaired during the year.
11	Number of other communication pipes	Nr	0	860265	The number of 'other' communication pipes has increased in line with the increase in the number of connected properties.
12	Total length of potable mains laid or structurally refurbished pre-1880	Km	1	128	Only recently constructed mains have a very high confidence of age recorded on our system (around 40%). Other mains have been allocated to age bands based on local knowledge, evidence on surrounding properties or the years that the pipe material was available. For the mains allocated based on the years the pipe material was available, the midpoint of the year has been applied.
13	Total length of potable mains laid or structurally refurbished between 1881 and 1900	Km	1	747	See 6C.12.
14	Total length of potable mains laid or structurally refurbished between 1901 and 1920	Km	1	2514.5	See 6C.12.
15	Total length of potable mains laid or structurally refurbished between 1921 and 1940	Km	1	1930.5	See 6C.12.
16	Total length of potable mains laid or structurally refurbished between 1941 and 1960	Km	1	4506	See 6C.12.

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Line	Line description	Units	DPs	Input	Comments
17	Total length of potable mains laid or structurally refurbished between 1961 and 1980	Km	1	6111.9	See 6C.12.
18	Total length of potable mains laid or structurally refurbished between 1981 and 2000	Km	1	6688.4	See 6C.12.
19	Total length of potable refurbished post 2001	Km	1	5150.9	See 6C.12. Potable mains laid or structurally refurbished in 2001 have been included within this line.
20	Company area	Km ²	0	20082	The 20,082 km2 excludes c.2 km2 of Inset Appointment areas.
22	Supply-side improvements delivering benefits in 2020/25	MI/d	2	0	No schemes were delivered this year. During 2020/25 we have a number of planned schemes, such as the increased Llys-y-frân pump-back transfer and the upgrade to Canaston Bridge pumping station in our Pembrokeshire water resource zone, and a new abstraction from the Afon Dysynni in the Tywyn Aberdyfi WRZ, which when completed will all deliver supply side benefits to our supply demand balances.
23	Demand-side improvements delivering benefits in 2020/25 (excluding leakage and metering)	MI/d	2	0.01	Volumes reported are from Project Cartref. The Cartref programme was selected as part of the 2019 Water Resources Management Plan, Least Cost Planning and Options Appraisal process based on the demand benefits against the Dry Year and/ or Critical Period planning scenarios therefore the reported volumes which represent the actual year 1 savings from the Cartref programme, are Dry Year or Critical Period benefits.
24	Leakage improvements delivering benefits in 2020/25	MI/d	2	0.9	See 6C.23.
25	Internal interconnectors delivering benefits in 2020/25	MI/d	2	0	No schemes have been delivered this year. In our Water Resources Management Plan (WRMP) we only have one scheme planned in the period 2020/25 for delivery which is an upgraded connection between Hereford and Vowchurch water resource zones.

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Table 6D – Demand management – Metering and leakage activities for the 12 months ended 31 March 2021

Metering activities – Explanatory variables						
Line	Line description	Units	DPs	Basic meter	Smart meter	Comments
6	New optant meters installed	000s	3	7.217	0.011	Reduction due to Covid-19
9	Residential meters renewed	000s	3	4.702	0.555	Overall reduction of meters renewed due to Covid-19. We have proactively replaced basic meters with digital AMR meters. The main benefit of this is the health and safety risk reduction as these meters can be read via "drive by" systems.
10	Business meters renewed	000s	3	1.104	0.081	Reduction due to Covid-19
15	Residential properties - meter penetration	%	1	45.4	0.6	Excludes void properties and is based on year end connections (consistent with table 4R) and not data used in the Water Resources Management Plan.

Leakage activities – Totex expenditure							
Line	Line description	Units	DPs	Maintaining leakage	Reducing leakage	Total	Comments
16	Total leakage activity	£m	3	28.169	2.806	30.975	TOTEX excluding enhancement.

Per capita consumption (excluding supply pipe leakage)					
Line	Line description	Units	DPs	Input	Comments
17	Per capita consumption (measured customers)	l/h/d	2	144.74	There is a clear impact to PCC following the lockdown measures being introduced during mid-March 2020 and associated response to the pandemic. An increase in daytime occupancy levels through a large increase in home working and schooling has meant that the consumption of water has shifted from non-household to household for many of our customers. Behavioural change has also been observed due to an increased focus on hand washing and spending more time at home. This, coupled with the driest April and May on record in Wales when outside / garden water use increased, has significantly increased PCC.
18	Per capita consumption (unmeasured customers)	l/h/d	2	194.9	See 6D.17.

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[APR Part 7](#)

Additional financial and non-financial information, including (but not limited to), load, costs and number of sewage treatment works within size bands, sewer and volume data, and energy consumption data. In total there are five tables within part 7 of the APR as listed below:

Table Number	Table Description
Pro forma 7A	Wastewater network+ - Functional expenditure for the 12 months ended 31 March 2021.
Pro forma 7B	Wastewater network+ - Large sewage treatment works for the 12 months ended 31 March 2021.
Pro forma 7C	Wastewater network+ - Sewer and volume data for the 12 months ended 31 March 2021.
Pro forma 7D	Wastewater network+ - Sewage treatment works data for the 12 months ended 31 March 2021.
Pro forma 7E	Wastewater network+ - Energy consumption and other data for the 12 months ended 31 March 2021.

Table 7B – Wastewater network+ - Large sewage treatment works for the 12 months ended 31 March 2021

Line	Line description	Units	DPs	Input (total)	Comments
1	Works name (existing works)	Text	0		We have reported 22 large WwTWs this year compared to 21 last year. The Llanasa WwTWs has again returned to above the threshold of 25,000 population equivalent and is reported within this table.
5	BOD ₅ consent	Mg/l	0	524	Consistent with last year we have reported the tighter consent of the UWWTD or WRA permits.

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Table 7C – Wastewater network+ - Sewer and volume data for the 12 months ended 31 March 2021

Line	Line description	Units	DPs	Input (total)	Comments
1	Connectable properties served by s101A schemes completed in the report year	Nr	0	4	There was one s101A scheme at Roman Road, Hereford delivered in 2020-21 to serve four properties.
2	Number of s101A schemes completed in the report year	Nr	0	1	See 7C.1.
4	Number of network pumping stations	Nr	0	2460	There have been 16 network pumping stations added this year (the majority of these are newly adopted private pumping stations) with two removed, giving a net increase of 14.
5	Total number of sewer blockages	Nr	0	20335	In line with established methodology and consistent with our reporting of sewer blockages in previous years, we have excluded 1,367 third party incidents. We are aware in the RAGs 4.09 it does not confirm blockage exclusions, and we will be seeking clarification from Ofwat and confirm where possible what other WaSCs do to ensure we are in line with the industry.
6	Total number of gravity sewer collapses	Nr	0	188	See APR part 3 Rt3 - Sewer collapses.
7	Total number of sewer rising main bursts	Nr	0	95	See 7C.6.
11	Sewer age profile (constructed post 2001)	Km	0	2037	The total length of Private Sewer Transfer (PST) sewers currently held within GIS represents approximately 25% of the total PST sewers estimated. In order to account for the remaining PST sewers, the percentage of Public sewers constructed Post 2001 and up to Oct 2011 was calculated and an equal percentage of PST sewers added to the total. Length Includes sewers constructed during 2001 in order to maintain consistency with previous years reported figures.
14	Length of gravity sewers rehabilitated	Km	0	1	We are reporting a total of 1 km of gravity sewers rehabilitated in 2020/21. Changes to the line definition mean that performance cannot be compared to that reported in previous years. The length reported is the actual length physically renovated or replaced rather than the distance between the manholes either side of the section of pipe in question. Our reported performance has been impacted by the Covid-19 pandemic, during which time post-rehabilitation surveys have largely been suspended.
15	Length of rising mains replaced or structurally refurbished	Km	0	1	We have captured the length of reactive repairs following rising main bursts – these are largely standard 2-metre section replacements, and cumulatively total 237.6m. We have also delivered one rising main rehabilitation scheme in the year, replacing the Heol Stanllyd rising main in Carmarthen (total 757m).
22	Length of formerly private sewers and lateral drains (s105A sewers)	Km	0	17175	Modelled length of sewers based on the WRC model.

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Table 7D – Wastewater network+ - Sewage treatment works data for the 12 months ended 31 March 2021

Line	Line description	Comments
15	Total number of works	During the year we have discontinued seven wastewater treatment works and added two new work with a net reduction of five works compared to last year.

Population equivalent					
Line	Line Description	Units	DPS	Input	Comments
17	Current population equivalent served by filter bed or activated sludge STWs with tightened/new P consents	000s	3	23.049	We have completed three schemes in the reporting year.
21	Population equivalent treatment capacity enhancement	000s	3	7.986	We have completed six schemes in the reporting year for capacity enhancement.

Table 7E – Wastewater network+ - Energy consumption and other data for the 12 months ended 31 March 2021

Line	Line Description	Units	DPS	Input	Comments
3	Number of intermittent discharge sites with event duration monitoring	Nr	0	60	A total of 60 National Environment Programme (NEP) outputs with event duration monitors drivers were signed off in the 2020/21 by the Natural Resources Wales.
4	Number of monitors for flow monitoring at STWs	Nr	0	8	A total of eight National Environment Programme (NEP) outputs with monitors at flow monitoring at STWs were signed off in the 2020/21 by the Natural Resources Wales.

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APR Part 8

Additional financial and non-financial information, including (but not limited to), bioresources sludge data, operating expenditure analysis, bioresources energy and liquors analysis and sludge treatment and disposal data. In total there are four tables within part 8 of the APR as listed below:

Table Number	Table Description
Pro forma 8A	Bioresources sludge data for the 12 months ended 31 March 2021.
Pro forma 8B	Bioresources operating expenditure analysis for the 12 months ended 31 March 2021.
Pro forma 8C	Bioresources energy and liquors analysis for the 12 months ended 31 March 2021.
Pro forma 8D	Bioresources sludge treatment and disposal data for the 12 months ended 31 March 2021.

Table 8A – Bioresources sludge data for the 12 months ended 31 March 2021

Line	Line Description	Units	DPS	Input	Comments
1	Total sewage sludge produced, treated by incumbents	ttds/ year	1	69.5	A reduction in sludge processed through Five Fords Advanced Anaerobic Digestion due to the impact of Covid-19. Five Fords receives sludge from North Wales which has a high tourist and university population and receives a significant amount of sludge from industry in Wrexham that was shut down during the lockdown periods.
2	Total sewage sludge produced, treated by 3rd party sludge service provider	ttds/ year	1	1.2	Due to issues at Queensferry with conventional digestion, we utilised a third party Biosolids Assurance Scheme (BAS) approved contractor to lime treat sludge.
4	Total sewage sludge produced from non-appointed liquid waste treatment	ttds/ year	1	1.7	The value quoted is the domestic tankered waste we receive from private companies based on volume data included on invoices. This volume is included in line 3.
5	Percentage of sludge produced and treated at a site of STW and STC co-location	%	2	34.02	Sludge from dewatering sites is now excluded from the calculation as it has not been treated.
6	Total sewage sludge disposed by incumbents	ttds/ year	1	32.7	See 8A.1.
7	Total sewage sludge disposed by 3rd party sludge service provider	ttds/ year	1	1.5	See 8A.2.

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Line	Line Description	Units	DPS	Input	Comments
9	Total measure of intersiting 'work' done by pipeline	ttds*km/year	0	3	This includes the value transported between Rotherwas and Eign WwTWs.
11	Total measure of intersiting 'work' done by truck	ttds*km/year	0	2421	An increase as a result of sludge being transported to be processed through our four Advanced Anaerobic Digestion sites at Cardiff, Afan (Port Talbot), Cog Moors (Dinas Powys) and Five Fords (Wrexham).
13	Total measure of intersiting 'work' done by tanker (by volume transported)	m3*km/yr	0	7571166	Decrease due to reduction in sludge as a result of Covid-19.
16	Total measure of 'work' done in sludge disposal operations by truck	ttds*km/year	0	2039	A reduction, as Five Fords Advanced Anaerobic Digestion (AAD) is now fully operational combined with the impacts of Covid-19.
19	Chemical P sludge as % of sludge produced at STWs	%	2	27.58	See 8A.16.

Table 8D – Bioresources sludge treatment and disposal data for the 12 months ended 31 March 2021

Line	Line description	Units	DPS	By incumbent	By 3 rd party sludge service providers	Comments
2	% Sludge treatment process - raw sludge liming	%	1	0	1.7	Due to issues at Queensferry with conventional digestion, we utilised a third party Biosolids Assurance Scheme (BAS) approved contractor to lime treat sludge.
4	% Sludge treatment process - advanced AD	%	1	96.1	0	Five Fords (Wrexham) has been operating as an Advanced Anaerobic Digestor (AAD) site for the whole year and Cog Moors (Dinas Powys) started running as an AAD site in November 2020.
11	% Sludge disposal route - sludge recycled to farmland	%	1	95.5	4.5	All sludge recycled to agriculture. For some sludge we have utilised a Biosolids Assurance Scheme (BAS) approved contractor to lime treat sludge and disposal due to issues at Queensferry with conventional digestion.

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APR Part 9

Additional financial and non-financial information, including (but not limited to), revenue collected for the purposes of the innovation competition. There is one table within part 9 of the APR as shown below:

Table Number	Table Description
Pro forma 9A	Innovation competition.

Table 9A – Innovation competition

Revenue collected from customers and transferred into the innovation competition fund					
Line	Line description	Units	DPs	Current year	Comments
4	Revenue collected from customers and transferred into the innovation competition fund	£m	3	0	Transfer into the innovation fund to commence in 2021/22.

Line	Line descriptions	Bids accepted and awarded funding for innovation competition	Forecast expenditure on innovation projects funded through the innovation competition	Actual expenditure on innovation projects funded through the innovation competition in year	Difference between actual and forecast expenditure	Cumulative spend on innovation projects	Allowed future expenditure on innovation projects funded through the innovation competition	Expenditure on innovation projects funded by shareholders	Comments
	Units	Nr	£m	£m	£m	£m	£m	£m	
	DPs	0	3	3	3	3	3	3	
5	Innovation Project 1	0	0	0	0	0	0	0	No funding was awarded for 2020/21.

Line	Administration	Units	DPs	Value	Comments
21	Administration charge for innovation partner	£m	3	0	Owat have confirmed that there is no charge for 2020/21.

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Appendix 1 – Ring Fencing Certificate 2020/21

The regulatory ring-fence provides an important protection for companies and their customers. Its purpose is to ensure that the regulated company maintains sufficient financial and management resources to enable it to carry out its water and sewerage services in a sustainable manner, and it protects the regulated company from the activities of other entities such as other group companies.

The Ring-Fencing Certificate (“RFC”) is a certificate stating that in the opinion of the Board the Company has sufficient resources to enable it to carry out its Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted to Ofwat. Although it is a condition of our Licence to produce a RFC, we consider that it is also the right thing to do and helps us to achieve our Vision of earning the trust of our customers every day.

Information Notice 20/01 published by the Water Services Regulation Authority in February 2020 sets out guidance for water and wastewater companies in England and Wales in preparing their RFC. The reliability and accuracy of data is a matter of great importance to us. Within the business we have well-established governance and accountability processes. To confirm that we have followed this guidance, the information contained within our RFC has been subject to checks by the Regulatory and Compliance Teams, scrutiny at Director level, review by the Audit Committee, and audited by our independent External Auditors.

The Directors have resolved that a Certificate required under Condition P30 of our Licence and prepared in accordance with the latest guidance be issued to the Water Services Regulation Authority confirming that in the opinion of the Directors:

- a) the Company will have available to it sufficient financial resources and facilities to enable it to carry out the Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted;
- b) the Company will have available to it sufficient management resources and systems of planning and internal control to enable it to carry out the Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted; and
- c) the Company has available to it sufficient rights and resources other than financial resources; and
- d) all contracts entered into between the Company and any Associated Company include the necessary provisions and requirements in respect of the standard of service to be supplied to the Company, to ensure that it is able to carry out the Regulated Activities.

A statement of the main factors that have led to the conclusion that resources are sufficient can be found at appendix 1.1.

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Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,



Alastair Lyons

Chairman, Dŵr Cymru Cyfyngedig

9 July 2021

RING-FENCING CERTIFICATE (continued)

Section P35 of Licence Condition P requires our independent auditors to produce a report that sets out whether they are aware of any inconsistencies between the Ring-Fencing Certificate and either the regulatory accounting statements or any information which the Auditors obtained in the course of their work as the Company's Auditors and, if so, what they are.

A copy of the auditor's report can be found in our 2020/2021 Annual Performance Report available at www.dwrcymru.com

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RING-FENCING CERTIFICATE (continued)

APPENDIX 1.1

A statement of the main factors that have led to the conclusion that resources are sufficient.

AREA	MAIN FACTORS
Financial resources and facilities <ul style="list-style-type: none">Financial detailsPerformance against Final Determinations (FDs) set at the last price reviewCredit related factorsBusiness plans, long-term viability statements etc.	<p>The liquidity position as at 31 March 2021 was very strong with cash on deposit and loan facilities totalling £421 million. This has been further strengthened by a £300 million bond issue which completed on 9 April 2021.</p> <p>The Group is in a strong financial position as at 31 March 2021 with gearing remaining on track at 60%.</p> <p>The 2020/2021 FD targets for the majority of our performance measures have been met. However, a net penalty of £5.477m (excluding D-MeX) has been reported for 2020/21 with the Company missing FD target on some measures such as Per Capita Consumption, Customer Acceptability, Reliability of Supply and Internal Sewer flooding.</p> <p>As at 31 March 2021, the Group had committed undrawn borrowing facilities of £200m and cash and cash equivalents (excluding debt service payments account) of £221m.</p> <p>There is also a £10m overdraft facility renewable on an annual basis. As at 31 March 2021 there was also a special liquidity facility of £135m.</p> <p>Glas Cymru has amongst the strongest credit ratings in the UK water sector, reflecting the Group's high level of creditworthiness.</p> <p>A low level of commercial activity is undertaken outside of our regulated water and sewerage business, being organic energy and waste processing activities, which are complementary to our core operations. These activities make up less than 1% of the Group's annual turnover and are peripheral to the core business, and as such have no material impact on our overall long-term viability.</p> <p>The five-year business plan has been developed on the strong foundation of effective operational strategies and a clear investment programme, both aimed at achieving improved performance and cost efficiency.</p>

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AREA	MAIN FACTORS
<ul style="list-style-type: none"> Relevant reports 	<p>Ofwat's guidance in relation to preparing a statement on long-term financial viability (IN 19/07) has been followed. This resulted in the Board concluding that it 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.</p> <p>The Company has a Licence to operate as a water and sewerage undertaker, which is in place on a rolling 25 year basis.</p> <p>The independent External Auditors review the regulatory reporting information to Ofwat in the Annual Performance Report.</p> <p>Independent Auditor's report and the Reporter's letter of assurance are published within our Annual Performance Report available on our website.</p> <p>The Audit Committee review financial performance in detail at the half year and year end and receive regular reports from the Group's External Auditors, KPMG LLP.</p> <p>The Audit Committee reviews the External Auditor's independence policy, which is included in its half yearly report to the Committee, which sets out the 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.</p> <p>The Audit Committee reviewed and approved its policy on non-audit services in September 2019 and was satisfied that it was aligned with current regulatory guidance. The level of non-audit fees in respect of the year-ended 31 March 2021 was confirmed to be in compliance with the EU Audit Regulation.</p>
<p>Management resources</p> <ul style="list-style-type: none"> Management skills, experience and relevant qualifications 	<p>The challenging PR19 Final Determination means that the CEO'S priority is to implement the plan for 2020/2025. This means being tough with efficiency – the potential for big changes is in the world of innovation and working smartly – ensuring the Company delivers the best services possible, efficiently and at an affordable price for the customer. To help achieve this, new members have been appointed to the Executive Team who can drive this forward and devise new ways of providing high-quality services in an efficient way.</p>

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AREA	MAIN FACTORS
<ul style="list-style-type: none"> Recruitment process, staff engagement Succession planning for key management/staff Quality of management/staff induction and other training and development 	<p>In response to future challenges identified in Welsh Water 2050 a need to attract, develop and inspire people from a diverse range of backgrounds, to deliver an excellent service for our customers was identified. This is set out as Strategic Response 18: becoming an 'Employer of Choice'.</p> <p>Throughout 2020/21 the workforce has been surveyed quarterly about how their wellbeing during the pandemic. Employees were also asked questions relating to engagement and the overall employee engagement score was 85%.</p> <p>Employee Engagement Champions work with the business to respond to local feedback given in the annual Employee Engagement Survey – various Non-Executive Directors meet with them quarterly.</p> <p>The Chief Executive and members of the Executive team hold monthly briefing using Microsoft Teams that all colleagues can join to hear updates on business performance and key developments and to ask questions.</p> <p>The Chair of the Board and Non-Executive Directors undertake regular operational site visits and meet teams across the business for informal meetings and lunches/dinners, although these have been limited during 2020/21 due to government Covid-19 restrictions. The Chair of the Board and Non-Executive Directors undertake regular operational site visits and meet teams across the business for informal meetings and lunches/dinners, although these have been limited during 2020/21 due to government Covid-19 restrictions.</p> <p>An annual Talent & Resource Review is carried out which includes a review of succession planning, career discussions during performance reviews, promoting training opportunities for colleagues and ensuring development plans are in place.</p> <p>All operational roles within the business have a dedicated training plan which incorporates a combination of e-learning modules and training courses. Employees' training performance is continually monitored and an overall percentage of employees that have completed their training is reported annually for the financial year.</p> <p>At 31 March 2021, the Group had 3,602 employees. The Company's success is fundamentally dependent upon highly engaged and motivated people and the Company are committed to developing its people to meet the challenges of operating the business in the future and to encourage a diverse workforce that fully reflects the communities that served.</p>

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AREA	MAIN FACTORS
<ul style="list-style-type: none"> • Process for ensuring diversity of perspectives • Board or management activities, reports or statements • Independence of Board 	<p>There are a number of different development routes offered to those choosing to join our business including, graduates, degree apprenticeships, higher apprenticeships, and apprenticeships.</p> <p>The Company is investing in skills development, competency training, customer service and leadership training.</p> <p>The Company is working to define clearer career paths through the business for colleagues in the contact centre and there is a focus on supporting every individual to reach their full potential.</p> <p>An annual Leadership Conference is held which provides an opportunity for senior managers to consider in detail, and provide feedback on, the Company's business plan. The conference was held virtually during the pandemic.</p> <p>Regular employee "roadshows" take place. "Future Focus" groups of senior leaders across the business have been established to work on key initiatives.</p> <p>It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability. It was therefore pleasing to achieve accreditation as a Disability Confident Employer in 2019/20.</p> <p>By engaging with diverse talent, the Company is able to improve access to skills that are in short supply, creating a larger talent pool, and also enhance our reputation as Employer of Choice.</p> <p>During the year the Board reviewed succession for senior management roles, and appointed a new non-executive director.</p> <p>The Board also reviewed compliance with the 2018 UK Corporate Governance Code, in particular the workforce engagement provisions, and developing the Board's engagement strategy.</p> <p>The Board comprises a majority of independent non-executive directors.</p> <p>As a Group owned by a company limited by guarantee, there are no shareholders, instead Membership is made up of individuals drawn from across the Company's 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.</p>

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AREA	MAIN FACTORS
	<p>This independence allows Members to hold the Board to account for the stewardship of Company assets and for providing an essential public service in a manner which will be sustainable for future generations.</p> <p>The independence of Non-Executive Directors is considered on an ongoing basis and formally on an annual basis. All 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.</p> <p>All Committees are chaired by an independent Non-Executive Director, except the Nomination Committee which is chaired by the Chair of the Board and comprised of a majority of independent Non-Executive Directors.</p>
<p>Systems of planning and internal control</p> <ul style="list-style-type: none"> Governance procedures, risk management frameworks, oversight procedures 	<p>The Board is responsible for promoting the long-term, sustainable success of the Glas Cymru Group for the benefit of its stakeholders and is the principal decision-making forum for the Group, providing inspirational leadership, both directly and through its Committees, and delegating authority to the Executive team.</p> <p>The results from the ongoing monitoring of financial, operational and compliance controls and the risk management process is reported to the Board via five formal committees; the Audit, Risk and Internal Control Committee; the Remuneration Committee; the Nominations Committee; the Quality and Environment Committee; and the Technology Committee. The Group's internal audit function has carried out a programme of work, which incorporates a review of the control environment.</p> <p>The Executive Team comprises individuals representing all of the key functions of the business, and is closely supported by its risk management and business assurance functions.</p> <p>Supporting the Executive team there is a clearly defined organisational management structure and governance framework, consisting of subcommittees and project specific steering groups, which operate within defined terms of reference and in accordance with group policies.</p> <p>By maintaining this structure of management control, the Board gains its assurance that Welsh Water's operations are being run effectively and that decisions are made in line with our commitment to our values to always do the right thing.</p>

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AREA	MAIN FACTORS
<ul style="list-style-type: none"> Internal and/or external audit policies, processes, activities and/or reports 	<p>The Board has responsibility for setting the risk appetite for the business and ensuring the adequacy and efficacy of the Group's systems of internal controls and risk management.</p> <p>The Board maintains oversight of the framework of internal control and risk management and ensures that the Company has the necessary financial resources and human resources to function effectively.</p> <p>The Board has overall responsibility for the operation and effectiveness of the Group's system of internal controls and risk management, and consider risk appetite and progress to target for identified strategic risks in detail every six months, with interim updates every board meeting. These processes involve all areas of the business to identify risks, including new and emerging areas of concern, consider the potential impact and likelihood of the risk manifesting, and manage mitigating controls accordingly.</p> <p>Throughout the year the Board reviews risk management processes and discusses and agrees mitigation strategies, for the principal and emerging risks across the business.</p> <p>There is an annual review of the effectiveness of internal controls in compliance with the requirements of the UK Corporate Governance Code.</p> <p>The effectiveness of the internal audit function is continually monitored using a variety of inputs including the Audit Committee's review of the audit reports produced, the Audit Committee's interaction with the Head of Business Assurance, updates at each meeting on progress against the internal audit plan, as well as other periodic quality reporting.</p> <p>The Business Assurance function conducts audits of 1st and 2nd line systems of internal control, which consider the adequacy and effectiveness of risk management, compliance and control activities.</p> <p>All internal audits are conducted in accordance with the standards promulgated by the Chartered Institute of Internal Auditors.</p> <p>The Head of Business Assurance provides an annual opinion on the effectiveness of the internal control framework.</p>

Annual Performance Report 2020/21

AREA	MAIN FACTORS
<ul style="list-style-type: none"> • Systems for maintaining supply/business continuity, stated action plans • Policies to prevent fraud and other unethical behaviour; whistleblowing policy • Risk, compliance other assurance statements 	<p>Our External Auditors and our Reporter review the Company's approach to risk and request evidence of risk review in the business.</p> <p>During the year the Audit Committee received regular reports on systems of internal control and risk management, in particular on data protection, business continuity, disaster recovery and cybersecurity, and on the progress of programmes to improve compliance and internal controls across the business.</p> <p>The Company's Code of Conduct sets out our focus on "doing the right thing" to Earn the Trust of our Customers and includes reference to the Company's Whistleblowing Policy, which is widely publicised among colleagues and key contractors and provides an opportunity for colleagues to "speak up" on any issues of concern. All colleagues are trained in the Code of Conduct on joining the Company and complete refresher training periodically.</p> <p>The Code is supported by several Group policies, as well as associated procedures and guidance, including: Anti-bribery and corruption; Anti-fraud, Conflict of Interests; Gifts and Hospitality, and Anti-bullying and Harassment.</p> <p>Since April 2015 the Company has operated a confidential and independent whistleblowing helpline operated by Safecall – an independent company that specialises in handling concerns at work. Safecall are available 24 hours a day and can be contacted by phone or by email.</p> <p>The Audit Committee receives Whistleblowing reports in private meeting with the Head of Business Assurance on a regular basis. Matters are investigated and reported back to the Committee at its next meeting.</p> <p>The Company also has a comprehensive suite of Employment Policies.</p> <p>During the year the Audit Committee scrutinised the following key regulatory submissions: Annual Performance Report; Risk and Compliance Statement; Data Assurance Summary, as evidence that the data provided is accurate; Ring-Fencing Certificate; and the Charges Schemes for 2020/2021.</p>

Annual Performance Report 2020/21

AREA	MAIN FACTORS
<p>Rights and resources other than financial resources</p> <ul style="list-style-type: none"> Corporate missions and/or values Technology and other systems for ensuring checks and balances Policies to encourage an integrated approach and 'systems thinking' 	<p>The Company strives for continuous improvement in its services to “Earn the Trust of our Customers Every Day” and this focus on doing the right thing for customers underpins the whole approach to service and everything the Company does.</p> <p>In December 2019 an Extraordinary General Meeting of members was held to consider and subsequently approve the writing of Glas Cymru’s Purpose Statement into our Articles of Association in order to formalise our commitment to public service and our singular customer focus whilst recognising the long-term nature of the business:</p> <p><i>To provide high quality and better value drinking water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.</i></p> <p>Fundamental to the next five years the Company will continue to innovate in terms of technology and new ways of working. There are partnerships with over thirty organisations and academic institutions each aligned to projects focused on Company priorities for improved performance and reduced cost.</p> <p>The Board Technology Committee maintains oversight of cyber and information security risk and opportunity in the business and ensures increased awareness at Board level.</p> <p>The Company continues to work to well-documented operational strategies in the clean and waste water businesses, including an Operational Technology cyber risk mitigation programme.</p> <p>We were joined by a new Chief Technology Officer in May 2020 and have increased our focus on cyber-security issues over the year. We are actively managing the external cyber security threats. We have increased our systems monitoring during the year and have reviewed our cyber security policies following various high profile cyber attacks globally, and an increased prevalence of cyberfraud activity.</p> <p>The Company has an Integrated Management System that is governed, controlled and continually improved. This includes overarching policies and procedures that help promote cross team working for an integrated approach within all business areas. Frameworks and governance groups have been established for open table discussions. All management system policies are reviewed and approved annually by the Chief Executive and promoted within the business.</p>

Annual Performance Report 2020/21

AREA	MAIN FACTORS
<ul style="list-style-type: none"> Planning systems Assets maintenance/insurance factors 	<p>Investments are planned over five-year periods. The long-term plan sits alongside the five-year investment plan for 2020-2025, which sets out what the Company intends to do as first steps towards realising this vision. Recognising the vital role of planning systems, the company has established a new Asset Planning Directorate and produced a Strategic Asset Management Plan which will be refined and implemented over AMP7 and through to 2050.</p> <p>External assurance has been received on the financing model used to generate the business plan and stress scenarios via an “agreed-upon procedures” exercise, with no exceptions noted.</p> <p>Record levels of capital investment (over £6bn since 2001).</p> <p>The five year business plan has been developed on the strong foundation of effective operational strategies and a clear investment programme, both aimed at achieving improved performance and cost efficiency.</p> <p>The five-year programme involves more than £1.8 billion in capital investment.</p> <p>The company holds property insurance to protect the company and customers from expenditure related to extreme events beyond management control.</p>
<p>Contracting</p> <ul style="list-style-type: none"> Position/status of key contracts in place 	<p>We work with key suppliers, such as our Capital Alliance and Water Network partners, to find innovative ways of improving efficiency while maintaining standards of service. The Board engages with the leaders of the alliance partners when appropriate.</p> <p>Not only do teams understand fully the part they have to play in delivering the Company’s plans but these have also been built with input and commitment to improved performance from the main supply chain partners.</p> <p>Achieving tougher service and efficiency targets will also require further flexibility from colleagues. A comprehensive programme of change has been agreed with trade unions, covered in a progressive new five year ‘Working Together Agreement’.</p>

Annual Performance Report 2020/21

AREA	MAIN FACTORS
<ul style="list-style-type: none"> • Contracts between the Appointee and all Associated Companies • Transactions between the Appointee and any Associated Company • Compliance with licence provision on cross-subsidies between the Appointee and any Associated Company (Condition I) • Guarantees or Cross-Default Obligations 	<p>All contracts between the Appointee and all Associated Companies were checked for compliance with licence requirements on standards of performance.</p> <p>A detailed Note on transactions between the Appointee and any Associated Company is provided in the Risk and Compliance Statement.</p> <p>Confirmation of compliance with licence provision on cross-subsidies between the Appointee and any Associated Company is contained within the Risk and Compliance Statement.</p> <p>No Guarantees or Cross-Default Obligations have been given without Ofwat's written consent.</p>
Material issues or circumstances	<p>The appropriateness of adopting the going concern basis of preparation for the accounts was considered in detail in light of risk factors including the Covid-19 pandemic. The Audit Committee concluded the risks were not such that they amounted to a material uncertainty that cast significant doubt about the Company's ability to continue as a going concern.</p>

Appendix 2 – Company Direction and Performance Statement 2020/21

We have a clear commitment to our customers, communities, and wider stakeholders, for the long term.

This Direction and Performance Statement explains our Purpose and Longer Term Strategy, how the Company sets its aspirations and how it has performed for all those it serves.

There are 6 sections to this Statement:

1. The importance of our Company Purpose and how this informs our ambitions
2. Our Longer Term Strategy and Goals and how this informs our business plans
3. How we set our ambitions
4. Ongoing Evaluation – how we monitor performance and make decisions
5. How we have performed in 2020/21
6. How we balance the relationship between delivering our services and rewarding Executives

1. Company Purpose

The Boards of Glas Cymru and Dŵr Cymru Welsh Water have established the Company's purpose, strategy, and values, and is satisfied that these and its culture reflect the needs of all those it serves.

The Boards of Glas Cymru Holdings Cyfyngedig and Dŵr Cymru Cyfyngedig, the statutory appointee providing essential water and wastewater services to 3.1 million people across our supply area of most of Wales and Hereford, Deeside, and Chester, are unified Boards with identical Directors. The entire focus of our organisation is in fulfilling the Group's purpose:

“Welsh Water's purpose is to provide high quality and better value drinking water and environmental services so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.”

At an Extraordinary General Meeting on Friday 6th December 2019, the Members of Glas Cymru voted to approve the incorporation of the Company's purpose in the Articles of Association. This followed extensive consultation with our customers and other stakeholders on our long term strategy, Welsh Water 2050, and our business plan for the period 2020-25.

Our Company vision is To Earn the Trust of Our Customers Every Day. We set ourselves as a company, and as individuals working to meet our customers' needs, a high bar in terms of providing the highest levels of customer service.

We have deliberately limited our non-regulated activities, so that these constitute less than 1% of our turnover, and our strategy for commercial activities is to work towards generating a surplus that can be reapplied back into our business for the benefit of our customers.

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COMPANY DIRECTION AND PERFORMANCE STATEMENT 2020/21 (continued)

2. Our Longer Term Strategy

When we created our long term strategy, Welsh Water 2050, in 2017, we undertook an extensive process of consultation with our customers and wider stakeholder groups, giving everyone who has an interest in the company and the essential services we provide, an opportunity to comment and feedback on our draft document addressing the future challenges and our response to them. Our aim in Welsh Water 2050 was to set out our plan “to become a truly world class, resilient and sustainable water service for the benefit of future generations”. We received:

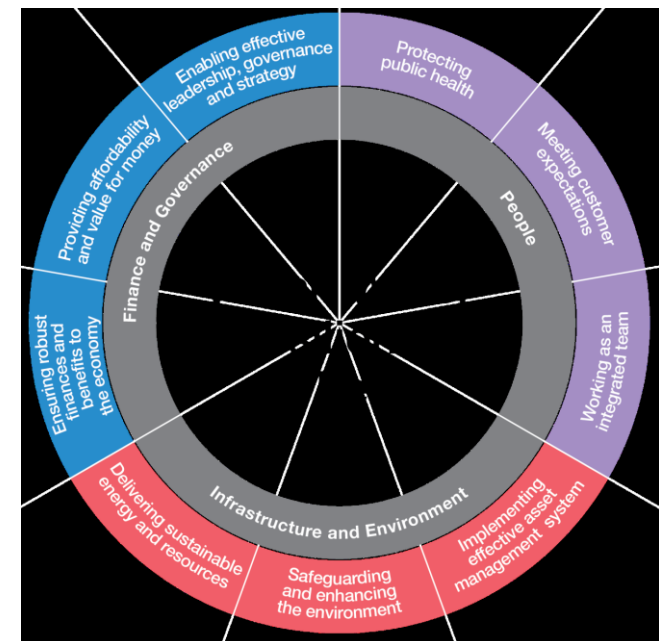
- Over 20,000 customer responses to our survey, through an innovative variety of digital and face to face methods;
- Detailed and ongoing input from customers through our online community, a range of customer focus groups and our Youth Board;
- A very successful Stakeholder launch event, and another event involving around 50 of the Members of Glas Cymru; and
- 17 detailed responses from Stakeholder Groups and other interested parties.

We worked closely with Arup and Cardiff University to study resilient cities across the world and to formulate our 18 strategic responses to the long term challenges, within the framework provided by the Wellbeing of Future Generations Act 2015. During 2021 we are working with Cardiff University to update our long-term strategy to acknowledge areas where the nature of those long term challenges may have changed over time, for example in relation to Climate Change, where we have seen greater impacts on our assets over the last 4 years than we envisaged in 2017.

In 2017, we identified 8 foreseeable future trends which presented challenges and opportunities:

- Demographic change
- Climate Change
- Change in customer expectations
- Changes to the structure of the economy
- Environmental change
- Protecting essential infrastructure
- Policy and Regulatory change
- Protecting Public health

In response to these challenges, we developed our resilience framework which set out the key elements of our strategic plan.



Annual Performance Report 2020/21

COMPANY DIRECTION AND PERFORMANCE STATEMENT 2020/21 (continued)

3. How we set our ambitions

Working on our Welsh Water 2050 Strategy for the next 30 year period allowed us to examine the role we play in the communities we serve and to have a meaningful dialogue with our customers about how we will meet the external challenges over time. The outputs from this dialogue with customers heavily influenced our business plan submitted to Ofwat as part of the PR19 price review process. We hold a Board Strategy Day every year which is an opportunity to revisit and update the conclusions we reached. In 2020/21 this Strategy Day included a presentation from the Chief Executive of the Royal Meteorological Society on the impacts of climate change.

Our detailed business plan for the five year period 2020-25 seeks to balance ensuring the affordability of the essential services we provide with the investment needed to maintain a resilient infrastructure. As a result of our not-for-shareholder-dividend corporate structure, all gains eventually go to our customers, so that the interests of the Company and of customers are aligned, and the strategic direction of the Company takes this into account.

Our reporting of progress against our key Outcome Delivery Incentives (ODIs) during AMP7 (2020-25) is framed around our customer and colleague promises. The regulatory targets are supplemented by our internal business and financial planning processes. Every year targets are proposed by the Executive Team and agreed by the Board of Directors. The Executive team is held to account by our Non-Executive Directors to ensure that the targets are sufficiently challenging and to monitor performance in accordance with those targets.

Our Company vision to Earn the Trust of our Customers Every Day underpins our approach to delivering services, and the Board is conscious of the need to set targets which maintain and build on that trust, to promote the long term success of the Company in accordance with Section 172 of the Companies Act 2006. The ethos and culture of the Company is very much focused on end-delivery for our customers in order to earn their trust.

The Executive Team proposes the Annual Business Plans for the Company and these are signed off by the combined Board of Glas Cymru Holdings Cyfyngedig and Dŵr Cymru Cyfyngedig. The Annual Business Plans are based on the regulatory settlement in the form of five year asset investment plans from Ofwat as our economic regulator. For 2020/21, the Annual Business Plan was based on the first year of the Final Determination of business plans by Ofwat for the AMP (Asset Management Plan) period 2020-25. In some cases, our internal business plan targets for the year were more stretching than the Ofwat Final Determination targets from the PR19 process, and in other cases, particularly where Ofwat applied standard targets across the sector, the internal business plan targets are lower than those set out in the Final Determination but are as challenging as the Board considers realistic.

In approving the targets proposed by the Executive Team, the Board takes into account the views of our stakeholders. Alongside the regulatory reporting framework, the Board has approved initiatives to address the specific needs and interests of these stakeholder groups:

- **Our Customers** - we continue to engage with our customers directly and seek feedback on the strategic goals that particularly matter to them. We also engage regularly with the Consumer Council for Water and act on feedback we receive from them and from our own Customer Challenge Group, which is independently chaired by Peter Davies OBE and which is comprised of organisations which represent our wider customer base.

For 2021/22, we have committed a further £12m in financial support for those customers who struggle to pay their water bills.

- **Our Communities** - following the completion of our pilot Water Resilient Community project in the Rhondda Fach, we have launched two further projects in Rhyl (north Wales) and Rhymney-Bargoed (south east Wales).

Annual Performance Report 2020/21

COMPANY DIRECTION AND PERFORMANCE STATEMENT 2020/21 (continued)

The projects challenge the business to work with and involve customers in a way not done before - to co-create and co-deliver more resilient services within the area. From helping people struggling with their bills, providing water-saving devices, heading to schools with fun lessons and supporting local community projects, we target sections of the community to deliver real and tangible value. Due to the impact of the pandemic, we have had to adapt ways of working to continue to offer community benefits. Projects involving our Vulnerable Customer team, water efficiency audits, proactive sewer investigations, collaborations with partners such as The Princes Trust, and our Education team, will continue in 2021/22.

Since launching our Community Fund in 2017, nearly 350 organisations have benefited from grants (of between £250 and £1,000) to help make a difference in their local communities. Our Colleague Fund also supports colleagues in their own fundraising efforts in the community.

As part of our response to Covid-19, we doubled the size of the Community Fund to target immediate support to communities through partnering with Business in the Community Wales (to which we contributed £40,000), the Community Foundation Wales (£30,000), and the Trussell Trust, which in turn was able to support 106 local foodbanks, through our donation of £106,000.

- **Our People** - As of 31 March 2021, we employed 3,581 people, making us one of the biggest employers in Wales. Our success is fundamentally dependent upon our highly engaged and motivated people, and despite the challenges of the Covid restrictions during 2020/21, we remain committed to developing our people to meet the challenges of operating our business in the future and to encourage a diverse workforce that fully reflects the communities we serve.
- **Our Suppliers** - We work with over 2,000 supply partners to ensure we can deliver our essential services to customers. Our suppliers play an essential part in enabling us to deliver services to our customers and we expect all of our suppliers to operate to the highest standards of openness, honesty, integrity and business ethics. During 2020/21 we began implementing our Supplier Code of Conduct which embodies these standards. Our Supplier Management Frameworks help us to develop close working relationships which are focused on working in partnership to ensure we deliver excellent service to our customers.
- **Our Environment** - We work with a range of organisations and academic institutions to carry out research and develop innovative methods to minimise our impact on the environment and improve the sustainability of our operations. In 2020-25 we are continuing to develop our approach to catchment management, working with local landowners and other organisations to improve water quality in our catchments and reduce the need for chemical treatment. We are progressing well with the development of new Drainage and Wastewater Management Plans, which will be published in June 2022 and which will set out our proposals for future investment prioritised according to environmental evidence on the impact of our wastewater operations, so that we can plan for improvement and agree with customers, investors, and regulators the priorities and pace at which this will take place.
- **Glas 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. Members 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.

Annual Performance Report 2020/21

COMPANY DIRECTION AND PERFORMANCE STATEMENT 2020/21 (continued)

- **Our Regulators and Policy Makers** – We maintain an open dialogue to help shape sound policy and develop balanced investment programmes which address the needs of all our stakeholders. Our transparent and open approach helps to build trust and positive relationships with national and local governments and our regulators, including Ofwat, the Health & Safety Executive, Natural Resources Wales, Environment Agency, Drinking Water Inspectorate and Consumer Council for Water.

For further information on our relationships with stakeholders, how we have set out ambitions with reference to their interests and how we are delivering for them, please see pages 39 – 43 of our Annual Report and Accounts 2020/21.

<https://www.dwrcymru.com/en/Library/Group-Annual-Report-and-Accounts.aspx>

Our Section 172(1) Statement on pages 44 - 46 of the Annual Report and Accounts sets out how the Board balances the needs and interests of different stakeholders in its decision-making. Examples of where the interests of different stakeholders have had to be weighed include: whether to charge 45,000 businesses forced to close during the pandemic lockdown; how to structure our charges; bringing forward the application of funds identified to support social tariffs; agreeing the target and pace of the Group's Carbon Reduction Strategy. The Customer Challenge Group ensures that the voice of customers is taken into account, through the input of the customer representative organisations who are members of it. The views of the Independent Environmental Advisory Panel, an advisory panel consisting of representatives from front-line environmental organisations and leading academics in specialist areas, are also taken into account by the Quality and Environment Committee of the Board.

4. Ongoing Evaluation – how we monitor performance and make decisions

The Board met on 12 occasions during 2020/21, including three additional meetings which addressed the Company's response to Covid-19, insurance renewals, and a discussion on carbon reduction targets. At each scheduled Board meeting, and on a monthly basis between Board meetings, the Board receives detailed information on Health & Safety lagging and leading indicators and current issues, operational performance and current operational issues, financial performance and bad debt, people and recruitment updates, and regulatory/legal developments. This information is reviewed in detail at each Board meeting and the Quality and Environment Committee of the Board also met on 6 occasions in 2020/21 to review operational and regulatory performance issues in more detail.

The Board also meets both formally and informally with members of the Executive team and senior managers across the business and individual Non-Executive directors have the opportunity to learn about operational issues and visit sites on a regular basis. A reduced number of site visits took place during 2020/21 due to pandemic-related restrictions, but meetings with senior managements and employee engagement champions drawn from across the business continued to take place regularly via video-conference.

During 2020/21, the Board has challenged the Executive team on matters including the following:

- measures taken to ensure the Health, Safety & Wellbeing of employees and contractors during the Covid-19 pandemic;
- the speed and delivery of internal business review costs saving plans across the business;
- the setting of a challenging but deliverable target for net zero carbon emissions;
- progress of capital projects;
- delivery of dam safety "pipes in dams" projects in a safe manner;
- recruitment of a new Asset Planning Director and development of an Asset Planning Strategy;

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COMPANY DIRECTION AND PERFORMANCE STATEMENT 2020/21 (continued)

- the take-up of our social tariff support for customers struggling to pay their bills and communication with customers in debt; and
- progress of the Direct Procurement for Customers project to fund and construct a new Water Treatment Works, Cwm Taf.

Where Monthly Management Reports show that performance is lagging behind in a particular area of the business, the reasons for this and the possible actions that can be/are being taken to address it are discussed at meetings of the main Board or the Quality and Environment Committee, as appropriate, and actions plans put in place to assist in monitoring improvement.

5. How we have performed in 2020/21

Performance highlights and challenges:

For 2020/21, we have reported the following:

- we improved Health & Safety performance, with 6 RIDDORS (serious safety incidents) during 2020/21 (2019/20: 8).
- we achieved our regulatory target for reducing leakage from our pipes for the 6th consecutive year.
- we have remained upper quartile for the WaterUK Developer Services Levels of Service (which is now the quantitative component of D-MeX) since 2015 apart from two months in 2020/21 (April & June) at the start of the Covid pandemic when we had to move away from office working to home working for the vast majority of our developer services colleagues.
- we have not met our target for reducing internal flooding incidents due in large part to a single significant flooding incident in Newport in December 2020
- written complaints received in 2020/21 totalled 2,874 – which is up from 2,525 in the previous year. This can be attributed to some metered customers challenging their bills (due to increased water usage during the prolonged dry and hot period in 2020) and other customers trying to manage historical debt issues.
- we added over 240,000 vulnerable customers to our Priority Services Register to receive additional support during operational incidents while the pandemic is ongoing

We did not, however, meet our target for reductions in pollution incidents, however, nor our targets for customer acceptability for quality of water and reliability of supply (number of minutes lost), both of which were impacted in part by increased water demand during the pandemic-related lockdowns. Burst mains (or increased customer demand during hot weather) often cause issues through changes in the velocity of water flows which can loosen iron sediments from within the pipes, resulting in discoloured water which impacts on our performance for customer acceptability for quality of water. We know that we have to work harder in these areas and will be investing further to improve our performance in AMP7 (2020/25).

Full details of our performance are set out on pages 56 – 61 of our Annual Report and Accounts and in this Annual Performance Report.

6. How we balance the relationship between delivering our services and rewarding Executives

The Remuneration Committee sets the Executive Remuneration policy in the context of the approach to pay for the workforce as a whole.

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COMPANY DIRECTION AND PERFORMANCE STATEMENT 2020/21 (continued)

Our pay structure is intended to be simple and transparent and clearly links pay to performance. Remuneration includes a significant element of variable pay, with targets that are stretching, and focused on achieving improved operational performance and excellent customer service. The elements of remuneration are as follows:

Fixed Pay

- Base salary
- Pension cash allowance
- Benefits (mainly health insurance)

Variable Pay

- Annual Variable Pay – an annual variable pay scheme, where awards are based on a range of measure relating to Customer Service, Operational Performance and Strategic Goals. For AMP7, the scheme has been amended to focus on the key performance objectives of the business plan. Personal objectives have been replaced with a suite of Strategic Goals which are selected by the Remuneration Committee each year.
- Long Term Variable Pay – a five year scheme, to incentivise achievement of the Company's long-term strategy, 50% based on Totex performance and 50% based on overall reward/penalty outcomes for a range of performance development measures relevant to achieving the Company's long-term goals as set out in Welsh Water 2050.

Further details of our Directors' pay policy and implementation are set out in the Directors' Remuneration Report (see pages 130 - 148 of the Annual Report and Accounts). This includes details of the proposed Executive Pay Policy for AMP7, which was approved by Glas Members at the 2020 AGM.

Statement Approval

At the Board meeting on 1 July 2021, the Board approved this statement on our direction and performance, and authorised the Chair to sign this statement.

Signed on behalf of the Board of Dŵr Cymru Cyfyngedig



Alastair Lyons
Chair of the Board
9 July 2021

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Appendix 3 – Board Statement on the Accuracy and Completeness of Data and Information 2020/21.

The Company is required by the terms of the Instrument of Appointment to meet the obligations outlined in the Water Services Regulation Authority's Regulatory Accounting Guidelines. One of these obligations, outlined in Regulatory Accounting Guideline 3.12 published in February 2021, is for the Board to prepare a Statement on the accuracy and completeness of data and information.


The Company's overall aim is to ensure that the data and information it publishes is accurate and reliable. The Board understands the importance of providing the Water Services Regulation Authority with high quality information. By high quality we mean data and information that is reliable, accurate and complete within the bounds specified.

It is also important that the Company provides information to customers and stakeholders that is customer-led, accessible, clear, accurate, transparent and timely. Our ongoing objective therefore is to make available information that is easy to follow and navigate and which enables customers and stakeholders to understand how we are performing. We also recognise that this helps build trust and confidence in the business. Although it is a condition of the Company's Instrument of Appointment to produce this Statement, we consider that it also helps us to achieve our Vision of earning the trust of our customers every day.

Information Notice 21/01 published by the Water Services Regulation Authority in April 2021 sets out additional guidance for water and wastewater companies in England and Wales in preparing their Statement. Within the business we have well-established governance and accountability processes to produce high quality information. To confirm that the Company has followed guidance issued by the Water Services Regulation Authority the information contained within our Annual Performance Report is subject to checks by the Regulatory and Compliance Teams, scrutiny at Director level, review by the Audit Committee, and audit by our independent External Auditors.

Having made reasonable and relevant enquiries, the Board considers that the Company has in place an assurance framework and adequate systems of control appropriate for a Water and Sewerage Undertaker acting diligently, to allow the Board to discharge its responsibilities under Condition F6.2 of the Instrument of Appointment and Regulatory Accounting Guideline 3.12 and to confirm that in the opinion of the Board the data and information which the Company has provided to the Water Services Regulation Authority in the reporting year and/or which it has published in its role as water and sewerage undertaker was accurate and complete. A description of the activities which the Board has considered to allow it to make this Statement can be found at appendix 3.1.

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig



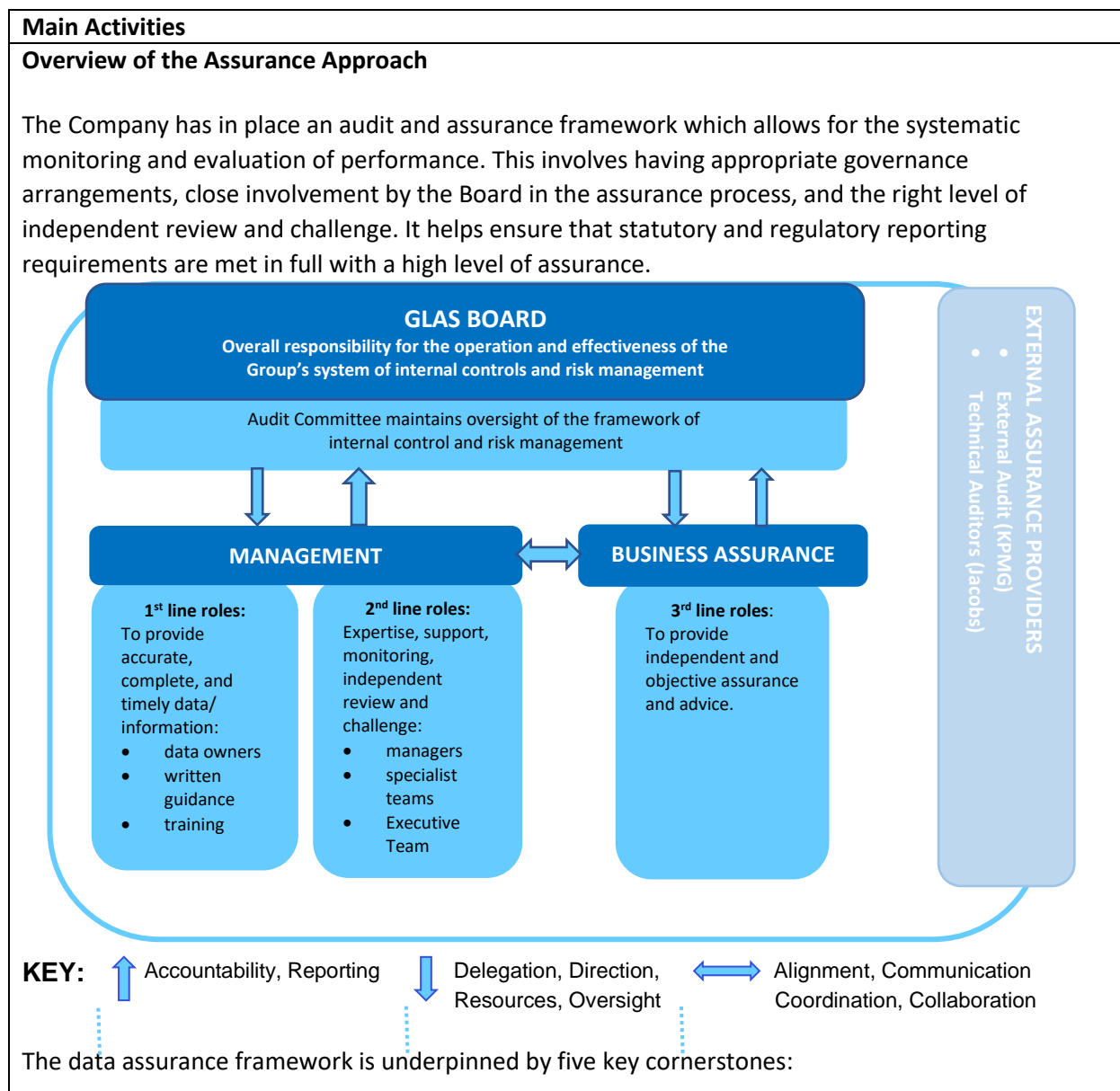
Alastair Lyons
Chairman, Dŵr Cymru Cyfyngedig
9 July 2021

APPENDIX 3.1

A description of the activities which the Board has considered to allow it to make this Statement

To produce the Statement on the accuracy and completeness of data and information the Board addressed four key areas and considered the Board's main activities in these areas:

1. How the Board has engaged and challenged on the assurance approaches which have been taken.
2. How the Board has taken action to ensure that any exceptions and weaknesses in the assurance approaches have been addressed.
3. How the Board has satisfied itself that the approaches have appropriately identified and addressed any risks to the provision of accurate and complete data and information in particular areas.
4. How the Board has utilised individual directors and committees in carrying out its activities in this area.



1. Robust assurance principles – the Company operates a “three-lines of assurance” model, targeted at areas of greatest risk.

2. Clear ownership and accountability – the Company has clear lines of ownership and accountability for both the delivery of performance and the accuracy and reliability of the data provided.

- Strong personal and collective ownership is critical for ensuring the accuracy of the data and information produced, driving improvements.
- Regular internal performance reporting to the Executive monthly and Board (at every meeting), and updates on performance to the Customer Challenge Group and CCW, reinforces this culture of ownership and accountability.
- Every year, the compliance framework is refreshed to ensure that individual accountabilities are linked to regulatory and statutory obligations.
- There is also a rigorous process of sign-off for regulatory data contained within the Annual Performance Report, including sign-off by the data owner, the responsible senior manager (where appropriate) and the accountable director. This is in addition to our Board governance arrangements.
- The ‘three lines of defence model’ ensures that there is clear separation of accountabilities between those responsible for delivery of a performance commitment or a regulatory/statutory obligation and those responsible for ensuring the integrity of that data. This delineation is mirrored in the governance arrangements.

3. Effective governance – the Company’s Assurance Plan provides for governance of all performance commitments and other external reporting with a clear delineation of accountabilities and has the following key features:

- the Board’s role is to meet its obligations to the Company’s stakeholders. It reviews performance in the light of the Company’s strategic objectives and business plan commitments – ensuring that any necessary corrective action is taken;
- the Board’s Audit Committee assists the Board in discharging its responsibilities for the integrity of the Company’s financial statements, the assessment and effectiveness of internal controls for both financial and non-financial data and the effectiveness of internal and external auditors; and
- the Customer Challenge Group provides independent external challenge of both our performance against our commitments and any supporting information we provide on it. Our Regulators, DWI, EA and NRW, and the consumer watchdog CCWater, also provide independent scrutiny and challenge.

4. Transparency and accountability – the Company publicly reports on its performance and hold itself to account where it does not meet its commitments.

5. Company culture – the Company’s culture is a cornerstone of the data assurance process and is based on shared values and beliefs. It helps shape the way the Company conducts its everyday business and ensures it strives to “do the right thing”. Because of its importance, company culture is sometimes described as a layer of control even preceding the first line of defence against inaccurate information. Maintaining a positive culture is important to the Board because:

- everyone is aware of the expectations regarding high quality information;
- other controls will focus on checking and correcting errors, but in a positive corporate culture, errors are less likely to arise because individuals create, record and transmit information completely and accurately as part of the way they work;
- other controls are laid over the top of the information-reporting process, but cultural controls are embedded within it;

- other controls might be occasional or periodic, but culture is ongoing and permanent; and
- everyone knows that they can be honest about data errors.

Risk Based Approach to the provision of accurate and complete data and information in particular areas

The risk based assurance approach in operation examines the Company's end-to-end reporting processes to identify the risks, strengths and weaknesses associated with providing information that is of a high quality and which customers and stakeholders can trust. It also examines the probability of these risks materialising and the potential impact that they may have. This ensures that the Company focuses on the areas which would have the greatest impact and allows it to take action to monitor and actively manage any relevant risks.

The approach followed is based on the methodology set out by Ofgem, which was developed to provide guidance on best practice for conducting and reporting risk assessment and data assurance activities in order to ensure complete, accurate and timely data is submitted.

This approach was independently reviewed and endorsed by KPMG.

Even though the Company was promoted to the self-assurance (highest) category in the last and final Company Monitoring Framework assessment carried out by Ofwat January 2019, the Company continues to adopt the same robust and transparent assurance processes that have served it so well over recent years.

The Company has again undertaken a reporting risk assessment for all relevant data that will be contained in the Annual Performance Report (and other key documents). This was an important exercise and formed the basis of the Company's Statement of Risks, Strengths and Weaknesses which was published for consultation in November 2020.

The results from the risks, strengths and weaknesses analysis allowed the Company to develop a Draft Assurance Plan for 2020/21. As in previous years, the Draft Assurance Plan included a wide variety of controls and mitigating actions designed to ensure that customers and stakeholders can trust the information the Company publishes. This was included as part of the November 2020 consultation exercise with customers and key stakeholders. The Final Assurance Plan was published in March 2021.

Data Assurance and the culture and governance framework

In terms of data assurance, the Board considers that the following features of our culture and governance framework are key strengths:

- Colleagues in the business understand and appreciate the value attached to data quality and the processes used to generate the data. The Regulation Department provides an annual update to data owners and guidance in the form of an information pack on the process and timeline for the Annual Performance Report;
- The Company's Corporate Behaviours Framework and Code of Conduct actively encourages colleagues to 'have the confidence to raise any concerns' and 'speak up' about inaccurate information or suggest improvements to existing processes that will improve data quality. The options available to colleagues wishing to raise any concerns are detailed in the 'Whistle Blowing' procedure;

- Reviews of performance are conducted regularly throughout the Company from Board level to individuals. This includes those carried out by the Board, the Audit Committee, the Chief Executive Officer, the Quality and Environment Committee and the Executive team;
- The Technical Auditor (Jacobs) carries out a formal review and certification of 54 of the current 56 Performance Commitments (the other 2 are audited by KPMG) and a selection of other regulatory data and provides a detailed report commenting on compliance with procedures and relevant regulatory reporting requirements and highlights any issues with the reported figures. This includes checking the source of data, compilation of the data including the process of any extrapolation and assessing the adequacy of reported data. In addition, the Technical Auditor reviews and if required scores the Methodology Statements where they exist for all of our key measures and other relevant regulatory data;
- Ahead of the publication of the Annual Performance Report, the internal Business Assurance team carry out a high level audit and evaluation of the systems in place on the reporting framework within the Company and review the effectiveness of the system of risk management, control and governance;
- A programme of internal audits is approved and overseen by the Audit Committee to assess the adequacy of control, governance and risk management processes. The results of these audits are reported to the Audit Committee, which ensures that actions arising from internal audits are completed on a timely basis;
- The Company has a well embedded risk management process that identifies, assesses, and manages our risks. All colleagues play a part in risk management. Individual teams within the business take responsibility for managing risks within their areas of responsibility. The Business Area Risk Registers are reviewed quarterly by the Executive. The Executive update on strategic risks affecting the business is reviewed at every Board meeting;
- Robust financial control monitoring processes provide assurance that the Company's key financial controls are operating effectively and that the financial information produced by our accounting system can be trusted; and
- The Company's Integrated Management System, which has certification to various ISO Standards, has been established to reinforce the management of risks and opportunities associated with many areas of the business and compliance with regulatory and legislative obligations. Audits of compliance with this system are conducted both internally and by our third party certifiers (SGS).

Key assurance activities during 2020/2021

Data providers, their managers and business unit directors

During the year nominated data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trails to support the reported performance and demonstrate the control checks that have been applied.

Methodology Statements

Comprehensive Methodology Statements are in place for all performance commitments. They are updated to reflect comments received from the Regulation Team and the Technical Auditor and changes in process or obligations which may have occurred in the year.

The Regulation Team

The Regulation team undertake their own reviews, and this includes a rigorous process of internal due diligence to test: the application of the appropriate Methodology Statements and reporting requirements; challenge information, judgements and assumptions associated with both financial and non-financial data; and to ensure compliance with the relevant guidance. This provides a good opportunity to highlight to management areas where judgements were required, or assumptions needed to be tested.

Information packs containing all relevant information are provided to all data owners. This is supplemented with several group training sessions.

Independent Technical Auditors

Jacobs (the Company's Technical Auditor) undertake a full data review in accordance with an agreed Audit Plan. This involves:

- a) A review of documentation including Methodology Statements already in place for individual data items;
- b) A process review which involved face to face discussion via Teams with the data owner; and
- c) A year-end audit involving document review and face to face discussions via Teams with data owners covering: - adherence to internal processes; - tracing to source data; - sample checks; - confidence grade reviews; - calculation of rewards/penalties (where appropriate); and - commentaries.

Jacobs prepare reports for each audit and the risks are scored. Jacobs also produce a letter to the Board summarising their findings and attend both the Audit Committee meeting in June and the Board meeting in July to report their conclusions and to answer any questions.

Financial Auditors

The independent financial auditors (KPMG) begin their audit and assurance procedures in June and substantially complete them by the time of the Board meeting in July. KPMG attends the Board meeting and provide their assurance confirmations and audit opinion.

Business Assurance

The internal Business Assurance team undertake a high-level audit and evaluation of the assurance framework. Their report concluded that generally there is a sound system of internal control and broadly there is operational compliance with those controls and assigned an overall rating of "Satisfactory Assurance".

Customer Challenge Group

The proposals on the risks, strengths and weaknesses assessment and the assurance activities planned in both our Draft and Final Assurance Plan were shared with the Chair of the CCG.

The Executive Team

The Executive Team review all data reported in the Annual Performance Report towards the end of May. This is also attended by Jacobs and the Business Assurance team. Members of the Regulation team and selected data owners (and/or their managers) are also present. For each performance

commitment and data table, a summary containing current year's performance, historical performance and data owners' and Jacob's/KPMG's issues is produced and forms the basis of discussions. Key judgements and material assumptions are reviewed.

The Audit Committee

During 2020/2021 the Audit Committee received and reviewed the Company's key regulatory submissions and assurance processes relating to:

- the Annual Performance Report, 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, and
- the publication of our Charging Schemes for 2021/2022.

The Board received feedback from the Audit Committee on the assurance processes followed for the 2020/21 Annual Performance Report, together with the updates from Jacobs and KPMG, in advance of the Board's formal approval of the Annual Performance Report prior to publication in July 2021.

The Audit Committee applied a similar process in reviewing the assurance process that underpinned the Board's approval of the Company's Charging Schemes for 2021/22 in December 2020.

The Audit Committee reviewed financial performance in detail at the half year and year end (financial statements) and received regular reports from the Group's external auditors, KPMG and the Company's Group Financial Controller in relation to accounting treatments.

The Audit Committee recommended that the financial statements be approved by the Board, it also confirmed, in respect of the 2020/21 Annual Report and Accounts, that it was fair, balanced and understandable.

Both the Audit Committee and the Board review the overall process, the operation of the systems of internal and external controls and reviewed the key judgements required in compiling the Annual Performance Report.

The Audit Committee and the Board make appropriate enquiries of the Executive Team and the relevant experienced colleagues involved, in particular the Director of Strategy and Regulation and also the Technical Auditor and the independent financial auditor.

Appendix 4 - Risk and Compliance Statement 2020/2021

Scope of the Risk and Compliance Statement

The Water Services Regulation Authority (Ofwat) requires all water companies to provide a statement setting out how they have complied with their relevant statutory, licence and regulatory obligations for which Ofwat is the relevant enforcement authority (Obligations), or failing that, to explain why they are unable to do so. The Risk and Compliance Statement is one of Ofwat's key regulatory tools and allows companies to demonstrate their accountability to their customers and demonstrate to Ofwat that they are complying with their obligations.

The Risk and Compliance Statement

We recognise the importance of demonstrating to our customers, stakeholders and regulators that we are meeting the statutory, licence and regulatory obligations that apply to our activities. We have set out in this Statement and our Annual Performance Report our compliance with and performance against certain key performance measures, legal requirements and regulatory outputs. We have also identified the risks that we are facing and the steps we are taking to manage and mitigate those risks.

In preparing this Statement we have considered, in particular, our compliance with those legal, licence and regulatory obligations for which Ofwat is the enforcement authority. In respect of these obligations, subject to the matters set out in this Statement, we confirm that:

- We have a full understanding of, and are meeting, our statutory and regulatory obligations.
- We have taken steps to understand and meet our customers' expectations.
- We are satisfied that we have sufficient processes and internal systems of control fully to meet our obligations.
- We have appropriate systems and processes in place to allow us to identify, manage, mitigate and review our risks.

In this Statement we also:

- explain links between the standards of performance we achieve, and directors' and senior executives' pay (s35A Water Industry Act Statement);
- confirm that the auditors have been made aware of all relevant information (Companies Act 2006);
- explain our dividend policy (Licence Condition P29 and Regulatory Accounting Guideline 3.12);
- confirm that we have sufficient financial resources and facilities, management resources and systems of planning and internal control available to us for at least the next 12 months to meet our obligations as a water and sewerage undertaker and outline the main factors taken into account when making this statement (Licence Condition P12);
- confirm that a report has been prepared by the companies' auditors and addressed to Ofwat, stating whether they are aware of any inconsistencies between the P30 Ring-fencing Certificate and the financial statements or any information obtained in the course of their work. (Licence Condition P35);
- confirm we will be able to continue in operation and meet our liabilities as they fall due over the period to March 2030 (UK Corporate Governance Code and Ofwat requirement);
- confirm that we have maintained an issuer credit rating which is classed as an Investor rating (Licence Condition P26);
- confirm that if a special administration order were to be made, we would have available sufficient non-financial resources to enable a special administrator to manage the affairs, business and property of our regulated activities (Licence Condition P14); and

- confirm that transactions with associated companies are at arm's length (except where agreed by Ofwat) with no cross subsidy occurring (Licence Condition P19).

The Individual Statements

Dŵr Cymru fully recognises its accountability to its customers, its regulators and its other stakeholders and is pleased to provide the following Statements to demonstrate that it complies with its Obligations and is managing its risk in an appropriate manner.

1. The Company considers it has a full understanding of, and is meeting, its Obligations.

Our primary obligations and duties as a Water and Sewerage Undertaker are set out in the Water Industry Act 1991, the Water Resources Act 1991 and our Licence.

We keep our assurance processes continually under review to ensure they remain appropriate. A key emphasis is on ensuring the Company has sufficient processes and internal systems to fully meet our obligations. Our Legal Team works with colleagues throughout the business to identify new legal obligations and amendments to existing legislation. Colleagues in the Regulation Team keep abreast of developments or changes to our regulatory and licence obligations. The Compliance Team provides advice, guidance and support to the whole business on understanding the extent of any regulatory or licence obligation and implementing an appropriate internal control framework to ensure compliance with those obligations.

Modernising, or streamlining, the Licence is a long-standing objective for Ofwat. The Licence is a key tool in protecting customers and has been so since privatisation. Ofwat has instigated a programme to simplify the form of the Licence and a working group, of which Dŵr Cymru is a part, has taken forward the work on simplification. During 2020-2021 Ofwat made a number of modifications to our Licence Conditions:

- The deletion of Condition F1: Procurement of Services. These provisions were introduced at a time when we were outsourcing a significant portion of our service provision. The key requirement was to maintain a Procurement Plan, which was disappplied by a side letter from Ofwat in 2011.
- The deletion of Condition I: Ring-fencing in its entirety (although relevant aspects are picked up by new Condition P).
- The existing Condition P is deleted in its entirety and replaced with a new Condition P 'Regulatory Ring-Fence'.
- The modification to our existing Condition K ('Ring- Fencing', and Disposals of Land) to:
 - Remove the Ring-Fencing element as this now forms part of the new Condition P.
 - Amend the title to Disposals of Land.
- The introduction of new Condition U: Direct Procurement for Customers (DPC) which relates to the competitive tendering for services in relation to the delivery of certain large infrastructure projects, resulting in the selection of a third-party competitively appointed provider (CAP).

The Compliance Team has used the introduction of these modifications as an opportunity to enhance the awareness of business units of the obligations they contribute to deliver and to further embed compliance with "business as usual" processes

It is essential that all concerned in ensuring Licence Condition compliance continue to understand their individual responsibilities and appropriate checks and controls are in place to meet our obligations. To achieve this, it was important to build upon the existing knowledge of the Licence Owners and to discuss the application of any new modifications with them. Consequently, and building on the processes we have developed over the last few years to ensure "ownership" of Licence conditions and legal/regulatory

obligations, for each individual Licence Condition covered within the Risk and Compliance Statement we have now:

- Established who the Licence Condition “owner” is;
- Established the relevant Dŵr Cymru Executive (DCE) Member;
- Produced a PowerPoint Guide outlining the purpose of the Condition and our obligations;
- Developed a proforma that:
 - Reviews the Licence Condition in detail to establish all requirements;
 - Establishes how compliance with the individual requirement is achieved;
 - Contains a “compliance statement” which is signed by the Licence Owner; and
 - Contains a “compliance declaration” signed by the relevant DCE Member.

For the 2020/2021 Risk and Compliance Statement we mapped Company processes against our statutory obligations. This was a desk exercise combined with consultation with operational managers. In each case the outcome of the process followed demonstrated that the obligation in question was recognised and that there were processes in place likely to ensure compliance. We continue to use a common reporting format which includes:

- responsible Member of the DCE Team;
- formal description of the obligation, including hyperlinks to the actual legislation referred to;
- description of the obligation in plain English;
- details of policies, procedures and responsible Departments;
- internal governance and assurance arrangements;
- external assurance arrangements; and
- any material performance departures in the report year.

Each individual legal obligation has a Compliance Proforma (similar to the Licence Condition Proforma) that evidences how compliance is achieved.

Ofwat required our Board to provide assurance that the Company’s PR19 Business Plan would enable it to meet its statutory and licence obligations and that we had taken into account the Welsh Government’s Strategic Priorities and Objectives Statement.

In their 2019 (most recent) price review methodology statement Ofwat specifically mentioned two areas of compliance:

1. The Environment Agency and Natural England’s water industry strategic environmental requirements (WISER) document; and
2. Natural Resources Wales’s “PR19 expectations and obligations” document.

The Compliance Team assisted colleagues on this aspect of the PR19 process and reviewed both documents in detail and listed all the statutory obligations mentioned. These obligations were then mapped against the statutory obligations already identified in the Company’s Risk and Compliance Statement to reinforce the assurance that we have a full understanding of, and are meeting, our statutory obligations.

We will continue our efforts to improve the awareness of business units of the obligations they contribute to deliver and to further embed compliance within “business as usual” processes.

2. The Company has taken steps to understand and meet customer expectations.

Our Customer-led Success approach places the needs of our customers at the heart of everything we do. We take a lot of pride in shaping our services around the needs of our customers and we focus on

delivering the best quality services possible, at the lowest-possible price, and supporting those who need it most.

Our vision is to “earn the trust of our customers every day”. This vision is fundamental to the way we work and enshrines our commitment that everything we do should be geared towards the benefit of our customers, not just our responses to high-profile events or campaigns.

When we plan for the future, whether it is over decades or over the next few years, working together with our customers forms a central part of our way of working. We appreciate fully that we need to develop new and innovative methods to talk to our customers, to ensure that we continue to meet our customers’ service expectations.

Being customer-led means we can focus solely on providing the best service possible and supporting those who need it most.

Customer expectations are likely to continue to change and develop with a 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 carry out an Annual Trust survey to check we meet customer expectations.

We invested £1.9 billion on our assets over the period 2015/2020 and we are investing a further £1.8 billion over the next five-year period to ensure we maintain their resilience and meet our customers’ evolving expectations and the challenges of climate change and evolving regulation.

Faced with increasing customer expectations for a good service at all times we will address the longstanding service complaints of ‘worst served’ customers to ensure that everyone receives an acceptable level of service.

Welsh Water 2050

One of the key pillars underpinning customers’ trust is their faith that we are planning and preparing to meet those challenges in future. The Welsh Water 2050 vision sets out 18 “strategic responses” to trends which we, our key stakeholders, and our customers believe will help us meet those challenges head on. The plan responds to the feedback and concerns that we have heard from customers and stakeholders. We are building flexibility into our plans to respond to shifts in customer priorities, as well as future events - with reviews every five years to ensure it is delivering the best outcomes for our customers. It also aims to be consistent with the wellbeing goals set out in the Wellbeing of Future Generations (Wales) Act 2015.

This long-term plan sits alongside our five-year investment for 2020/2025, which sets out what we intend to do as first steps towards realising this vision.

Customer Challenge Group

We worked with our independent Customer Challenge Group (CCG) throughout the development of our current business plan to ensure the key elements— bill levels, service levels, and outcome delivery incentives – were based on our customers’ priorities. Our CCG has a key role concerning the way in which customers’ views are best ascertained to inform ongoing business decisions such as how any financial surpluses are reinvested or returned for customers’ benefit, in line with their priorities. The Board regularly engages with the CCG.

The Wellbeing of our Customers and our Communities

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

for generations to come. Last year we published a set of Wellbeing Commitments, which set out clear and measurable targets and objectives for the next five years, which will contribute to the seven wellbeing goals set out in the Wellbeing of Future Generations (Wales) Act 2015.

We included in our document a scorecard that our customers can track our progress against these Wellbeing Commitments, and against which we will report periodically.

We have also continued our Water Resilient Communities projects and our Community Fund has provided matched funding to 54 community projects across our supply area during the year.

The potential impact of the Board's decisions on our communities and customers is a key factor taken into account in decision-making, and views of stakeholders are highlighted in Board papers seeking approval.

Business Customers

Dŵr Cymru has dedicated business customer teams for those business customers who are in the competitive business retail market for water services (in Wales: those who take more than 50ML water at a single site) and for those who are not in the competitive market. These teams provide a tailored service to all of our business customers to meet their expectations and help them manage their water and wastewater cycles. During 2020/2021 we temporarily suspended charges for around 45,000 business customers whose businesses were forced to close during the pandemic restrictions and have been proactively contacting business customers to offer advice and support relating to a range of subjects, including water quality and cold weather preparations (given the long periods for which many businesses have been closed). 100% of our customers reported that they are satisfied with the retail service provided in the Consumer Council for Water's non-household customer insight survey 2020.

Developer Customers

Dŵr Cymru's dedicated expert team who support our developer customers, whether concerned with providing new housing, commercial or industrial premises, achieved industry leading performance for the period 2015 to 2020, compared to the other Welsh and English water companies, and an excellent customer satisfaction rating of 85% according to independent research conducted over the same period. In 2020/2021 a new regulatory mechanism has been introduced to measure developer customers' experience (D-MeX) across all water companies in Wales and England. The team also supports the many major infrastructure projects being undertaken in our area, such as those relating to new highways and rail, that typically require investments in water and wastewater infrastructure totalling around £50m in committed works on a rolling annual basis.

Vulnerable Customers

In November 2018, we launched our strategy for vulnerable customers - setting out what we intend to do to support customers who are most in need of help and support. Maintaining and increasing the number of customers in need of extra support to pay their bills is of great importance to us. We provide financial assistance to over 143,000 customers who struggle to pay their water bills.

3. We have satisfied ourselves that we have sufficient processes and internal systems of control fully to meet our Obligations.

The Board has overall responsibility for the operation and effectiveness of the Group's system of internal control and risk management. The Audit Committee reviews the integrity, adequacy and effectiveness of the Group's system of internal control and risk management and related compliance activities on behalf of the Board.

The system of internal control is designed to ensure compliance with our obligations and manage the risk of failure to achieve business objectives. The operational policies and procedures which set out these controls are housed in the Integrated Management System or similar repositories and achieve international quality standards for Asset Management, Environmental Management, Occupational Health and Safety, and Quality Management. Our three lines of defence work together to provide confidence to the Board and its Committees, senior management and our stakeholders over the adequacy of the design and operation of the controls.

During the year the Audit Committee has:

- maintained oversight of the operation of the Company's systems of internal controls and assurance;
- received reports from the Head of Business Assurance on the outcomes of internal audit investigations and whistleblower investigations;
- received and reviewed Risk Reports made available to the Committee and Board;
- received a detailed assurance report from the Executive on the internal controls and risk management process in place and any recommended changes thereto;
- discussed management responses to unsatisfactory and limited-satisfaction audits and subsequently kept these under review to ensure progress is made to remedy control weaknesses;
- monitored the effectiveness of the internal audit function using a variety of inputs including the Committee's review of the audit reports produced, the Committee's interaction with the Head of Business Assurance, and updates at each meeting on progress against the internal audit plan, which includes the quality audits undertaken and reported on at meetings of the Quality and Environment Committee.

On behalf of the Board, the Quality and Environment 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. This Committee also reviews the Company's operational systems and quality assurance audit programme and receives the findings of audit reports relating to water and wastewater service provision.

The Audit Committee reports the results of its review to the Board which then draws its collective conclusion on the effectiveness of the system of internal controls. In fulfilling this responsibility, the Board considers regular reports from the Audit Committee, the Quality and Environment Committee and from management, and relies on its routine monitoring of key performance indicators and monthly reports of financial and operational performance. The Board also receives assurance from independent work by Dŵr Cymru's technical advisor on regulatory reporting issues (Jacobs Engineering Group).

Taken as a whole, these processes enable the Board to review the effectiveness of the internal control system during the course of the year.

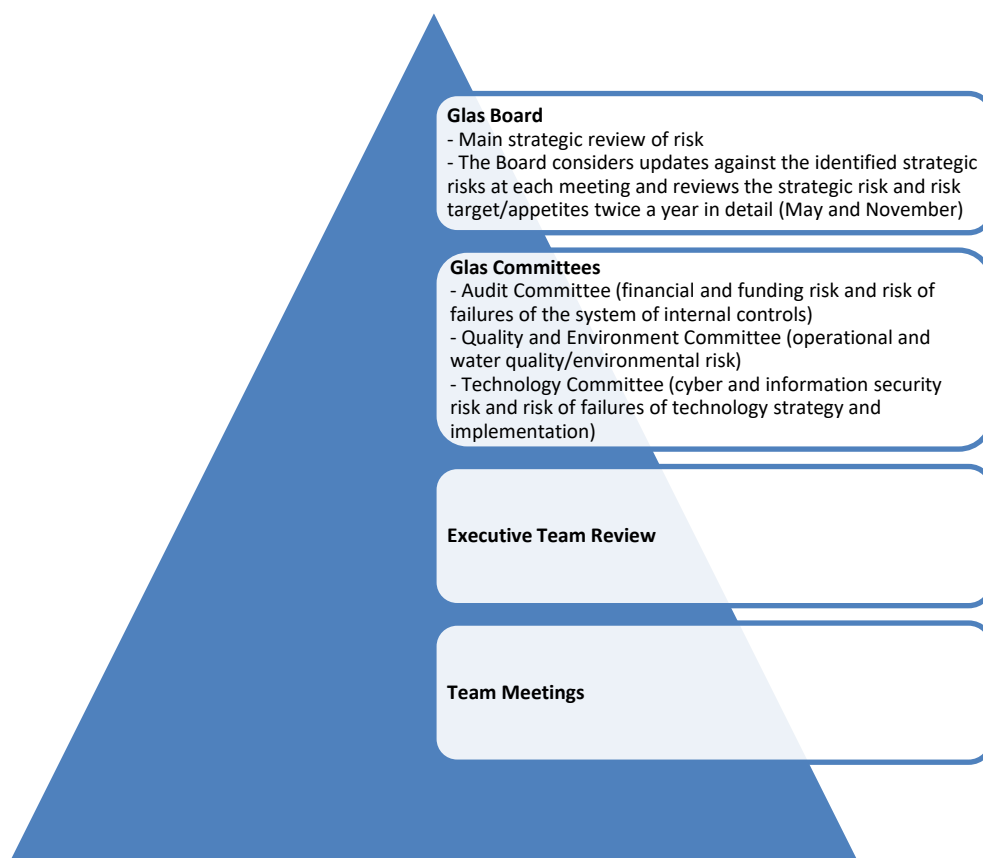
Our culture is also a cornerstone of the internal control framework and is based on shared values and beliefs. It helps shape the way we conduct our everyday business and ensures we strive to "do the right thing". Because of its importance, company culture is sometimes described as a layer of control against inaccurate information, even preceding the first line of defence. Maintaining a positive culture is important to us because other controls might be occasional or periodic, but culture is ongoing and permanent.

The culture of our company is defined by the values we adopt and the knowledge, skills and attitudes of our employees. We have made it our Vision to earn the trust of our customers every day. It is vitally important that we act responsibly as individuals and as a company at all times - not only when we are required to do so by law, but also generally, in our working lives.

4. We have appropriate systems and processes in place to allow us to identify, manage, mitigate and review our risks.

The Glas Board has overall responsibility for the operation and effectiveness of the Group's system of internal controls and risk management and considers risk appetite and progress to target for identified strategic risks in detail every six months, with interim updates provided by the Executive team at every Board meeting.

Our "bottom up" risk reporting processes involve all areas of the business to identify risks, including new and emerging areas of concern, consider the potential impact and likelihood of the risk manifesting, and manage mitigating controls accordingly. The risks for each business area are considered at regular team meetings.



Our Process

Our systems of internal control are designed to identify, evaluate and manage risks affecting the business and these systems or internal control are regularly considered and monitored by the Audit Committee. Action plans with agreed timescales are adopted and tracked.

- Having risks identified and changes in the assessment of risks highlighted means the Board is able to undertake its own informed assessment of the principal risks facing the Company and to work with the Executive to agree the Group's tolerance of risk in these key areas on a regular basis.
- This assessment is used on a day-to-day basis to inform decision making including decisions concerning our investment programme. Every strategic update paper presented to the Board and its Committees includes a risk report and where risks identify the need for further mitigation, will include action plans with agreed timescales to enable progress to be tracked.

Three Lines of Defence

We continue to use the 'Three Lines of Defence' model to mitigate risk of non-compliance with our processes and policies:

FIRST LINE OWNS AND MANAGES RISK	SECOND LINE RISK MANAGEMENT AND CONTROL	THIRD LINE INDEPENDENT REVIEW AND OVERSIGHT
<p>Individual teams within the business take responsibility for managing risks within their areas of responsibility.</p> <p>Each business unit feeds into a "bottom up" risk management system by keeping a risk register. All teams are required to record risks and regularly update their risk register held locally.</p> <p>Risks are reviewed and scored for likelihood and severity of potential impact at team meetings and are escalated via team managers where appropriate. All risks are scored using an agreed company-wide risk score matrix. The route of escalation is primarily through the line management structure and associated committees.</p> <p>This is complemented by a cross-business focus on key risks (e.g. information security, health and safety) in dedicated committees within the second line of defence.</p>	<p>Risks are discussed during a "top down" discussion of risk every month at a meeting of the Executive team. The Executive team reflects key changes in risks within a strategic risk register and ensures each risk has an owner</p> <p>The Compliance team monitors that all risk registers are updated at least quarterly and provide a consolidated detailed quarterly report for the Executive Team to consider. The report allows DCE to be aware of the risks facing the business when undertaking business planning and longer term strategy. The Executive team considers whether any risks warrant further action or direct oversight; and whether they should be referenced within the Strategic risk report (i.e. joining up bottom up with top down processes).</p> <p>Twice a year, the Executive team will hold a broader strategic discussion of risks, with focus on the route towards mitigating these risks (referred to as 'Path to Green'). These discussions inform the 6 monthly Board Risk reports.</p> <p>Risks are considered, where appropriate, within terms of reference of operational groups and committees, e.g. the H&S Steering Group, IS Steering Group, and within the Capital Alliance Framework. This is supported by other compliance focused teams within the business, including the Quality Policy and Compliance team, responsible for water quality and wastewater sampling, and the Integrated Management Systems certification team.</p>	<p>The Audit Committee of the Board oversees the risk management processes and procedures and reports this back to the Board. It is focused on identifying and resolving control issues.</p> <p>The External Auditors review our regulatory reporting information to Ofwat in the Annual Performance Report.</p> <p>Our Business Assurance function conducts audits of the systems of internal control that consider the adequacy and effectiveness of risk management, compliance, and control activities. The Audit Committee monitors the issues identified and resolved.</p> <p>Our External Auditors and our Reporter review our approach to risk and request evidence of risk review in the business.</p> <p>The Executive team's overview of strategic risks affecting the business is reviewed at every Board Meeting. The Board carries out an in-depth review of strategic risks and an assessment of current and target risk appetite twice a year.</p> <p>This bottom up and top down approach to risk management provides assurance that risks are being effectively managed by the business and identifies those areas where further mitigation steps are needed.</p>

DISCLOSURE OF DEPARTURES FROM THE STATEMENT OF COMPLIANCE WITH OUR OBLIGATIONS

Our vision is to earn the trust of our customers every day. Strong governance and leadership, with the correct focus on customers at the heart of everything we do, together with properly transparent reporting, can play an important part in helping us achieve this vision.

The Board notes that the following specific matters have been identified. A number of these relate to wastewater assets, where a combination of limited maintenance funds for AMP7 and the impact of climate change has meant that our assets are under considerable strain, and we are monitoring their performance and related compliance issues carefully. In all instances of non-compliance, a thorough review was undertaken to identify the root cause and to obtain assurance that there were no significant risks to future compliance with the particular obligation. Further details on our performance can be found in our Annual Performance Report for 2020/2021 available at www.dwrcymru.com

Environmental Permitting Regulations 2016

On 18 January 2021 we made an Enforcement Undertaking offer to the Environment Agency in respect of four breaches of the Environmental Permitting Regulations 2016 at Ross-on-Wye and Leominster. The first failure at Ross-on-Wye Waste Water Treatment Works was as a result of the final sample taken in December 2017 elevating the calendar year mean for phosphorus above the permitted level. The second failure at Ross-on-Wye was not deemed to yield a conclusive result due to discrepancies with other parameters. Compliance was confirmed on the days following this sample and there were no issues. The first failure at Leominster Waste Water Treatment Works occurred after a prolonged period of elevated ammonia levels from the catchment and the day after a storm event. Steps were taken to install some Submerged Aerated Filters (SAF) at the site as a result of this failure in order to prevent any further failures. However, whilst the SAF units were being installed, heavy snowfall in November 2017 prevented workers from accessing the site which resulted in the further failure in December 2017. A review was carried out at both sites and appropriate improvements were made.

As part of the terms of the Enforcement Undertaking put forward, and in addition to the mitigation already undertaken at both sites Dŵr Cymru has proposed a payment of £50,000 to the Wye and Usk Foundation to support the Courtaulds 2025 Water Ambition Initiative, developed and supported by the Waste & Resources Action Programme (WRAP) and UK Governments. This initiative aims to deliver improvements to water quality and soil health, driving down, and reversing the carbon generation related to food production and seeking an overall better environment via increased biodiversity.

We are waiting to hear from the Environment Agency as to whether they are prepared to accept or reject our offer.

Our performance in this area is monitored by our Quality and Environment Committee.

Water Quality

Under Section 68 of the Water Industry Act 1991, water companies are under a statutory duty to supply wholesome water. Regulation 4 of the Water Supply (Water Quality) Regulations 2018 in Wales provides that water is wholesome if it contains concentrations or values in respect of various properties, elements, organisms and substances that do not contravene the prescribed maximum, and in some cases, minimum concentrations or value.

Each year we carry out sampling at water treatment works, service reservoirs and customer taps to ensure our water meets the European and National Standards. During the 2020 calendar year we carried out 232,095 tests and found 32 had failed the required Standard (0.01%).

An investigation report is completed for each failure and this is shared with the Drinking Water Inspectorate (DWI). Any recommendations or suggestions made by DWI are recorded in action plans with agreed timescales to enable progress to be tracked. Our Quality and Environment Committee review the findings of investigations into all water quality failures and receive regular reports on action plan progress.

Drinking Water Safety Plans

A continuous supply of safe clean drinking water is vital to maintain public health. Ensuring the quality of that drinking water is fundamental to the service we provide to our customers. We do this by ensuring that the risks to drinking water quality are identified and managed. A Drinking Water Safety Plan (DWSP) is the most effective way of ensuring that a water supply is safe for human consumption and that it meets the health based standards and other regulatory requirements. It is based on a comprehensive risk assessment and risk management approach to all the steps in a water supply chain from catchment to consumer.

All water quality failures trigger a review of the asset specific DWSP to enable the capture of new risks and the review of existing risk scores. If any of our DWSPs identify a potential danger to human health we inform DWI immediately. The DWI may consequently issue a legal Notice requiring the company to complete a programme of remedial actions.

We currently have 24 Improvement Programmes in place and the last Notice received from DWI was in March 2021 for Cantref, Llywnon and Pontsticill Water Treatment Works. We hold quarterly meetings with DWI to discuss progress. In addition, our Quality and Environment Committee also monitor progress against agreed timescales. Regular reports are provided to our Board.

Abstracting Water

During 2020-2021 we self-reported thirteen abstraction licence non-compliances to Natural Resources Wales. We are currently awaiting the final classification from Natural Resources Wales but have been informed that they will all be Category 3 incidents (“minor impact to the environment”) or Category 4 incidents (“no potential environmental impact”).

Treating Wastewater

The Urban Waste Water Treatment Regulations and the Environmental Permitting Regulations set standards for sewage treatment. For each of our wastewater and water treatment works there is a permit which regulates the quality of wastewater we are allowed to discharge into rivers and coastal waters.

During the 2020 calendar year we achieved our best-ever treatment works compliance with just two non-compliant discharges out of the 603 permitted treatment works discharges (99.67%). There were no non-compliant water treatment works.

We remain committed to achieving 100% compliance in this area. The Compliance Steering Group provides the governance around this strategy. This Group has broad representation from across the wastewater business and meets monthly. The Group reviews asset performance, the effectiveness of incident management (pre and post) and monitors the progress and impact of the Final Effluent Compliance Strategy and the Action Plan that underpins it.

In 2021 our primary areas of focus will be on:

- Enhanced Competent Operator training programme;
- Effective planned maintenance supported by our Maintenance Reliability and Support (MaRS) programme;

- Rigorous compliance and application of our Integrated Management System (IMS) procedures;
- SMART monitoring and alarms; and
- Meeting flow compliance on Pass Forward Flow to treatment and storm discharge management.

Our performance in this area is monitored by our Quality and Environment Committee. Our sampling team for both Urban Waste Water Treatment Directive and Environmental Permitting Regulations compliance reports sample outcomes to Natural Resources Wales and the Environment Agency. During 2020 the team encountered some operational difficulties, in part related to an internal reorganisation, and in part related to Covid absences, which meant that around one third of all samples related to the Environmental Permitting Regulations were rescheduled. We kept Natural Resources Wales and the Environment Agency informed of these rescheduled samples. On 10 May 2021 we received a letter from Natural Resources Wales which notified us that they were investigating a number of non-compliances with regard to samples taken during 2020. We are awaiting further details of the investigation.

We operate a network of Combined Storm Overflows (CSOs) that were originally designed to protect properties by diverting storm water (rain water mixed with effluent) away from them, discharging instead into water courses and relying on dispersal to minimise impact on the environment. We are progressing well with the development of new Drainage and Wastewater Management Plans, which will be published in June 2022 and will set out our proposals for future investment prioritised according to environmental evidence on the impact of our wastewater operations, so that we can plan for improvement and agree with customers, investors and regulators the priorities and pace at which this will take place.

On privatisation, we inherited many CSOs that were not permitted by Natural Resources Wales or the Environment Agency, and some that were permitted but were not in use. We have worked with our environmental regulators over the years to submit unused permits for revocation and to apply for permits for all unpermitted CSOs, and carried out a data cleansing exercise from 2015, when we began to install Event and Duration Monitors (EDM) to provide data on the operation of CSOs. Since 2015 we have submitted 144 permit applications for unpermitted CSOs. 94 CSOs have been issued with permits, three applications have been withdrawn, and others remain with NRW and still to be issued. During the same period, over 300 CSO permits have been submitted for revocation as no longer required. It is our intention to work with our regulators to ensure that all CSOs are permitted and to publish data on the frequency and duration of their operation.

Pollution

In our 2018/2019 Risk and Compliance Statement we reported a Category 1 pollution incident (most serious) at Five Fords Waste Water Treatment Works near Wrexham on 4 September 2018, following an accidental release of partially treated effluent from a storm tank during some work to improve environmental compliance at the site. Flows were being held in the storm tanks to enable access and clearing of a snail infestation in the final effluent chamber. The storm tanks on one side of the treatment works unknowingly reached full capacity sooner than expected and started to discharge to the River Clywedog at 2pm. The work was completed at 3pm and the discharge ceased.

However, it is with much regret that this was not before a substantial amount of partially treated sewage had been released into the watercourse. We reported the incident to Natural Resources Wales straight away and the matter was addressed through the rapid involvement of senior management who immediately implemented and supervised completion of a programme of remediation works. A serious incident review took place at Board level and improvements were made to procedures and at the site and where appropriate at other sites across the business.

On 12 June 2021, at Llandudno Magistrates' Court, Dŵr Cymru was fined £180,000 with costs of £12,480 and a £170 surcharge for the incident in September 2018.

The number of pollution incidents for 2020 is 142 (77 from wastewater assets and 65 from water assets). Those incidents from water assets generally relate to the discharge of dechlorinated potable water with minimal, if any detectable impact on water quality in the watercourses to which they discharge. We are currently corresponding with Natural Resources Wales as to whether these should properly be logged as pollution incidents.

In relation to the pollutions from our assets, during 2020, three serious incidents occurred, all of which were classified as High – Significant (Category 2) incidents (one from waste water was caused by a burst rising mains which discharged into a reën close to a SSSI area and two from water were caused by burst mains, one of which affected a 4.8km stretch of a local river and the other a local reservoir). In all instances the mains were quickly excavated and repaired. Our aim is to achieve zero serious pollution incidents. All serious incidents are followed up by a Serious Incident Review which is led by the Chief Executive Officer of Dŵr Cymru, 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. The purpose of the incident review is to gather information that in turn may reduce the potential for future incidents. During the reviews the incident is analysed and lessons learnt disseminated, with recommendations, information and process changes instigated. We are also investing in new technology to reduce this risk of serious pollution incidents from burst rising mains. Pressure monitoring and analysis of this data provides early warnings of bursts that would previously have taken time to identify, reducing the volume and duration of any escape of sewage. In addition, we have begun a review of the drainage plans for our high risk Water Treatment Works in order to ensure that any spillages are contained and do not enter surface water drainage.

Incidents of pollution are among the most serious incidents we deal with. Our Pollution Reduction Strategy provides a sustainable approach to long term pollution performance improvement. Based around the themes of Asset Understanding, People, and Data and Systems, the objectives included in the strategy drive a planned approach to achieving zero serious pollution incidents. We continue to participate in the Environment Agency's Joint Workshop On (Pollution) Incidents, to ensure that we are implementing national industry best practices to improve understanding of asset bases in order to drive future improvements in pollution performance.

Our performance in this area is monitored by our Quality and Environment Committee.

General Data Protection Regulation

We continue to embed a programme of compliance across the business. We have significant numbers of interactions with our customers and we have experienced a number of technical breaches of the data protection rules.

Out of the breaches notified internally during 2020/2021, we have deemed four to be serious and therefore notifiable to the Information Commissioner's Office (ICO). Of the four serious breaches we have notified to the ICO, where we received feedback from the ICO with recommended steps, we had already taken those steps, and the ICO confirmed that they were taking no action. In each case of a reported suspected breach, we ensure that any lessons learnt are taken into account, that the individual's training on data protection is up to date, and that the specific circumstances which led to the breach or "near miss" have been addressed with their manager.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR REGULATORY INFORMATION

The following confirmations from our Directors are provided to comply with the requirements of Condition F of our Licence, which requires that accounting statements are prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat and Condition P (Ring Fencing). In particular, Regulatory Accounting Guideline 3.12 issued in February 2021 requires the following Statements to be made by our Directors:

- Statement of Directors' remuneration and standards of performance.
- Statement on disclosure of information to auditors.
- Statement on Dividend Policy.
- Statement on sufficiency of financial resources and facilities.
- Statement on Long Term Viability.
- Statement on sufficiency of non-financial resources.

Statement on Executive Pay and Performance

The Company is required under s35A of the Water Industry Act 1991 to provide a Statement that the remuneration paid to Executive Directors is linked to standards of performance. This Statement is provided within the Report from the Chair of the Remuneration Committee which can be found in our Annual Performance Report for 2020/2021 available at www.dwrcymru.com.

Statement on disclosure of information to auditors

In the case of each of the persons who are Directors at the time when the Annual Performance Report is approved under Section 418 of the Companies Act 2006 the following applies:

- a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

This Statement can be found in our Annual Performance Report for 2020/2021 available at www.dwrcymru.com.

Statement on Dividend Policy

Licence Condition P29 and Section 3.11 of Regulatory Accounting Guideline 3.12 requires companies to report on the value of any dividend paid and provide a comprehensive explanation of the basis of the dividend.

Dŵr Cymru's ultimate parent undertaking is Glas Cymru Holdings Cyfyngedig, a company formed with the single purpose to manage Dŵr Cymru. As a company limited by guarantee, and having no shareholders, all financial surpluses are retained for the benefit of customers. The reserves built up from retained profits help to insulate Dŵr Cymru and its customers from any unexpected costs and also to improve credit quality to keep the cost of finance as low as possible.

Our Dividend Policy was approved by Ofwat in December 2015 and formally adopted by the Board in the March 2016 Board meeting. The Policy was further amended in response to feedback received from Ofwat and was approved in principle by the Board on 3 June 2021. No monies are transferred out of the Glas Cymru group of companies under this Policy and all financial surpluses are retained for the benefit of customers. Our Dividend Policy expressly provides that dividends will not be paid unless the Directors are satisfied that this would not impair Dŵr Cymru's ability to finance its regulatory

activities. The Dividend Policy permits up to £100 million of funds to be paid intra-Group, outside the regulatory ring-fence, in order to enable the funding of commercial projects.

During the year to 31 March 2021 no dividends were paid or received by the Company.

This Statement can be found in our Annual Report and Accounts for 2020/2021 and in our Annual Performance Report for 2020/2021 which are available at www.dwrcymru.com.

Statement on sufficiency of financial resources and facilities (Ring-fencing Certificate)

Information Notice 20/01 published by Ofwat in February 2020 sets out guidance for water and wastewater companies in England and Wales in preparing their Ring-fencing Certificate. The regulatory ring-fencing framework provides an important protection for companies and their customers. The Directors have resolved that a Certificate required under Condition P30 of our Licence and prepared in accordance with the latest guidance be issued to Ofwat confirming that in the opinion of the Directors the Company will have available to it sufficient:

- financial resources and facilities;
- management resources and systems of planning and internal control; and
- rights and resources other than financial resources,

to enable it to carry out the Regulated Activities, for at least the next twelve month period.

In providing this Certificate, the Directors have also made a statement of the main factors that have led to the conclusion that resources are sufficient. This can be found at Appendix 1 of the Ring-fencing Certificate.

A copy of the Directors' Certificate together with the supporting main factors can be found in our 2020/2021 Annual Performance Report available at www.dwrcymru.com.

This Directors' Certificate also confirms that in the opinion of the Directors all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to the Company, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

Section P35 of Licence Condition P requires our independent auditors to produce a report that sets out whether they are aware of any inconsistencies between the Ring-fencing Certificate and either the accounting statements or any information which the Auditors obtained in the course of their work as the Company's Auditors and, if so, what they are.

A copy of the auditor's report can be found in our 2020/2021 Annual Performance Report available at www.dwrcymru.com.

Long-Term Viability Statement

Our customers need to know they can rely on the services we provide over the long term. Ensuring the long-term resilience of our business, including financial resilience, is therefore a key area of focus for us. The Board's consideration of the Group's long-term viability is embedded in our business planning process. This includes robust risk management controls, financial forecasting and sensitivity analysis, as well as regular budget review. Risks are identified and assessed through a continuous cycle of bottom-up reporting and review and top down feedback and horizon scanning. The Board has analysed the efficacy and robustness of its internal control framework in managing the likely causes and consequences of each risk. We have stress-tested our business plan forecasts to 2030 against a variety of financial scenarios.

Ofwat expects companies to confirm that they are financially viable over the longer term. Our approach to doing this complies fully with Ofwat's latest guidance contained within Information Notice 19/07 published in April 2019 as well as Provision 31 of the UK Corporate Governance Code.

As a result of their 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 period to March 2030. The Long-Term Viability Statement is provided at pages 74-79 of our Annual Report and Accounts for 2020/2021 which is available at www.dwrcymru.com.

Statement on sufficient non-financial resources

Under Section 14 of Condition P of the Licence, the Company is at all times required to ensure, so far as is reasonably practicable, that if a special administration order were made, the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the Financial Statements for the year ended 31 March 2021 have been prepared on a going concern basis. The Directors also confirm this as part of the Ring-fencing Certificate.

Licence Condition P26 – Maintaining an Investment Grade Rating

The Directors confirm that throughout 2020/2021 the Company, or an Associated Company as issuer of debt on its behalf, has ensured that it has maintained at all times an issuer credit rating which is an Investment grade rating. Dŵr Cymru has amongst the strongest credit ratings in the water sector, reflecting the Company's high level of creditworthiness. All three credit rating agencies have issued rating updates following Ofwat's publication in December 2019 of the challenging Final Determination for the AMP7 price control. On 21 September 2020 Moody's announced our corporate family rating as A3. All rating outlooks are stable.

Licence Condition P19 – Trading with Associate Companies at Arm's Length

We have an Obligation to ensure that every transaction between the Appointed Business and any Associated Company is at arm's length so neither gives to nor receives from the other any cross-subsidy. There were no transactions with any associated companies except for:

- the Executive Directors of Dŵr Cymru Cyfyngedig (DCC) are also directors of other companies within the Glas Cymru Group. However, the emoluments of the Directors are paid in full by Dŵr Cymru Cyfyngedig as their activities are predominantly related to the regulated water and sewerage business. During the year the Directors' emoluments amounted to £1,858,000 (2020: £2,320,031) (including pensions accruals);
- no dividends were paid or received by the Company during the year (2020: none);
- intercompany interest payable to Dŵr Cymru (Financing) UK plc ("DCF"), another member of the Glas Cymru Holdings Cyfyngedig group, was £107,550,000 during the year (2020: £141,867,000). As at 31 March 2021 the balance outstanding on the intercompany loan from DCF stood at £2,744,328,000 (2020: £3,075,772,000);
- all borrowings raised by DCF are immediately on-lent to the company on an arm's length basis. The intercompany loan is subject to the terms and conditions of the whole business securitisation structure of Glas Cymru Anghyfyngedig and its subsidiaries. DCC, in its capacity as debtor, repays such principal and interest as is due on each borrowing on the due date plus 0.01%;

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- an intercompany loan to Glas Cymru Anghyfyngedig of £1,971,000 (2020: £1,971,000) remains outstanding as at 31 March 2021; and
- as at 31 March 2021 intercompany trading balances owing to the Company were: Welsh Water Infrastructure Limited £nil (2020: £2,400), Welsh Water Organic Energy (Cardiff) Limited £320,559 (2020: £149,259), Cambrian Limited £10,879 (2020 £4,265), Glas Cymru Anghyfyngedig £8,481 (2020: £8,481), Glas Cymru Holdings Limited £18,901 (2020: £18,901), Welsh Water Organic Waste Limited £147,563 (2020 £277,127); and Welsh Water Organic Energy Limited £nil (2020: £9,675).

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,



Alastair Lyons

Chair, Dŵr Cymru Cyfyngedig

9 July 2021

Letter of Assurance

For the attention of The Board, Dŵr Cymru Welsh Water

Subject: 2020-21 Risk and compliance statement - assurance letter

To the Board

Introduction

As part of our assurance activities for your Annual Performance Report (APR) 2021 we have reviewed the processes that support the declarations in the annual risk and compliance statement that you intend to submit with your APR21.

Approach

Our review focused on the approach and processes you follow to assess your compliance with your obligations. You interpret the scope of the risk and compliance statement to be those obligations for which Ofwat is the relevant enforcement authority. This is consistent with your approach in prior years. We are aware that you have processes to manage compliance with other obligations and duties, but that they are not explicitly covered as part of your risk and compliance statement (e.g. compliance with health and safety legislation and requirements).

We held a meeting on 12/05/2021 with Paul Marsh and Debbi Parfitt from your Compliance Team. The meeting was held remotely using MS Teams. Your team had provided some information prior to the audit and we reviewed further documentation off-line following the meeting. Our work entailed a review of the approach taken to prepare the risk and compliance statement. We inspected a sample of the compliance proforma and other evidence that demonstrated completion and sign-off of the various tasks. We also reviewed at a high level your approach to risk management.

We did not review the processes used to assess compliance directly with any owners or nominated individuals associated with each obligation. However, we note that as part of our assurance of the information you are submitting in your Annual Performance Report (APR) and your annual scheme of charges, we have directly examined a number of the processes and controls you have in place to support your obligations in relation to reporting information and compliance with specific licence obligations.

We did not review the text of the proposed risk and compliance statement.

Observations

We observed that the Compliance Team continues to make improvements to their approach and address our recommendations. From our audit and our overall assurance activities we continue to note elements of good practice and understand the team has plans to make further improvements in 2021-22.

Our main observations are as follows:

- Through our work assuring your APR and annual scheme of charges and submissions in 2020-21, we have continued to see evidence of appropriate systems and controls;
- At the time of the audit all proforma had been signed off by the owners and most by the responsible Executive Team member. We reviewed a sample of the compliance proforma and identified no material issues;
- You confirmed that you had introduced an additional control this year in the form of a review of one of the obligations to confirm the obligation owner's view of the compliance risk. We consider this to be good practice and recommend that it is extended in future years across other obligations;
- You have documented the approach to preparing the Risk and Compliance Statement as a formal procedure and loaded into the Integrated Management System Team. We note that we have not reviewed this document;

- You confirmed that your strategy for the preparation of the 2021 risk and compliance statement was approved by the Welsh Water Executive Team;

Recommendations

Building on the good practice we saw this year around the targeted review of one of the obligations by the Compliance Team, we recommend that the team introduce a prioritised programme of similar reviews so as to ensure that all key obligations and requirements are covered over the next few years.

Conclusions

We consider that:

- you have a full understanding of the Company's relevant obligations (as you have interpreted the scope required for this exercise); and
- you have appropriate systems and processes in place to run your business and identify and manage risks in a way that meets the relevant obligations (as you have interpreted the scope of these).

Yours sincerely



Alexandra Martin
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Appendix 5 – Board Assurance Sign-off

The Company has in accordance with the Regulatory Reporting Guidelines and/or our Licence prepared the following four Board Statements:

- Ring Fencing Certificate
- Company Direction and Performance Statement
- Board Statement on the Accuracy and Completeness of Data and Information
- Risk and Compliance Statement

which were approved at the joint Board meeting of Glas Cymru Cyfyngedig and Dwr Cymru Cyfyngedig, held on 1 July 2021, as evidenced by the Directors' signatures below. Graham Edwards did not attend the Board meeting on 1 July 2021 but has given his consent to the Company Secretary for his signature to be added.

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig.

 Alastair Lyons Chair of the Board	 Peter Perry Chief Executive Officer
 Mike Davis Chief Financial Officer	 Graham Edwards Senior Independent Non-Executive Director
Debra Bowen Rees Debra Bowen Rees Non-Executive Director	 Tom Crick Non-Executive Director
 Jane Hanson Non-Executive Director	 Joanne Kenrick Non-Executive Director

9 July 2021

Appendix 6 - Additional Regulatory Information

Notes to the regulatory accounts

Accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the regulatory financial statements included in parts 1 and 2 are set out below, while they remain relevant for parts 4,5,6,7 and 8. They have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS (Adopted IFRS) and IFRIC interpretations, except where Ofwat's Regulatory Accounting Guidelines (RAGs) require a departure from these (such instances are highlighted on the face of the principal regulatory financial statements in part 1).

The regulatory financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

Basis of consolidation

The regulatory financial statements report the results of Dŵr Cymru Cyfyngedig (DCWW) and comprise all of the activities of the appointed business.

Appointed and non-appointed businesses

Each non-appointed activity is treated separately within the Company's accounting records. Examples of non-appointed activities include tankered waste, property searches and recreation and amenity services. Revenues, costs, assets and liabilities are generally directly allocated to particular business activities. General and support costs have been apportioned from the non-appointed business on an activity cost basis.

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.

Notes to the regulatory accounts (continued)

Accounting policies (continued)

Leases (continued)

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.

Notes to the regulatory accounts (continued)

Accounting policies (continued)

Revenue recognition

Revenue represents the income receivable in the ordinary course of business from the regulated activities of the business in the year exclusive of value added tax. Charges billed to customers for water, wastewater and retail services are recognised in the period in which they are earned. An accrual is estimated for measured consumption that has not been billed.

The measured income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the balance sheet date. The accrual is calculated using a defined methodology based upon average historical water consumption by customer and tariff and is recognised within revenue. The measured income accrual as at 31 March 2020 was £77.1m, while amounts actually billed in 2020/21 totalled £80.3m. The difference, which constitutes less than 1% of revenue, is not significant and is a consequence of the estimation techniques necessary to calculate the accrual.

Where an invoice has been raised, or payment made but the service has not been provided in the year, this is treated as a payment in advance and is not recognised in the current year's revenue but within creditors.

Charges on income arising from court, solicitors and debt recovery agency fees are added to the relevant customer accounts; they are not recognised within revenue, rather the recognition of any resulting receipts is deferred until payment is made when they are credited to operating costs.

In line with the regulatory guidelines New Connections income is treated as 'Other Income' in table 1a

Bills raised for customers having a record of non-payment are recognised as revenue. Only in the following circumstances are bills not recognised as turnover:

- a) voids adjustment for local authority agreements. DCWW bills some local authorities for all of their tenanted premises whether occupied or not and the collection commission it pays includes an element in respect of voids. An adjustment is therefore made between commission costs (included in operating costs) and revenue in respect of the amount relating to voids; and
- b) where bills are subject to formal legal pricing disputes we do not recognise as turnover the disputed portion of bills raised.

Notes to the regulatory accounts (continued)

Accounting policies (continued)

Revenue recognition (continued)

Charging policy

Billing of unoccupied properties: an unoccupied property is a connected property or premises that is unoccupied and unfurnished and does not have use or any water or wastewater service. This definition is applied in the following ways:

- a) unmeasured supplies: if an unoccupied property is furnished normal charge will apply (subject to allowances e.g. if the sole occupier is in a nursing home, hospital, prison or is overseas long-term). Unfurnished and unoccupied properties do not incur charges unless they are in use e.g. under renovation or redecoration, in which case the customer will be offered the option of being compulsorily metered, continuing on unmeasured charges or being disconnected. Unmeasured properties will be billed a “surface water-only” charge if the water supply is temporarily disconnected; and
- b) metered supplies: metered standing charges are applied to each metered property unless there is no water consumption, the property owner cannot be identified, and it is unfurnished.

Billing “the occupier”: very few premises are billed in this manner; no bills are sent speculatively in this manner, only when there is evidence suggesting an actual occupier e.g. a visit, finance check or Land Registry search.

New properties: all new properties are metered. The developer, being the consumer, is billed for water and wastewater charges between the date of connection and first occupancy. Income from the developer for metered charges is recognised as revenue.

Bad debt policy

Our policy is to write off debt when it is shown that a debt is not collectable. A debt is regarded as being not collectable when one of the following conditions has been satisfied:

- the debtor has been declared bankrupt;
- the debtor cannot be traced;
- the debtor has died without an estate;
- all reasonable legal remedies have been exhausted and two collection agencies have failed to recover the debt; or
- the debt is too small to pursue beyond specified recovery action.

Notes to the regulatory accounts (continued)

Accounting policies (continued)

Bad debt policy (continued)

All debt that has completed the full recovery process is held in an “end of line bucket” pending write-off. Write-offs are scheduled as part of a routine procedure; however, initiatives continue to be taken in respect of “end of line” debt to review collectability and debts are currently only written off post completion of these initiatives.

Generally, when debt reaches the “end of line bucket” the majority will have been fully provided for in the bad debt provision. As a result, the timing of the write-off has little impact on the overall charge for bad debts in any year. As a consequence, the level of write-offs throughout the year is not monitored in isolation but as a component of the overall movement in collections when considering the level of bad debt provision required. No changes have been made to the write-off policy or procedures during the year.

Accounting separation policy

The regulatory accounts have been drawn up in accordance with Dŵr Cymru’s Accounting Methodology Statement¹. The purpose of this document is to explain the systems, processes and allocation methods involved in the preparation and population of the accounting methodology tables included within these regulatory accounts. The financial information used to populate the tables is processed and extracted from the Company’s accounting system and customer billing system.

Water and sewerage services

Alternative cost centre structures have been created (as part of Dŵr Cymru’s overall accounting methodology cost centre group) in the accounting system to allow water and sewerage service operational costs to be captured in a format that facilitates the completion of the water and sewerage service tables.

It contains specific cost centre groups for each of the water activities along with further groups capturing the cost of scientific services and general and support activities. A number of ‘work management systems’ have been introduced in recent years resulting in greater accuracy of cost allocation and a reduced incidence of manual allocations across activities.

Asset-related cost centres and most operational support staff can be attributed directly to individual water and wastewater activities. Non-operational staff costs are allocated directly to activities where possible; where this has not been possible cost drivers have been used to apportion departmental costs in line with Ofwat’s hierarchy of cost drivers.

Notes to the regulatory accounts (continued)

Accounting policies (continued)

Accounting separation policy (continued)

Retail service

An alternative cost centre structure has been created within the accounting system to allow retail operational costs to be captured in a format that facilitates the completion of the retail service table.

Non-operational costs are allocated directly to activities where possible; where this has not been possible cost drivers have been used to apportion costs in line with Ofwat's hierarchy of cost drivers.

Fixed assets

The fixed assets tables consist of capitalised assets as recorded on the fixed asset register plus assets under construction. The opening balances are reconciled to the previous year's closing balances and current year transactions are analysed as follows:

- Assets in the SAP register are allocated to cost collectors which identify the operational business owner. Each asset has an asset class which identifies the split between infrastructure, operational and other assets, and a review of the current year's expenditure is undertaken with reference to data capture sheets and meetings with capital operational managers to check that these have been allocated appropriately; and
- Retail asset costs have been allocated to household and non-household based on the number of bills raised and customer numbers for other assets.

Capitalisation policy

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 2021 the total value of tangible and intangible fixed assets has been revalued to the Company's 'shadow RCV', being the 31 March 2021 RCV published by Ofwat in its PR19 Final Determination as adjusted for the impact of any totex over/underspend and Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

Notes to the regulatory accounts (continued)

Accounting policies (continued)

Capitalisation policy (continued)

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.

In accordance with RAG 1.09 para 4.8 and 4.9, in its regulatory financial statements the Company has dis-applied the IAS 16 requirement to capitalise applicable borrowing costs.

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 areas, reflecting the way the Company operates its wastewater activities.

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

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

Other assets

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

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

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

Notes to the regulatory accounts (continued)

Accounting policies (continued)

Capitalisation policy (continued)

Intangible assets

Intangible assets, which comprise principally computer software, systems developments and research and development, are included at cost less accumulated amortisation. Cost reflects purchase price together any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs.

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when the relevant recognition criteria are met (as per IAS 38).

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

Right of use assets

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

Contracts which do not meet the criteria of a lease are charged to the income statement as rental costs on a straight-line basis over the period of the contract.

Grants and customer contributions

Grants and customer contributions in respect of expenditure on property, plant and equipment have been offset against these assets.

Grants in respect of revenue expenditure are credited to the income statement over the same period as the related expenditure is incurred.

Notes to the regulatory accounts (continued)

Accounting policies (continued)

Capitalisation policy (continued)

Capital expenditure programme incentive payments

The Company's agreements with its construction partners involved in delivery capital 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 only recognised on completed projects.

Price control units

The regulatory accounts have been prepared in accordance with RAG 2.08 'Guideline for classification of costs across the price controls.

The tables presented in parts 2,4,5,6,7,8 and 9 of the Annual Performance Report have been prepared in accordance with our Accounting Methodology Statement which can be found at www.dwrcymru.com. The methodology statement explains the bases for allocation of operating and capital expenditure and has been updated for changes to the requirements in the year. Wherever possible, direct costs and assets have been directly attributed to price controls. Where this is not possible, appropriate cost allocations have been applied as described in the methodology. Material changes to the allocation approach compared to the previous year are documented in the methodology statement.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. They are first assessed individually for impairment, or collectively where the receivables are not individually significant. 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 their ageing. 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.

Notes to the regulatory accounts (continued)

Accounting policies (continued)

Pension benefits

i) Defined benefit scheme

The Group operates a defined benefit scheme, the DCWW Pension Scheme, which was closed to future accrual from 1 April 2017 for all members except for 18 ESPS section members. The scheme is funded by employer contributions as well as employee contributions from the remaining active members. Contribution rates are based on the advice of a professionally qualified actuary. The most recent actuarial valuation of the scheme was carried out as at 31 March 2019.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The fair value of these assets has been estimated based on the latest available observable prices, updated with reference to movements in comparable observable indices to the reporting date, and adjusted for judgements to reflect differences in the liquidity and credit components of the asset pricing. The defined benefit obligation is calculated annually by an independent actuary using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the income statement.

ii) Defined contribution scheme

The Company 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.

Notes to the regulatory accounts (continued)

Accounting policies (continued)

Financial liabilities

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

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

Derivative instruments utilised by the Company are interest rate, inflation swaps and power hedges. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures. Derivatives are recognised initially and subsequently re-measured at fair value. During the year to 31 March 2021, none of the Company's derivatives qualified for hedge accounting under IFRS 9 (2020: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

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.

Notes to the regulatory accounts (continued)

Accounting policies (continued)

Deferred taxation

Deferred income tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 nor 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 where reinvestment has been made in certain operational assets which the Company plans to use until the end of their useful economic life. The Company anticipates that these assets will then be scrapped for negligible proceeds, or proceeds less than their tax base, and therefore no chargeable gain is expected to arise in the future.

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

Provisions

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

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

Notes to the regulatory accounts (continued)

Differences between statutory and RAG definitions

As set out under 'basis of preparation' in the accounting policies section, the regulatory financial statements as set out in the preceding tables have been prepared under IFRS as modified by Ofwat's Regulatory Accounting Guidelines (RAGs). These notes provide the supplementary information specifically required by the RAGs. They do not cover the full range of disclosures required in a full annual report and accounts prepared under IFRS; these are included in the statutory financial statements of Dŵr Cymru Cyfyngedig which are available from the Company's website.¹

Ofwat's aim is to minimise differences in reporting between statutory and regulatory accounts, unless it is absolutely necessary for regulatory purposes. RAG 1.09 - Principles and guidelines for regulatory reporting under the 'new UK GAAP' (using IFRS, FRS101, or FRS102) regime defines treatment of particular items where Ofwat requirements differ from those normally required under IFRS and Companies Act legislation. Ofwat requires deviations from IFRS in the following areas:

- Revenue recognition

The RAG's require that companies bill all properties where a service is being received unless confirmed as void and should fully recognise the billed amounts in the reported turnover. Properties will therefore only fall into one of the following two categories for regulatory accounting statement purposes:

- billed and recorded in turnover; or
- void properties

Companies should assume that for regulatory accounting purposes that where an amount is billed it is probable that cash will be collected. This is a deviation from requirement under IFRS where revenue is only recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. RAG 1.08 requires a deviation from that requirement in that there is no judgement applied to the probability of collection and should all be considered collectable. Dŵr Cymru adheres to this accounting policy and therefore no adjustment is needed.

¹ available on website www.dwrcymru.com or on request from the Company Secretary, Dŵr Cymru Cyfyngedig, Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT.

Notes to the regulatory accounts (continued)

Differences between statutory and RAG definitions (continued)

- **Capitalisation of interest:** IAS 23.8 requires borrowing costs to be capitalised where they directly relate to the construction of an asset. The regulatory requirement is that this rule is disappplied.
- **Derivatives:** Companies are required to disclose fair value adjustments for financial instruments separately, so that the profit/loss before such adjustments can be clearly seen on the face of the income statement. This is a presentation changes rather than an adjustment that will affect the financial results.
- **Grants and contributions:** Companies are required to show grants and contribution included as revenue or other operating income as other income on the face of the income statement.

Reconciliation of statutory financial statements to regulatory accounting tables

1A – Income statement for the year ended 31 March 2021

	£m	
Loss for the year per statutory accounts	(73.256)	
Capitalisation of interest	(11.300)	Ofwat's RAG override to disapply capitalisation of borrowing costs under IAS 23
Depreciation on capitalised interest	3.100	Ofwat's RAG override to disapply capitalisation of borrowing costs under IAS 23
Revenue recognition-measured income accrual adjustment	0.175	Deviation from IFRS 15 as no judgement applied to the probability of collections when recognising revenue
Innovation fund	2.500	Innovation fund provision removed from operating expenditure as it's not an operating expense
Deferred tax	1.050	
	(4.475)	
Non-appointed loss (net of tax)	1.645	Regulatory tables prepared in respect of the appointed business only
Loss for the year per regulatory accounts	(76.086)	

1D – Statement of cash flows for the year ended 31 March 2020

	£m	
Increase in net cash per statutory accounts	(449.853)	
Non-appointed loss for the year	2.031	Regulatory tables prepared in respect of the appointed business only
Increase in net cash per regulatory accounts	(447.822)	

Notes to the regulatory accounts (continued)

Differences between statutory and RAG definitions (continued)

1C – Statement of financial position as at 31 March 2021

	£m	
Net assets per statutory accounts	1,186.966	
<i>Capitalisation of interest</i>		
- Fixed assets	(85.037)	Ofwat's RAG override to disapply capitalisation of borrowing costs under IAS 23
- Intangible assets	(9.300)	Ofwat's RAG override to disapply capitalisation of borrowing costs under IAS 23
	(94.337)	
<i>Trade and other receivables:</i>		
- Measured income accrual	5.544	Ofwat's RAG override to deviate from IFRS15; no judgement to be applied to the probability of collections, and all is considered as collectable
	5.544	
<i>Trade and other payables:</i>		
- Deferred income	410.983	RAG requirement to report separately on face of statement
- Accrued interest	(48.480)	RAG requirement to include accrued interest in trade and other payables
- Innovation provision	2.500	Removal of accrual for innovation competition as it's not an operating expense
	365.003	
<i>Borrowings</i>		
- Accrued interest	48.480	RAG requirement to include accrued interest in trade and other payables
	48.480	
<i>Deferred income</i>		
Deferred income – G&C	0.002	RAG requirement to report separately on face of statement
Deferred income – adopted assets	(401.900)	RAG requirement to report separately on face of statement
	(401.898)	
Provisions	(9.085)	RAG requirement to include deferred income > 1 year to provisions
Deferred tax	16.814	Deferred tax impact on RAG deviation (above)
Net assets allocated to non-appointed activities	(43.835)	Regulatory tables prepared in respect of the appointed business only
Net assets per regulatory accounts	1,073.652	

Notes to the regulatory accounts (continued)

Revenues by customer type

Table 2G, “Revenues by tariff type for the year ended 31 March 2021 – non-household water”, reports all >50MI customers as being on non-default tariffs as the Company has electively reduced the retail margin below the price determination default tariff. The table below reports the split of tariffs if those customers were treated as being on default tariffs and reports each tariff in the categories it was reported in previous years Annual Performance Reports:

	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average non-household retail revenue per connection
	£m	£m	£m	000s	£
Non-default tariffs					
Raw water > 50MI (measured)	1.852	0.018	1.870	0.010	1,787
Partially treated water > 50MI	0.834	0.008	0.842	0.001	7,853
Water large user 50MI-99MI (measured)	4.009	0.040	4.049	0.050	803
Water large user 100MI-249MI (measured)	4.135	0.040	4.175	0.029	1,444
Water large user 250MI-499MI (measured)	3.628	0.039	3.667	0.010	3,889
Water large user 500MI-1000MI (measured)	3.294	0.037	3.331	0.006	6,199
Special agreement register – ref WSHNONPOT9	1.732	0.018	1.750	0.001	18,236
Special agreement register – ref WSHNONPOT10	0.777	0.008	0.785	0.002	3,816
Total non-default tariffs	20.261	0.208	20.469	0.109	1,924
Default tariffs					
Raw water < 50MI (measured)	0.002	-	0.002	0.003	22
Partially treated water < 50MI (measured)	0.001	-	0.001	0.003	28
Potable water < 50MI (non-household) Measured	50.147	2.847	52.994	91.289	31
Potable water < 50MI (non-household) Unmeasured	1.661	0.236	1.897	7.482	32
Special agreement register – ref WSHPOT1	0.007	-	0.007	0.001	75
Total default tariffs	51.818	3.083	54.901	98.778	31

Notes to the regulatory accounts (continued)

Transactions with associates

The Directors of Dŵr Cymru Cyfyngedig (DCWW) are also Directors of other companies within the Glas Cymru Holdings Cyfyngedig group; however, their emoluments are paid in full by the Company as their activities are predominantly related to the regulated water and sewerage business. During the year the Directors' emoluments amounted to £1,968,528 (2020: £2,320,031).

Company interest payable to Dŵr Cymru (Financing) Limited (DCFL), another member of the Glas Cymru Holdings Cyfyngedig group, was £107.6m during the year (2020: £141.9m). As at 31 March 2021 the balance outstanding on the intercompany loan from DCFL stood at £2,744.3m (2020: £3,075.8m). All borrowings raised by DCFL are immediately on-lent to the Company on an arms-length basis. The intercompany loan is subject to the terms and conditions of the whole business securitisation structure of Glas Cymru Holdings Cyfyngedig and its subsidiaries. DCWW, in its capacity as debtor, repays such principal and interest as is due on each borrowing on the due date plus 0.01%. Further intercompany balances with other members of the Glas Cymru Holdings Cyfyngedig group comprised a loan to Glas Cymru Anghyfyngedig of £2.0m (2019: £2.0m) and a loan received from Dŵr Cymru Holdings Limited totalling £2.8m which remains outstanding as at 31 March 2021. Interest payable on these loans has been waived.

As at 31 March 2021 intercompany trading balances owing to the Company were: Welsh Water Infrastructure Limited £nil (2020: £2,400), Welsh Water Organic Energy (Cardiff) Limited £320,559 (2020: £149,259), Cambrian Limited £10,879 (2020: £4,265), Glas Cymru Anghyfyngedig £8,481 (2020: £8,481), Glas Cymru Holdings Limited £18,901 (2020: £18,901), Welsh Water Organic Waste £147,563 (2020: £277,127) and Welsh Water Organic Energy Limited £nil (2020: £9,675). There is no interest payable on these outstanding balances.

During the year no dividends were paid or received (2020: none) to Dŵr Cymru (Holdings) Limited.

There were no other transactions with companies that are part of the Glas Cymru group except as disclosed below.

Notes to the regulatory accounts (continued)

Transactions with associates (continued)

RAG 3.11 requires the Company to disclose transactions with both associated companies and the non-appointed business in accordance with the guidance provided in RAG 5.07.

Service	Company	Turnover of associate £m	Terms of supply	Value £m
Services provided by the regulated business to associated businesses				
Staff secondments	Welsh Water Organic Energy (Cardiff) Ltd	2.189	Fully absorbed cost	0.538
	Welsh Water Organic Waste Ltd	0.645	Fully absorbed cost	0.161
Other costs	Welsh Water Organic Energy (Cardiff) Ltd	2.189	Fully absorbed and support cost	0.629
	Welsh Water Organic Waste Ltd	0.645	Fully absorbed and support cost	0.124
Loan interest	Dŵr Cymru (Financing) Limited	-	Loan interest payable at 0.01% mark up	107.549
Intercompany balances	Welsh Water Organic Energy (Cardiff) Ltd ¹	2.189	Intercompany balances; net increase of £0.171m	0.321
	Welsh Water Organic Waste Ltd ¹	0.645	Intercompany balances; net decrease of £0.129m	0.148
	Glas Cymru Anghyfyngedig ¹	-	Intercompany balances; no movement in year	0.008
	Cambrian Ltd ¹	-	Intercompany balances; net increase of £0.006m	0.011
	Glas Cymru Holdings Ltd ¹	-	Intercompany balances; no movement in year	0.019
Intercompany loan	Glas Cymru Anghyfyngedig ¹	-	Intercompany loan; no movement in year	1.971
	Dŵr Cymru Holdings Limited	-	Intercompany loan; no movement in year	2.812
	Dŵr Cymru (Financing) Limited	-	Intercompany loan; net decrease of £333.186m in the year which relates to repayment of bond and term loans	2,744.328
Services provided by the associated businesses to the regulated business				
Supply of power costs from AD plant to Cardiff Treatment works	Welsh Water Organic Energy (Cardiff) Ltd	2.189	Arm's length contract in 2014 with third party	0.587
Rental of appointed assets	Welsh Water Organic Waste Ltd	0.645	Arm's length contract for rental of appointed assets	0.052
Intercompany loan	Dŵr Cymru Holdings Limited ¹	-	Loan received in prior years; no movement in year	

There has been no group relief received or surrendered during the year

¹Interest has been waived on these balances

Notes to the regulatory accounts (continued)

Transactions with associates (continued)

Service	Basis of recharge made by the appointed business	Value £m
Treatment of tankered waste	The recharge is based on the strength of waste and volume received using the Mogden formula	1.173
Visitor centres	Fully absorbed cost of Visitor Centres	2.769
Search fees	Cost of team supporting this activity	0.108
Support costs for non regulated activity	Support costs based on FTE of non appointed activity	0.575

Statement of changes in equity (Company level)

	Ref	Share capital £m	Capital redemption reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2020		309.9	166.2	778.7	(16.7)	1,238.1
Loss for the year	1A	-	-	-	(73.3)	(73.3)
Revaluation net of tax	1B	-	-	23.3	-	23.3
Actuarial gain net of tax	1B	-	-	-	(1.1)	(1.1)
Transfer to retained earnings		-	-	(69.8)	69.8	-
At 31 March 2021	1C	309.9	166.2	732.2	(21.3)	1,187.0

Financial derivatives (Table 4I)

Interest rate swaps (sterling – floating to/from fixed rate) (Table 4I – 4I.1)

This is a single floating to fixed derivative which swaps £192m of debt from 3-month LIBOR plus a margin to 5.67% fixed. Both the swap and the debt were originally agreed between Dŵr Cymru (Financing) Limited (“DCFL”) (the sister company and financing arm of Dŵr Cymru Cyfyngedig (“DCWW”)) and the swap/loan counterparties. The funds were on-lent to DCWW and DCWW is ultimately responsible for ensuring payments of interest and principal are met. DCFL was registered in the Cayman Islands. During 2019/20 a new UK debt issuer was set up and all the assets and liabilities of DCFL were transferred to the new sister company, Dŵr Cymru (Financing) UK PLC (“DCF UK”). DCFL was transferred out of the whole business securitisation structure at that point and was subsequently liquidated on 23 March 2021.

Notes to the regulatory accounts (continued)

Financial derivatives (Table 4I) (continued)

Interest rate swaps (sterling – floating to/from index-linked) (Table 4I – 4I.3)

All the swaps included in this line are held in DCWW and are floating to RPI swaps under which DCWW receives floating rate LIBOR and pays a fixed amount plus the movement in RPI. The swaps are “year on year” swaps with all payments and receipts (including RPI) settled in the year. Interest rates in column N, O and P are a weighted average of:

- (a) Column I: a fixed amount of 1.60% plus RPI of 0.86% = 2.46%; and
- (b) Column J: LIBOR of 0.82%

As at 31 March 2021, £485m of swap notionals are held in DCWW. These swaps were taken out to hedge floating rate leasing liabilities and follow the amortising profile of the finance leases. The “year on year” index-linked swaps convert the floating rate leases to index-linked liabilities. The accounting value of the leases is £379m. The notional value of swaps allocated to the finance leases is £391m, representing the average balance of the finance leases subject to floating rate interest in the year. The swaps are amortising. Some leases have been terminated and, in consequence, swaps with a nominal value of £78m have been reallocated to floating rate European Investment Bank (“EIB”) and KfW IPEX-Bank liabilities.

When calculating the nominal value by maturity, maturity has been calculated with reference to the weighted average maturity of each amortising swap. Overall, maturities of these amortising swaps range from 1 to 18 years with a weighted average of 9.3 years.

Swaps held in other group entities

DCF UK, the financing sister company of DCWW has entered into eight interest rate swaps:

- A £192m (nominal) floating to fixed interest swap – this swap was taken out in 2001 to hedge floating rate bond liabilities that were on-lent to DCWW. The bond liabilities have been repaid, but the swap has been retained to hedge floating rate EIB debt raised by DCFL and on-lent to DCWW by way of an inter-company loan with a margin of 0.01%. The swap is shown on line 1 of table 4I. The swap matures in March 2031; and
- Seven fixed to RPI swap which is a synthetic “RPI bond” style swap where the indexation is accreted and paid on the maturity of the swap (which will occur simultaneously with the maturity of the related bond). The swaps and the fixed rate bond liabilities have been on-lent to DCWW as a combined index-linked loan at a weighted average rate of 0.1% x RPI plus a margin of 0.01% which is sufficient to repay both the fixed interest rate on the bond and the RPI swap liabilities. Maturities of these swaps and the associated liabilities range from 5 to 36 years with a weighted average maturity of 12 years.

Notes to the regulatory accounts (continued)

Financial derivatives (Table 4I) (continued)

Swaps held in other group entities (continued)

The table below reports the RPI swap in the same format as table 4I:

Derivative type	Nominal value by maturity (net)	Total value		Interest rate (weighted average)	
	Over five years	Nominal value (net)	Mark to market	Total accretion	Payable Receivable
	£m	£m	£m	£m	% %
Interest rate swap (sterling)					
Fixed to index-linked	950	950	218.891	63.748	0.33 3.48
Total	950	950	218.891	63.748	

Credit breaks

None of the swaps in DCWW or DCF UK has credit breaks, with the longest-dated swap being in place until 2057. This is because the swaps were entered into before the financial crisis when banks were more prepared to take a long term view of a water Company's credit.

In February 2020 DCF UK entered into six swaps fixed to index linked (RPI) bond swaps with a combined notional value of £850m ("the new swaps"). All the new swaps will pay RPI accretion on maturity and the maturity profile of the notional is:

- £200 million maturing 2026
- £350 million maturing 2028
- £300 million maturing 2033

None of the new swaps have credit breaks therefore the accretion will be not be fall due until maturity of the swaps.

Notes to the regulatory accounts (continued)

Financial derivatives (Table 4I) (continued)

Policy for determining composition of debt

DCWW's policy for raising debt is to reduce refinancing risk by borrowing across a range of maturities and from a mix of sources, currently comprising bi-lateral revolving credit bank facilities, EIB and KfW term loans, bonds and finance leases, with a mix of maturities to comply with the Company's refinancing policy. The refinancing policy is governed by the Company's bond covenants and states that no more than 20% of the group's debt is permitted to fall due within any rolling 24-month period.

Hedging policy

The Company's policy is to hedge at least 85% of its total outstanding financial liabilities into either RPI or fixed-rate obligations. To comply with this policy and in order to keep debt costs as low as possible we will raise debt at the lowest interest rate commensurate with the maturity of the debt. There is no specific optimum mix of RPI and fixed rate debt. As at 31 March 2021 99% of debt was hedged with approximately 80% being index-linked and 19% fixed.

Other financial derivatives

The other financial derivatives detailed in line 4I.26 are power hedges which swap the price of floating rate electricity into fixed rate. The notional is derived by calculating the total number of hours hedged multiplied by the fixed price per hour. As these swaps fix commodity prices, there is no applicable interest rate to include in columns I and J.

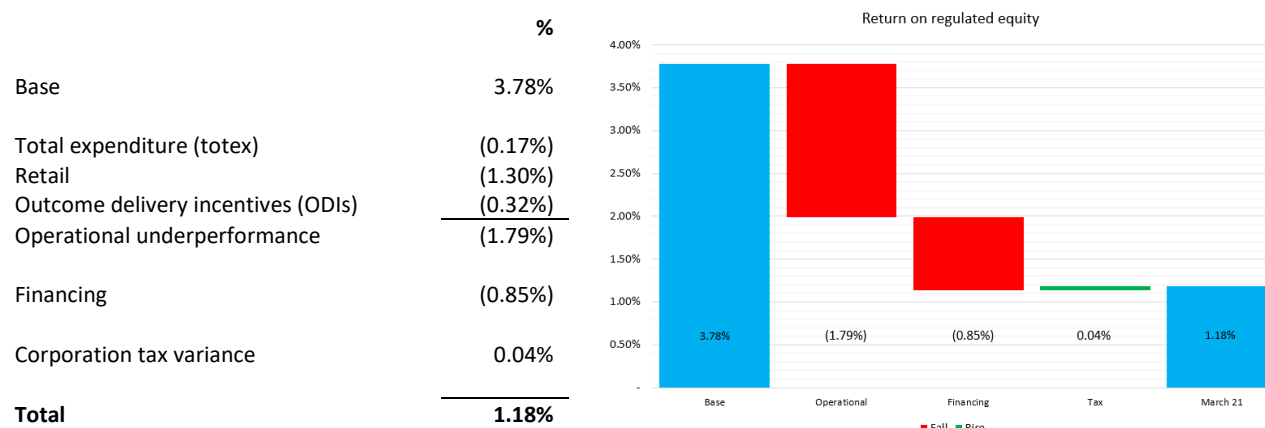
Notes to the regulatory accounts (continued)

Return on regulated equity

Dŵr Cymru has a base actual return on regulated equity (RORE) of 3.78% for 2020/21, based on the allowance set at the 2019 price review.

The Company delivered an actual RORE of ¹1.18% for the year ended 31 March 2021.

The Company's share of overall operational underperformance, adjusted where appropriate for timing differences, delivered a negative return of ¹1.79%. The difference between the actual and allowed average real interest rates on debt reduced the overall return by 0.87%. A corporation tax variance increased the actual return by 0.04%.



RORE calculations are based on a notionally structured, efficient company, and average RCVs. Tax has been assumed at the headline rate of 19%, in line with regulatory accounting guidance. Values below are quoted in 2017/18 year-average CPIH prices.

Wholesale Totex and Retail cost performance

The Company share of underperformance totalled ¹£34m in the year, reducing RORE by ¹1.47%; tables 4C and 2C provide detailed analysis of Wholesale totex and Retail cost performance.

¹ Totex changes following table 4C update

Notes to the regulatory accounts (continued)

Return on regulated equity (continued)

ODI performance

Dŵr Cymru has a range of performance commitments which have potential penalties or rewards attached to them; these are set out in table 3A. Rewards and penalties are included in the RORE calculation when they are recognised rather than when collected. An ODI charge of £7m was accrued in 2020/21 which lowered RORE performance by 0.32%.

Financing performance

Dŵr Cymru's average real interest rate in 2020/21 was 3.28% (including the impact of hedging instruments), 0.86% higher than the cost of debt allowed for by Ofwat in PR19 (2.42%).

Impact of voluntary customer sharing arrangements

During 2020/21, £11m of revenue was foregone in order to support the provision of affordability tariffs. This is not included in the RORE calculation but is included in "Total shareholder return" in table 1F (Line 22). Adjusted for customer value spend, the totex underperformance would ¹increase by 0.49% and overall RORE would ¹reduce to ¹0.69%.

¹ Change of polarity of voluntary customer sharing arrangement

Notes to the regulatory accounts (continued)

Taxation

Current tax	£m
Current period:	
Corporation tax on R&D tax credit included	0.171
Prior periods	<u>(0.453)</u>
Total current tax credit	<u>(0.282)</u>

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

Operating expenditure includes a Research & Development tax credit of £0.9m (2020: £1.3m). The tax credit is taxable and the corresponding charge of £0.2m (2020: £0.2m) 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 £0.5m (2020: £1.4m) relate to tax credits for energy efficient capital expenditure and the remediation of contaminated land. As a consequence, a deferred tax charge in respect of prior years of £0.5m (2020: £1.5m) has arisen from claiming these tax credits and from adjustments to deferred tax balances in respect of capital expenditure.

Notes to the regulatory accounts (continued)

Taxation (continued)

Factors affecting future tax charges

In the 3 March 2021 Budget it was announced that the UK tax rate will increase from 19% to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge. Management estimates that if this rate change had been substantively enacted at the current balance sheet date the net deferred tax liability, which is currently calculated at 19%, would have increased by £144.2m. Approximately £85.6m of the increase relates to fixed assets which have been revalued and would be recognised in equity, the remaining £58.6m would be recognised in the income statement. The effective rate of tax for the year is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

Current tax reconciliation	£m
Loss before tax and fair value movements on derivatives	(130.012)
Multiplied by standard rate 19%	(24.702)
Expenses not deductible for tax purposes	0.107
Non-taxable IFRIC 18 income	(1.729)
Other timing differences – general provision	0.836
Tax losses (utilised)/created	(0.013)
Capital allowances in excess of depreciation	25.672
Prior year tax credit	(0.453)
	<u>(0.282)</u>

Effective tax rate	£m
Corporation tax credit relating to current period	0.171
Loss before tax and fair value movements on derivatives	(130,012)
Effective corporation tax rate (current year)	(0.13%)

Notes to the regulatory accounts (continued)

Taxation (continued)

Reconciliation of current tax for the year to the allowance for current tax included in the Final Determination

	£m	Commentary
Final determination current tax allowance	-	
Key differences are as follows:		
Adjustment re prior years	(0.453)	Additional tax credits claimed for energy efficient capital expenditure and the remediation of contaminated land.
Tax on R&D expenditure credit	0.171	Corporation tax charge on R&D expenditure credit of £0.902m x 19%
Current tax charge	<u>(0.282)</u>	

The Group does not expect to pay corporation tax during AMP7 (2020 – 2025) in line with the Final Determination.

Notes to the regulatory accounts (continued)

Taxation (continued)

Deferred tax	£m
At 1 April	465.638
Credit to income statement	(14.253)
Charge to revaluation reserve	5.434
Credit to SOCI – re pensions	(0.253)
At 31 March	456.565
Analysis of amounts (credited)/charged to the statement of comprehensive income and revaluation reserve:	
Defined benefit pension schemes	(0.253)
Credit to SOCI – re pensions	(0.253)
Revaluation of fixed assets	5.434
Charge to revaluation reserve	5.434
Effect of	£m
Tax allowances in excess of depreciation	251.451
Deferred tax on revaluation of fixed assets	271.063
Capital gains rolled over	3.021
	525.535
Deferred tax on capital losses c/f	(0.021)
Deferred tax on losses of derivatives	(49.834)
Pensions	(16.378)
Other tax differences	(2.737)
	456.565

Notes to the regulatory accounts (continued)

Taxation (continued)

Tax charges for Statement 1A – Income Statement for the year ended 31 March 2020

	Statutory Accounts £m	RAG differences £m	Non appointed income £m	Reg accounts total £m
Loss before tax	(87.138)	(5.525)	2.031	(90.632)
Current tax				
Current period	-	-	-	-
Corporation tax on R&D tax credit included in operating costs	0.171	-	-	0.171
Prior periods	(0.453)	-	-	(0.453)
Total current tax	(0.282)	-	-	(0.282)
Deferred tax				
Current period	(14.112)	(1.050)	0.386	(14.776)
Prior periods	0.523	-	-	0.523
Effect of rate change	-	-	-	-
Total deferred tax	(13.589)	(1.050)	0.386	(14.253)
Total tax credit/(charge)	(13.871)	(1.050)	0.386	(14.535)

Notes to the regulatory accounts (continued)

Taxation (continued)

Our group tax strategy

Our approach to risk management and governance arrangements

Our Chief Financial Officer has overall responsibility for tax governance and strategy with oversight from the Board and the Audit Committee.

Our tax strategy is supported by a detailed internal Group Tax Policy, together with a framework of internal systems and controls which govern the commercial operations of Glas Cymru Holdings and its subsidiaries (the Group). Our Head of Tax is responsible for the day-to-day application of the tax strategy and the management of the Group's tax affairs. Our Head of Tax works closely with our Chief Financial Officer and Director of Finance. All material tax issues, risks and developments are regularly communicated to the Audit Committee.

Our tax team comprises a small group of professionals with extensive experience of tax in the water sector. This expertise is supplemented by the use of reputable external advisers where required.

Our approach to tax planning and tax risk

All of our group companies are UK tax resident and subject to UK corporation tax on their profits. We do not use tax havens for tax avoidance purposes.

Our focus is on compliance; ensuring that all taxes are correctly calculated, accurately reported and paid when due.

We do not engage in artificial arrangements with no commercial purpose, or transactions which are directed at exploiting tax legislation in order to reduce the tax we pay. We comply with the spirit of the law as well as the letter of the law.

Tax risks are held within the Group's risk register and are updated regularly.

Our key tax risks principally arise from business developments and changes to tax legislation which may result in unforeseen tax implications. Where possible we seek to mitigate tax risk so that residual risk is minimal.

Our tax team is involved in all significant business developments enabling a full assessment of the tax implications to be made. We seek input from reputable external advisers where the tax implications are still unclear. In cases where residual uncertainty remains we liaise with HMRC to gain clarity.

Notes to the regulatory accounts (continued)

Taxation (continued)

Our group tax strategy (continued)

Our tax team participates in a number of water industry tax forums. The team receives regular technical updates from our professional advisers and from our periodic meetings with HMRC. This ensures that the team is kept informed of all relevant developments in tax law, enabling them to develop appropriate systems and controls to address legislative changes.

We actively contribute to the UK tax policy making process by participating in Government consultations.

Our relationship with HMRC

We are committed to an open, transparent relationship with HMRC. Our policy is to fully disclose any issues or errors as they arise, and seek to resolve them as soon as practicable.

We meet HMRC annually to formally discuss our business plans and developments, together with relevant changes to tax legislation.

The Group has been classified as low risk by HMRC from the inception of the Business Risk Review process in 2009. This was reviewed and reaffirmed by HMRC in the most recent triennial business risk review which took place during the year ending 31 March 2020.

Tax reliefs and incentives

Our Group has no shareholders and is run solely for the benefit of our customers. We therefore seek to utilise available tax reliefs and incentives put in place by the Government in order to maximise funds available to benefit our customers.

The Group invests heavily in capital expenditure, for example treatment works and our network of pipes and pumping stations, to continually improve the service we provide to our customers. We are therefore able to take advantage of tax reliefs which aim to stimulate this type of investment. A significant proportion of this capital expenditure can be deducted in calculating the Group's taxable profit. We are also able to deduct interest costs incurred to fund this capital investment. This effectively delays corporation tax payments to future periods. Our customers therefore also benefit from cheaper bills.

The Government's Research & Development (R&D) Expenditure Credit regime incentivises companies to increase their investment in R&D. The Group invests heavily in R&D and claims tax credits under this regime.

Notes to the regulatory accounts (continued)

Taxation (continued)

Transparency

We understand the value of insightful financial reporting to our customers, investors and other stakeholders. Taxation is an area which can be difficult to understand. We therefore seek to provide enhanced disclosures in order to give a clear and balanced view of our tax affairs.

Contribution

The Group is subject to a range of taxes and duties, including corporation tax, business rates, environmental taxes, employment taxes, National Insurance, VAT, fuel duty and licences. The Group thus makes a significant contribution to public finances, as well as employing nearly 3,500 people and playing an important role in the regional economy.

Annual Performance Report 2020/21

Long-term viability statement

As presented in the Glas Cymru Holdings Cyfyngedig Annual Report and Accounts – note that page references below refer to that document.

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

Ours is a long-term business: as a water and sewerage provider our commitment to 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.

We have prepared this Annual Report as though we are a listed company (see page 106) and in preparing this statement we have complied with Provision 31 of the UK Corporate Governance Code. We have also followed Ofwat's guidance in relation to preparing a statement on long-term financial viability (IN 19/07).

The nature of our business and our unique structure means that we are better placed than many other organisations to withstand financial shocks. As a monopoly supplier of an essential public service, demand for our water and sewerage services is not subject to the same scale of variation in customer demand as most other businesses. We saw an unprecedented drop in demand from business customers during the UK-wide lockdown in spring 2020 yet this has resulted in only a 5% drop overall in our regulated revenues. In addition, we are a regulated business: whilst the primary aim of regulation in the water sector is to protect customers from monopoly abuse, it also provides protections to safeguard the essential services.

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. It also means that we have no line of last resort in the way that a traditionally-owned company could approach its shareholders for assistance in the case of financial distress. 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. Our strategy since Glas Cymru acquired the business of Welsh Water in 2001 has been to reduce our gearing to the level at which the Board considers we would be able to obtain access to the most efficient level of debt funding. Over the past two decades we have steadily reduced gearing from 93% to 60%, in line with the Board's target of around 60%; as a result we have a high level of financial reserves (£2.4billion) and robust credit quality.

Long-term viability statement (continued)

OUR APPROACH

We are custodians of a long-term business and enduring viability is ingrained in our risk management and planning processes. This is underpinned by a culture of open and honest challenge and mutual support and reinforced by clear direction from our leadership team. The Board regularly and frequently challenges our identification and assessment of risks and the assumptions we use in financial forecasting.

We have considered the most appropriate forward-looking period over which to assess our ongoing financial viability, having particular regard to the level of certainty afforded by the five-yearly regulatory price reviews. On 16 December 2019 we received Ofwat's Final Determination of price limits for AMP7 which gives us clarity of allowed revenues until March 2025, and we have developed and refined detailed cost plans for that period. We have also developed outline plans for the following period (AMP8) to 2030 in the context of our strategic planning document "Welsh Water 2050". Our view is that forecasting beyond 2030, when allowed revenues will be determined after further regulatory price reviews, is currently too speculative to allow us to draw practical conclusions on financial viability. As a result, the Board has considered the financial viability of the Group over this and the next regulatory periods, to 31 March 2030 and this viability statement, therefore, covers a period of nine years.

Our Strategic Report sets out our principal risks and uncertainties and how we intend to mitigate their potential impact on the delivery of our strategic objectives (see pages 66 to 73). The most significant risk, identified in early 2020 and which has progressed during the course of 2020/21, relates to the Covid-19 pandemic. There remains uncertainty over the full impact and we are likely to see ongoing challenges, however expectations of a full vaccination roll-out by summer 2021 indicate that there is likely to be better control over the future development of the virus (see "Covid-19 pandemic", below).

We operate continuous risk identification and assessment processes. Please see the section on Our Risk Management procedures on pages 66 and 67.

We recognise that risk is a necessary part of business. Our appetite is to maintain it at a low level and our processes are designed accordingly: we monitor inherent and existing risks and strive to capture emerging risks at the earliest opportunity. Our assessment of risks is incorporated into our annual detailed budgeting and forecasting process for the current regulatory period, and at a broader level on a five-to-ten year horizon. The Board focuses on the achievement of long-term objectives and carries out an annual review of the strength and effectiveness of our risk management framework based on a review of the processes, outputs and feedback from all areas of the business. The Board also challenges the underlying assumptions and the estimated impact of mitigating activities. As part of its approval of the annual business plan, the Board discusses the likelihood of the principal risks arising and the impact on our forecasts, which in the case of our latest financial plan (the 2021 plan) principally cover the period to the end of AMP7 in March 2025 – although our financial forecasts stretch to 2030. Our 2021 plan is based on our final business plan submission to Ofwat in August 2019, modified in response to Ofwat's Final Determination and other known factors.

Long-term viability statement (continued)

Covid-19 PANDEMIC

The biggest factor currently impacting our core viability assessment is the Coronavirus pandemic. As part of the UK Government's ongoing assessment of the situation, the Office for Budget Responsibility (OBR) published its latest Economic and Fiscal Outlook on 3 March 2021, predicting a large but temporary shock to the economy and public finances with notably more optimistic recovery prospects than previous forecasts had anticipated. Public borrowing is expected to rise to nearly 100% of GDP during the current parliament before starting to fall. Unemployment is forecast to peak in the final quarter of 2021 with a gradual return towards pre-Covid-19 budgeted levels by 2024. The Coronavirus Job Retention scheme is assumed to continue until 30 September 2021 with other measures of governmental Covid-19 support being extended into summer 2021. Our own Covid-19 impact modelling has been informed by published reports as well as by our experience to date and consideration of circumstances particular to the Group's operating region.

The biggest risks to revenues have already crystallised in 2020–21 with regulated turnover falling some £37 million (5%) below the level allowed by Ofwat. We have assumed that this shortfall will be recovered in 2022/23 in line with regulatory mechanisms. Our revenue forecasts are based on Ofwat's allowances as adjusted for inflation assumptions, performance penalties/rewards and the Company's contributions to social tariffs. Our 2021/22 revenues have been forecast following the Board's approval of the 2021/22 Scheme of Charges in December 2020 which takes into account changes in our customer base up to that date and our expectations thereafter.

Cash collection experience during 2020/21 did not show a significant downturn, although we anticipate a deterioration in cash collections as unemployment rises (reflected in our 2020/21 bad debt charge, which is £14 million higher than our business plan) – in particular with the expected ending of job support schemes in September 2021. By examining historical data, we have established a correlation between our bad debt charge and levels of unemployment. We estimate that annual bad debt charges will be some £4 million to £7 million (around 20%) higher than our pre-Covid forecasts for the next two financial years before tapering towards pre-Covid levels by the end of the current regulatory period in 2025. We have also prudently assumed that we will incur some ongoing Covid-related costs during the next two years of some £3 million per annum.

Long-term viability statement (continued)

Stress scenarios

Our viability assessment is based on exposing our forecasts to 2030 to a number of negative “stress” scenarios, which include the Board’s view of the likelihood and impact of each of our principal risks and uncertainties occurring, both individually and in aggregate. We have also adjusted our core inflation assumptions to run these scenarios in both high and low inflationary environments. The estimated financial impacts are based on a combination of our own experience and other publicly available data, both industry-specific and UK-wide. We have identified what we consider to be a most severe, yet ultimately plausible, negative scenario as a means of gauging the overall level of headroom that exists in what we believe is a challenging yet deliverable plan: in turn this gives the Board confidence in the validity of its conclusions on long-term viability. We know that some of our combined scenarios are unlikely to occur in practice, however they are useful in determining the overall level of resilience and to understand what would need to happen to threaten the Group’s continued existence. The use of stress testing allows us to forecast the impact of any given scenario on the covenants attaching to our existing funding (interest cover and gearing) as well as on the principal financial metrics used by rating agencies in assessing our credit ratings (adjusted interest cover and the ratio of funds from operations to net debt). For all scenarios we can then assess our future compliance with current obligations as well as our likely ability to obtain new debt. The Board has reviewed the outputs of all stress scenarios overlaid on the 2021 plan and has noted that none of these presents a material threat to the long-term viability of the Group.

Actions taken to mitigate both the likelihood and severity of the principal risks occurring are set out in the key risks summary on pages 68 to 73. The financial impact of each of the principal risks occurring has been estimated based on the Board’s assessment of the post-mitigation likelihood and severity. The likelihood of risks occurring, and the severity of impact are assessed on five-point scales as set out below:

LIKELIHOOD

1. Event likely to occur less than once every 10 years
2. Event likely to occur once every 5-10 years
3. Event likely to occur once every 2-3 years
4. Event likely to occur within the next 12 months
5. Event current/imminent

SEVERITY

1. Media interest only
2. Cost to business of less than £10 million
3. Reputational damage with one stakeholder only and/or cost to the business greater than £25 million
4. Reputational damage affecting customer trust and/or cost greater than £50 million
5. Major reputational damage affecting the whole business and/or cost to business greater than £100 million

Annual Performance Report 2020/21

Long-term viability statement (continued)

Stress scenarios (continued)

The impacts of all principal risks have been modelled individually and in aggregate: the table below summarises the outputs.

Risk category	AMP7				AMP8			
	March 2025 reserves (RCV less net debt)	March 2025 gearing (net debt/ RCV)	Average funds from operations /net debt	Average adjusted interest cover ratio	March 2030 reserves (RCV less net debt)	March 2030 gearing (net debt/ RCV)	Average funds from operations /net debt	Average adjusted interest cover ratio
Core scenario: 2021 financial plan	2,855	56.9%	6.5%	1.5x	3,380	53.8%	7.5%	2.3x
Principal risk scenarios								
Health and Safety (Serious injury)	2,852	57.0%	6.5%	1.5x	3,377	53.9%	7.5%	2.3x
Customer Trust	2,843	57.1%	6.5%	1.5x	3,352	54.2%	7.3%	2.2x
People (Key Skills Shortage)	2,841	57.1%	6.5%	1.5x	3,346	54.3%	7.3%	2.2x
Water Quality	2,836	57.2%	6.4%	1.5x	3,340	54.4%	7.3%	2.2x
Performance and Cost Targets	2,767	58.3%	6.0%	1.3x	3,130	57.2%	6.3%	1.9x
Information Security, Cyber and IT System Loss	2,774	58.2%	6.4%	1.5x	3,298	54.9%	7.3%	2.3x
Operational Technology	2,774	58.2%	6.4%	1.5x	3,298	54.9%	7.3%	2.3x
Environmental Regulation	2,814	57.5%	6.5%	1.5x	3,299	54.9%	7.3%	2.3x
Resilience and Business Continuity (Covid-19 and Brexit)	2,801	57.7%	6.2%	1.4x	3,305	54.8%	7.2%	2.2x
Relationships and Trust (Political/ Regulatory)	2,855	56.9%	6.5%	1.5x	3,380	53.8%	7.5%	2.3x
PR24	2,855	56.9%	6.5%	1.5x	3,380	53.8%	7.5%	2.3x
Finance (funding)	2,855	56.9%	6.5%	1.5x	3,380	53.8%	7.5%	2.3x
Impact of Severe Recession (Covid-19 and Brexit)	2,801	57.7%	6.2%	1.4x	3,305	54.8%	7.2%	2.2x
Climate Change Impact	2,824	57.4%	6.3%	1.5x	3,305	54.8%	7.1%	2.2x

Risk category	AMP7				AMP8			
	March 2025 reserves (RCV less net debt)	March 2025 gearing (net debt/ RCV)	Average funds from operations /net debt	Average adjusted interest cover ratio	March 2030 reserves (RCV less net debt)	March 2030 gearing (net debt/ RCV)	Average funds from operations /net debt	Average adjusted interest cover ratio
Combination scenarios	2,551	61.5%	5.3%	1.1x	2,785	61.9%	5.5%	1.6x
All risks with a likelihood of 3+	2,643	60.1%	5.6%	1.2x	2,983	59.2%	6.0%	1.8x
All risks with a likelihood of 4+	2,590	60.9%	5.5%	1.2x	2,893	60.5%	5.8%	1.8x
All risks based on likelihood x severity								
"Severely adverse but plausible" - low inflation and cost shocks	2,359	61.5%	6.6%	1.1x	2,063	67.3%	5.6%	0.9x

Long-term viability statement (continued)

Stress scenarios (continued)

The level of stretch in the severely adverse but plausible scenario assumes £630 million of expenditure over the forecast period (equivalent to an average annual totex overspend of around 10%). The highest level of annual stress modelled in the scenario is an additional £116 million of expenditure (a totex overspend of circa 17%). In addition we have modelled temporary deflation (RPI of -1%) for the first year of the forecast plus low inflation (RPI of 1% to 2%) for the remainder of the period, similar to the pattern seen between 2008 and 2016 following the credit crunch.

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 as all our allowed revenues and around two-thirds of our debt is index-linked (broadly speaking, we benefit financially from a high inflation environment and come under pressure when inflation is low). Importantly, even in our most stretching scenario, which assumes that all of the principal risks crystallise during a nine-year period of low inflation, our forecasts indicate that we would not hit our 85% gearing level or interest cover triggers with our existing lenders; this is not a realistic scenario for planning purposes but it helps us to understand the level of future resilience inherent in our current financial position.

Reduced cash flows modelled in the stress scenarios would impact on our key financial metrics, in particular interest adjusted cover and could result in lower credit ratings. However, in the most severe downside scenario, gearing and interest covers retain significant headroom within the trigger levels specified in our borrowing covenants.

Outlook

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

We expect Covid-19 to impact adversely – but not materially – on our cash flows during 2021/22 and currently estimate that the related economic recession will continue to impact on our cash collections throughout the remainder of this regulatory period.

Long-term viability statement (continued)

Outlook (continued)

The Board also has regard to the Group's strong financial position when assessing viability, noting that liquidity is strong and that gearing at 31 March 2021 is in line with the target of 60%. The strength of our current liquidity position is very high with cash on deposit and undrawn loan facilities totalling £421 million, expanded by a further £300 million on 9 April following the drawdown of a new junior debt issue. As at 31 March 2021 some £221 million of cash was held on short-term deposits (35 days maximum) affording easy access to a high level of liquidity.

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

COMMERCIAL BUSINESS

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

ASSURANCE

Assurance is a fundamental part of our business planning process, with peer reviews and Executive team approval forming key milestones prior to Board review. A key part of the peer review process ensures that our financial forecasts are aligned with our operational delivery plans. All plans must receive head of department and Executive team approval prior to Board sign-off. We have received external assurance on our financing model used to generate the 2021 plan and stress scenarios via an "agreed-upon procedures" exercise, with no exceptions noted, and our plan itself has been subject to scrutiny and challenge by Ofwat (being a modified form of our PR19 final business plan submission).

Our independent External Auditors review this long-term viability statement and report by exception on any inconsistencies with the financial statements set out on pages 161 to 203; none have been identified (see audit opinion on pages 154 to 160).

Long-term viability statement (continued)

CONCLUSION

The Board considers that the risk management and forecasting controls in place are robust and that the 2021 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.

Annual Performance Report 2020/21

Remuneration Committee Report

The Directors of Dŵr Cymru Cyfyngedig are also Directors of the other companies within the Glas Cymru Holdings Cyfyngedig group; however, their emoluments are paid in full by the company their activities are predominantly related to, which is the regulated water and wastewater business. The report below has been extracted from the 2021 Annual report and Accounts of Glas Cymru Holdings Cyfyngedig.

GLAS CYMRU

REMUNERATION COMMITTEE REPORT – EXTRACT TAKEN FROM THE ANNUAL REPORT AND ACCOUNTS 2020/2021

(Note page references in this section relate to the Annual Report and Accounts document)

REMUNERATION COMMITTEE REPORT

INTRODUCTION: HEADLINES AND COMMITTEE CHAIR’S LETTER

PRINCIPAL RESPONSIBILITIES

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

During 2020/21, the Committee received independent advice from Deloitte LLP who are a signatory to the Remuneration Consultants Group Code of Conduct and any advice given is governed by the Code. The Committee is satisfied that the advice received was independent and objective. The fees payable to Deloitte LLP for the period 2020/21 totalled £59,970 (plus VAT).

REMUNERATION COMMITTEE REPORT (continued)

Dear Glas Members

On behalf of the Board, I am pleased to present our 2020/21 Remuneration Report, my first as Chair of the Remuneration Committee. I would like to extend my thanks to Anna Walker, who stepped down following the 2020 AGM. The Company Remuneration Policy for AMP7 was developed and approved under her Chairship and it has created a strong foundation on which to make decisions in the coming years.

STRUCTURE OF THIS REPORT

For this year we have refreshed our approach to remuneration disclosure to simplify the report and to further align with best practice. This includes providing more details of how the performance delivered has resulted in variable pay outcomes. This Report is split into six sections:

- Section 1: Remuneration Committee Chair's statement (pages 131 to 132)
- Section 2: The Alignment of Pay and Performance, Remuneration Principles and Ofwat guidance (pages 133 to 135)
- Section 3: Summary of Directors' Remuneration Policy for AMP7 (2020/2025) which was approved by Glas Members at the 2020 AGM (pages 136 to 138)
- Section 4: Pay outcomes for 2020/21 (pages 139 to 143)
- Section 5: Pay decisions made in relation to 2021/22 (pages 144 to 146)
- Section 6: Other Important Information which is disclosed in line with best practice guidance (pages 146 to 148)

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

BUSINESS AND EMPLOYEE CONTEXT

The past year has been unprecedented both for us as a business and the communities which we serve (see page 55 for more detail about the Company's response in general to the impact of Covid-19). The Committee has considered the impact of the Covid-19 pandemic on the Company's customers and communities when making decisions on executive pay. The CEO, CFO, Chair of the Board and Non-Executive Directors requested that their respective salaries and fees be reduced by 20% for May, June and July 2020, in order that the value of this reduction could be added to the Company's Community Fund which has provided immediate aid to communities via our supported charities.

REMUNERATION COMMITTEE REPORT (continued)

The Committee has also been deeply aware of the sustained high quality of service provided to our customers despite the burden that Covid-19 has placed on many of our employees. To recognise this our Colleague Reward scheme was once again uplifted to take account of the efforts of frontline teams in dealing with the impact of Covid-19, resulting in a payment of £1,100 to over 2,200 employees.

Our people are our greatest asset and we are passionate about creating a workforce that reflects the diversity within the communities we serve. We are committed to ensuring the Company is an inclusive environment where everyone can be themselves at work, and there are no barriers to undertaking any role. For further information on our people and policies and the progress we have made during 2020/21 see pages 88 to 89. Alongside these varied initiatives, we recognise that fair workforce and Executive pay policies are an important element in promoting an engaged, diverse and inclusive workforce.

The Committee sought feedback from employees on remuneration at a dedicated employee engagement session attended by the Chair of the Committee and the Chair of the Board, which was held by video conference in October 2020.

The Committee also received feedback from Glas Members at a workshop meeting held in May 2020 and at the 2020 Annual General Meeting. The Committee was grateful for the feedback received from all stakeholders and will continue to consider these comments and views in relation to future decision-making.

FOCUS AREAS IN 2020/21

We are not a listed company, however in line with public listed companies we put our Remuneration Policy to Glas Members for approval every three years. At the start of the year our Directors' Remuneration Policy for AMP7 was approved by Glas Members at the Annual General Meeting on 3 July 2020.

This year, the Committee has focused on implementing this Policy. This has included reviewing and updating the rules of the of the Annual Variable Pay Scheme (AVPS) and Long Term Variable Pay Scheme (LTVPS), as well as setting performance targets for AVPS awards for 2020/21 and for LTVPS awards for each year of the AMP7 period, consistent with performance commitments and target levels set by Ofwat in the Final Determination of the PR19 regulatory price review.

In line with the normal annual cycle, the Committee reviewed salary levels for the Executive Directors and the Executive team. During this review the Committee considered the proposed increases for the wider workforce, business and individual performance in 2020/21, and National Living Wage and Real Living Wage rates. The Committee decided to increase Executive Director salaries by 2% from 1 April 2021, in line with increases for the wider workforce in the AMP7 Working Together Agreement.

REMUNERATION COMMITTEE REPORT (continued)

The Committee determined that these costs should be excluded from the performance calculation in line with previous practice of adjusting for exceptional items to ensure that performance is measured on a like-for-like basis. The AVPS outcome for the Executive Directors was 45.7%, below their target of 60% maximum. This was based on consistent performance across our customer service, operational and strategic measures (see page 142 for details of targets set and performance achieved). The LTVPS outcome was 23.1% of maximum, below the Totex target of 50% of maximum and performance development targets being missed, primarily due to failure to meet targets for reducing Per Capita Consumption.

The Committee reviewed these outcomes in the context of the performance delivered for customers and the wider societal context, and sought advice and input from Deloitte LLP as consultants to the Committee, to ensure that the broader impact of Covid-19 across the business was taken into account and that appropriate decisions were made in that context. The Company's response to the pandemic had impacted the Totex performance under the LTVPS by incurring exceptional costs which were not anticipated when the original targets were set. The Committee determined that these costs should be excluded

from the performance calculation in line with our previous practice of adjusting for exceptional items to ensure that we are measuring performance on a like-for-like basis. Other performance development targets were impacted by the pandemic, notably our Community Education and Recreational Facility visit targets, however the Committee did not make any adjustments to these measures.

The Committee also reviewed the fee for the Chair of the Board during the year. It is our approach to reflect our corporate structure by applying a 15% discount compared to shareholder-focused companies. As a result of this review, the Chair's fee has been maintained at the current level for a further year.

REMUNERATION COMMITTEE FOCUS AREAS IN 2021/22

Looking forward, during 2021/22 the Committee will continue to implement the Policy approved by Glas Members in accordance with our agreed Remuneration Principles.

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

We are also aware of the Company's increased focus on diversity and inclusivity (see page 88 for more details) and recognise the relevance of setting and implementing appropriate remuneration policies in attracting and retaining a diverse and engaged workforce. The Committee understands the role that ethnicity pay reporting can play as part of this and will continue to look at this in the context of the business developing relevant records and metrics.

Given the continued impact of the pandemic on our operations and our customers, we will ensure that pay outcomes for 2021/22 are appropriate.

REMUNERATION COMMITTEE REPORT (continued)

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

A handwritten signature in blue ink, appearing to read 'Joanne Kenrick', with a small horizontal line underneath.

**JOANNE KENRICK
CHAIR OF THE REMUNERATION
COMMITTEE**

REMUNERATION COMMITTEE REPORT (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 6, has informed the development of our Remuneration Principles, as set out below.

THE REMUNERATION PRINCIPLES

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

1	2	3	4
Remuneration should reward/incentivise the long-term interests of the business, promote its long-term sustainable success and reflect its agreed future strategic approach.	Remuneration should help align the interests of Directors and employees with the business' customers, and reflect the Company's purpose and values.	Remuneration should be focused on the issues of key concern to the business – water and environmental quality, customer service and financial performance.	Remuneration should reflect Welsh Water's aim to be one of the best performing companies in the sector.
5	6	7	8
Remuneration targets should be stretching both in relation to past performance and in comparison, with other companies in the sector. Where possible, they should be hard numbers which can be audited.	Remuneration is intended to incentivise management in the absence of shareholders and share options.	Remuneration should be fair and competitive both in relation to the sector and internally so as to help attract and retain high-calibre individuals.	An appropriate proportion of remuneration for the Executive Directors should be variable so as to achieve the right balance in relation to risk-taking.
9	10	11	12
The remuneration structure should be sufficiently clear so that those affected by it understand what it is aiming to achieve.	Remuneration will be transparent to Glas Members and subject to their regular approval.	Remuneration should take account of the Company's not-for-shareholder corporate structure, the views of members and other stakeholders.	Decisions made by the Committee should take account of workforce remuneration and related policies, and the alignment of incentives and reward with culture.

REMUNERATION COMMITTEE REPORT (continued)

When developing the Remuneration Policy and considering its implementation for 2021, the Committee was mindful of the objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance and the UK Corporate Governance Code. The Committee considers that the executive remuneration framework appropriately addresses the following factors:

When developing the Remuneration Policy and considering its implementation for 2021, the Committee was mindful of the objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance and the UK Corporate Governance Code. The Committee considers that the executive remuneration framework appropriately addresses the following factors:

Clarity	The Committee is committed to being open and transparent with pay and we seek to do this through our high level of disclosure and clear reporting. In taking its decisions, the Committee follows the Objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance, and the requirements of the FRC's UK Corporate Governance Code (the Code).
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 and are well understood by participants.
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 for 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. Actual incentive outcomes are set out in the Remuneration Report each year.
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 choose to apply a 15% discount to remuneration in order to reflect our not-for-shareholder structure.
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 affected/impacted by the same key targets, to a greater or lesser degree.

This report includes an explanation of the Company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied.

REMUNERATION COMMITTEE REPORT (continued)

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 must encourage a focus on achieving the longer-term strategy of the Company. It must also be fair to individuals and the wider workforce. The Committee is mindful of the impact of our not-for-shareholder dividend corporate structure and our geographical location on levels of pay.

The Committee is determined that remuneration should not reward poor performance and that we should be transparent about the reporting of such performance. This is closely aligned to the Group's vision To Earn the Trust of our Customers Every Day.

LINKING PAY TO PERFORMANCE AND THE CUSTOMER

In addition to linking pay to the short and long term challenges the business faces and taking into account our corporate structure, our Remuneration Policy also ensures any performance-related element of executive pay is linked to the underlying performance of the Company and delivery for customers.

For AMP7, the AVPS was amended to focus on the key performance objectives of the business plan whilst LTVPS objectives are linked to a range of performance measures which are relevant to achieving the Company's long-term goals as set out in Welsh Water 2050 (for more details about these goals, please see page 25).

Delivery for customer metrics is a key part of our incentives and the policy for short and long-term performance pay is linked to stretching performance delivery for customers, including through C-MeX and D-MeX metrics (Ofwat's customer measures of experience and satisfaction - see Performance Commitment Definitions page 209).

Our policy seeks to ensure that Executive Directors are fairly rewarded, and the Committee will also assess outcomes to ensure that pay is aligned to performance. Where necessary, the Committee will make amendments through the discretion available under our schemes.

REMUNERATION COMMITTEE REPORT (continued)

ROLE OF GLAS MEMBERS

Glas Members perform an essential governance function for the Group in the approval of remuneration policies. The 2020–21 Annual Report on Remuneration will be subject to an advisory vote by Members at the forthcoming 2021 AGM. The vote is “advisory” because it does not change the decisions already taken, but the Committee will take it into account in its future decision-making.

Members also approve the Remuneration Policy of the Board by binding vote at least every three years (or where any significant change is proposed). This is in accordance with the remuneration reporting requirements for UK listed companies.

Members approved the remuneration report and the Remuneration Policy for AMP7 at the 2020 AGM, with the votes as follows:

	2019 AGM	2020 AGM
Members (present in person or by proxy) who voted in favour of the Annual Report on Remuneration	92%	97%
Members (present in person or by proxy) who approved the Directors' Remuneration Policy (2019: minor changes approved; 2020: new policy approved for 2020-2025)	82%	90%

ENGAGEMENT WITH EMPLOYEES AND OTHER STAKEHOLDERS

Colleagues from across the business are regularly invited to attend informal meetings with the Chair and Non-Executive Directors to talk about issues affecting the business, the workforce, customers and other stakeholders. During 2020/21, this engagement was inevitably curtailed by the pandemic although we have sought to switch as much as possible into virtual form. One of these sessions, held in October 2020, included a discussion on the role of the Remuneration Committee, the link between performance and remuneration, and remuneration policies for the Executive Directors and the wider business. The outputs from this discussion were subsequently reviewed at a meeting of the Glas Board. Employee engagement surveys have also been used in the past to seek the views of the wider workforce in relation to remuneration policy. However, in 2020/21 this annual survey was replaced with regular shorter surveys focused on health and wellbeing issues. See page 39 for other examples of Board engagement. Site visits are detailed on page 108.

The Remuneration Committee is conscious of the Company’s position as one of the largest companies in Wales and of the geographic and socio-economic context in which the Company operates, and in which decisions concerning remuneration are made by the Committee.

The Board as a whole is also conscious of the need to balance societal concern around the quantum of executive remuneration with the need to attract and retain key individuals with the relevant experience and capabilities. Engagement with other relevant stakeholders includes the Customer Challenge Group, Ofwat and other regulators, DEFRA and Welsh Government and the Consumer Council for Water, and we take account of the views of these bodies where relevant.

REMUNERATION COMMITTEE REPORT (continued)

SECTION 3: SUMMARY OF DIRECTORS' REMUNERATION POLICY FOR AMP7 (2020/2025)

The AMP7 Remuneration Policy was approved by the Glas Members at the 2020 AGM, and the key elements are set out in the table below:

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
BASE SALARY	To help attract, retain and motivate high-calibre employees.	Normally reviewed annually and any increases applied with effect from 1 April. Review reflects: <ul style="list-style-type: none"> • Role, experience and performance • Wider economic conditions • Increases awarded throughout the rest of the workforce • Periodic reviews of remuneration within the water sector. 	Annual inflationary increases generally linked to those of the wider workforce though the Remuneration Committee retain discretion to award increases to individuals above or below this level where appropriate.	Annual Performance Reviews.
BENEFITS	To provide a market-competitive benefits package to help attract and retain employees. Healthcare benefits also promote business continuity.	Directors are eligible for private health cover. The Chief Executive has a historic entitlement to permanent health insurance. Other benefits such as relocation expenses or travel/accommodation allowances may be offered as appropriate.	Value of benefits is based on the cost to the Company and is not predetermined.	None
PENSION	To help attract and retain high-calibre employees.	From 1 April 2020, all employees, including Executive Directors, will be entitled to a maximum employer pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance of 9.7%. 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 which Peter Perry participates in. Life assurance at 4x base salary is provided for Executive Directors and all employees who participate in the DCWW Group Personal Pension Plan or Pension Cash Alternative Plan.	The cash allowance is equivalent to the employer contribution of 11% less employer NI contribution.	None
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. <ul style="list-style-type: none"> • Paid as cash • Not pensionable • Clawback provisions apply in the following circumstances: <ul style="list-style-type: none"> - Material misstatement or a calculation error in assessing any Group member company's financial results - Material failure of risk management in any Group member company or a relevant business unit - Gross misconduct or reputational damage caused to the Company or Group member company - Material corporate failure in any Group member company or a relevant business unit AVPS awards may be varied (either increased or decreased) at the discretion of the Committee or clawed back either prior to the payment of the award for a particular performance year or in the following performance year.	Maximum AVPS potential of 100% of salary, for the achievement of stretching performance targets.	Measures aligned to the Business Plan and based on overall reward/penalty outcomes – 40% based on Customer Service, 40% based on Operational Performance and 20% based on a suite of Strategic Goals, which are selected by the Committee each year.
LTVPS	To align the long-term focus of the Executive Directors with those of Welsh Water's customers and stakeholders. To incentivise achievement of the company's long-term strategy.	Cash awards based on stretching performance targets. Performance is measured against threshold, target and maximum levels. Performance against the measures is assessed over the five-year period of AMP7. Interim payments are made on an annual basis. LTVPS awards may be varied (either increased or decreased) at the discretion of the Committee or clawed back either prior to the payment of the award for a particular performance year or until the accounts for the year to 31 March 2028 have been audited.	The maximum potential award for the Chief Executive is 500% of salary over the five-year regulatory period (to a maximum potential award of 100% per annum). For the Chief Financial Officer, the maximum potential award is 300% of salary over the five-year regulatory period to 31 March 2020 (to a maximum potential award of 60% per annum).	50% based on Totex performance and 50% based on overall reward/penalty outcomes for a range of performance development measures relevant to achieving the Company's long-term goals as set out in Welsh Water 2050.

REMUNERATION COMMITTEE REPORT (continued)

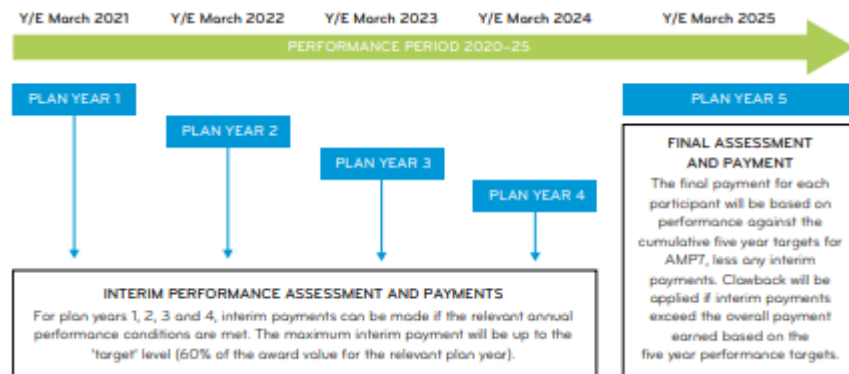
REMUNERATION

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
NON-EXECUTIVE DIRECTORS	Provides an appropriate level of fixed fee to attract and retain individuals with a broad range of experience and skill to support the Board in the delivery of its duties.	<p>The Remuneration Committee determines the fee payable to the Chair of the Board and, separately, the Executive Directors and the Chair approve the fee payable to the Non-Executive Directors.</p> <p>All Directors may be paid for additional expenses incurred in connection with their role on the Board and are responsible for any taxable benefit implications that may result.</p>	Non-Executive Directors do not receive any additional fees for chairing committees.	Annual Review

The elements of the Remuneration Policy which address Executive Directors joining and leaving the Board are set out in the 2020 Annual Report which is available at dwcymru.com/glascymrureports.

LONG-TERM INCENTIVE – LTVPS

The below illustrates how and when performance is assessed and payments are made:



REMUNERATION COMMITTEE REPORT (continued)

SECTION 4: PAY LAST YEAR – 2020/21

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. The Remuneration Committee closely followed the negotiations of these Agreements during 2019/20 led by Peter Perry in his former role of Managing Director (Regulated Business), the then People and Change Director, and the Managing Directors of Water Services, Wastewater Services and Household Customer Services.

FIXED PAY

The Annual General Salary Award is agreed with our recognised Trade Unions and salaries are uplifted consistently across the workforce. Effective 1 April 2020, the Committee approved a 2% inflationary uplift for the Executive Directors and Executive team, consistent with the award across the wider workforce. Pension benefits are aligned across the Company with all Group Personal Pension Plan members receiving the same employer contribution as a percentage of salary, in line with best practice.

VARIABLE PAY

The Annual Variable Pay Scheme (for colleagues below Executive Director level) and the Colleague Reward Scheme utilise a number of the same key measures – those linked to Customer, Performance and Expenditure. The use of the same key measures for all variable pay schemes ensures transparency and a sense of shared ownership of the targets – the annual award of every colleague is affected/impacted by the same key targets, to a greater or lesser degree. The Annual Variable Pay scheme for colleagues in more senior roles includes an element of opportunity based on achievement of personal objectives, as well as on Company performance. Maximum opportunity ranges from 10% to 100% of base salary.

The Colleague Reward scheme, which applies to all other employees, does not include a personal element and award payment is based entirely on Company performance against the identified key measures.

- Maximum opportunity: £1,500
- Actual Pay-out 2020-21: £1,100
- Actual Pay-out 2019-20: £1,500
- Actual Pay-out 2018-19: £1,000.

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REMUNERATION COMMITTEE REPORT (continued)

VARIABLE PAY (continued)

The payouts for the Colleague Reward Scheme in 2019/20 and in 2020/21 took account of the efforts of front-line teams in dealing with extreme weather events and Covid-19 impact.

PAY FOR EXECUTIVE DIRECTORS

HOW MUCH EXECUTIVE DIRECTORS WERE PAID FOR 2020/21 (AUDITED)

		Peter Perry		Mike Davis ⁴		Chris Jones ⁵	
		2021	2020	2021	2020	2021	2020
		£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Fixed Pay	Salary ¹	309	294	245	63	38	319
	Benefits ²	1	1	1	1	-	1
	Other ³	5	5	-	-	-	40
	Pension and pension accrual	337	37	25	10	(50)	74
	Total Fixed Pay	652	337	271	74	(12)	434
Variable Pay	Annual variable pay – AVPS	149	176	118	38	-	191
	Long-term incentive – LTVPS	75	33	36	-	-	60
	Total Variable Pay	224	209	154	38	-	251
Total Single Figure of Remuneration⁶		876	546	425	112	(12)	685

1. Peter Perry and Mike Davis requested that their salaries should be reduced by 20% for May, June and July. The figures shown reflect these reductions.
2. Taxable benefits relate to private health cover.
3. For Peter Perry this represents a £5,000 per annum car allowance. For Chris Jones the 2020 figure represents payment for annual leave accrued but not taken as at 31 March 2020.
4. Mike Davis was appointed to the Board in the role of Chief Financial Officer on 1 January 2020.
5. Chris Jones stepped down from the Chief Executive position on 31 March 2020 but continued as a member of the Board of Directors for a temporary period from 1 April until 15 May 2020, on a lower annual salary of £300,346. Changes in pensions arrangements account for the overall negative total remuneration figure for this period.
6. Total Remuneration for Peter Perry includes one-off pensions accrual figure as set out above, reflective of increase in his salary on appointment as CEO

REMUNERATION COMMITTEE REPORT (continued)

SALARY IN THE YEAR

Executive Director	Role	Salary from 1 April 2020 ¹
Peter Perry	Chief Executive Officer	£325,115
Mike Davis	Chief Financial Officer	£257,675
Chris Jones	Executive Director ²	£300,346

1. Peter Perry and Mike Davis requested that their salaries should be reduced by 20% for May, June and July 2020 and the value of this reduction was added to the Company's Community Fund. This reduction did not impact their other elements of remuneration.

2. To 15 May 2020

PENSIONS (AUDITED)

Pension benefits for all employees who participated in the DCWW Pension Scheme continue to increase in line with increases in their base salary. These increases are also provided for in the Employer Funded Retirement Benefits Scheme in which Peter Perry participates. The pension earned by Peter Perry and Chris Jones during the year are shown below:

	Normal retirement age	Accrued pension at 31 March 2020	Capitalised value of accrued pension at 31 March 2020	Revalued capitalised value of accrued pension at 31 March 2020	Accrued pension at 31 March 2021	Capitalised value of accrued pension at 31 March 2021	Member contributions paid during the year 2021	Pension Input Amount (net of member contributions 2021)
Peter Perry	60	175,303	3,506,060	3,565,663	193,555	3,871,100	0	305,437
Chris Jones ¹	60	156,471	3,129,420	3,182,620	156,471	3,129,420	0	(53,200)

1. To 15 May 2020

From 1 April 2020 Peter Perry and Mike Davis have been eligible to receive a maximum employer pension contribution of 11% of salary. Eligible employees can opt out and receive a cash allowance of 9.7%. Both Peter Perry and Mike Davis have elected to receive their pension allowance as a cash allowance.

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REMUNERATION COMMITTEE REPORT (continued)

ANNUAL VARIABLE PAY (AVPS) – OUTCOME FOR 2020/21

The table overleaf shows the breakdown of performance against the targets for AVPS for 2020/21. Where the final outcome for a particular target is not available as at the date of this report, the award reported is based on a current best estimate. Payments will not be made until final performance data is available.

Up to 100% of salary can be earned in any year. Performance achieved for each target is shown below:

Element	Weighting	Metric	Threshold performance (10% achievement)	Target performance (60% achievement)	Maximum performance (100% achievement)	Performance achieved	Outcome Delivery Incentive (ODI) £m		
Customer service	40%	C-Max (% ODI)	3	4.4	6	4.4	2.0		
		D-Max (% ODI)	0	0	3	-2	(0.5)		
		Business Customer Satisfaction (score)	4.4	4.4	4.5	4.4	(0.1)		
Total Company ODI £m			1.2	1.8	3.3		1.4		
Total % of Salary for this Element			4	24	40		11.1		
Operational performance	40%	Tap water quality (score)	2.85	2.6	2.0	4.17	(1.1)		
		Reliability of supply (mm:ss)	17.46	11.12	6.30	11.05	(2.8)		
		Treatment works compliance (Percent)	98.35	98.70	99.00	99.66	-		
		Pollution incidents (Incidents per 10,000 km of sewers)	25.7	25.0	24.5	21.5	0.5		
		Bioresources disposal (Percent)	100	100	100	100	-		
		Bioresources product quality (Percent)	95	95	95	96.1	0.5		
		Sewer flooding to customer properties internal (Properties per 10,000 connections)	1.75	1.69	1.68	2.05	(1.6)		
		Sewer flooding to customer properties external (Properties per 10,000 connections)	30.9	27.5	26.7	25.82	0.7		
		Total Complaints (Complaints per 10,000 customers)	161	142	85	122	(0.1)		
		Unbilled properties (Percent)	4.2	3.9	3.8	4.0	(0.3)		
		Water process unplanned outages (Percent)	2.0	2.0	1.9	0.7	-		
		Total Company ODI £m			(12.8)	(4.3)	0.3		(4.2)
		Total % of Salary for this Element			4	24	40		24.3

Element	Weighting	Metric	Threshold performance (10% achievement)	Target performance (60% achievement)	Maximum performance (100% achievement)	Performance achieved	Outcome Delivery Incentive (ODI) £m
Strategic Goals	20%	Employee engagement (Percent)	75	80	85	85	5.0%
		Customer trust (Ranking)	Upper Quartile	Top	Top + Score ≥8.2	8th Place	0.0%
		Top water quality (Ranking)	Average	Upper quartile	Top	Upper Quartile	2.0%
		Priority services for customers in vulnerable circumstances (Percent)	4	4.3	5	5.5	3.3%
		Company level of bad debt (Percent)	2.6	2.3	2	4.2	0%
		Total % of Salary for this Element			2	12	20
Total % Award Achieved							45.7

REMUNERATION COMMITTEE REPORT (continued)

ANNUAL VARIABLE PAY (AVPS) – OUTCOME FOR 2020/21 (continued)

- Customer service – outcome based on regulatory outperformance/underperformance payment achieved against Ofwat’s Outcome Delivery Incentives for these measures over the year.
- Operational performance – Outcome based on total financial outperformance/underperformance payments achieved against Ofwat’s Outcome Delivery Incentives for these measures over the year. Overall, the scorecard outcome was 45.7% of maximum. The Committee considered whether to make adjustments for performance targets which had been significantly affected by Covid-19 but decided not to make any adjustment and to let the original targets stand. The level of performance resulted in total awards to Executive Directors of: Peter Perry: £148,578 (45.7% of salary) and Mike Davis: £117,758 (45.7% of salary)
- For reference, Peter Perry had a target opportunity £195,069 (60% of salary) and a maximum opportunity of £325,115 (100% of salary). Mike Davis had a target opportunity £154,605 (60% of salary) and a maximum opportunity of £257,675 (100% of salary).

LONG TERM PLAN (LTVPS) OUTCOME FOR 2020/21

Under the LTVPS for the period 2020 to 2025, performance is assessed annually against interim goals and interim payments are made up to 60% of maximum, with overall performance over the five-year period resulting in a final payment or recovery of any overpaid amounts (see illustration on page 138).

Annual Performance Report 2020/21

REMUNERATION COMMITTEE REPORT (continued)

LONG TERM PLAN (LTVPS) OUTCOME FOR 2020/21 (continued)

For 2020/21, the performance achieved for each target has been as follows:

Element	Weighting	Threshold level of performance (10% achievement)	Target level of performance (60% achievement)	Maximum level of performance (100% achievement)	Performance achieved	% of element earned
Totex Performance	50%	£684m	£649m	£633m	£659m	46.2%
Overall ODI outcomes for performance development measures	50%	-£1.7m	-£1.3m	£0m	-£3.1m	0%
Total (as % of salary)						23.1%

Totex performance has been adjusted by the Committee exceptional costs related to the Covid-19 pandemic which were not anticipated when the original targets were set. The Committee considered whether to make adjustments for other performance targets which had been significantly affected by Covid-19 but decided not to make any adjustment and to let the original targets stand.

Details of the performance achieved for each of the performance development measures which contributed to the overall LTVPS assessment for 2020/21 were as follows:

Annual Performance Report 2020/21

REMUNERATION COMMITTEE REPORT (continued)

LONG TERM PLAN (LTVPS) OUTCOME FOR 2020/21 (continued)

Measure	Units	Threshold level of performance	Target level of performance	Maximum level of performance	Performance achieved	Outcome Delivery Incentive (ODI) £m
Continuous service measures						
Acceptability of drinking water	Contacts per 1,000 pop.	2.80	2.72	2.24	2.70	£1.1m
Mains repairs	# per 1,000km of Mains	138.8	133.0	138.9	140.2	£0.1m
Leakage	%	(0.2)	1.8	1.8	2.2	£0.1m
Sewer collapses	# per 1,000km of Sewer	7.2	7.2	7.2	7.3	£0.1m
Community education	Nr	68,100	70,000	70,000	5,834	£0.1m
Visitors to recreational facilities	Nr	654,929	560,000	560,000	294,736	£0.5m
Per capita consumption	%	1.0	0.7	1.0	-5.2	£1.3m
Investment programme measures						
Lead pipes replaced	Nr	1,400	1,400	1,400	1,097	-
Km of river improved	Km	-	-	-	5	0.1
Surface water removed from sewers	m ³	141,900	141,900	141,900	38,473	£0.1m
Combined sewer overflow storage systems	m ³	0	0	0	0	-
Delivery of reservoir enhancement programme	Sites	0	0	0	2	-
Delivery of zonal studies programme	zones	0	0	0	0	-
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	0	0	0	0	-
Total						£3.1m

Annual Performance Report 2020/21

REMUNERATION COMMITTEE REPORT (continued)

LONG TERM PLAN (LTVPS) OUTCOME FOR 2020/21 (continued)

The measures in the table above with no performance in the year reflect commitments to ensure we deliver our capital programmes on time, where there were no outputs scheduled for 2020/21. The overall performance achieved for 2020/21 was 23.1% of maximum, below the target level of 60% of maximum. This performance resulted in a total LTVPS awards to Executive Directors of:

- Peter Perry: 23.1% of salary (£75,102) – to be paid in July 2021 and will be subject to final performance to 31 March 2025.
- Mike Davis: 13.8% of salary (£35,559) – to be paid in July 2021 and will be subject to final performance to 31 March 2025.

For 2020/21 performance, Peter Perry had a target opportunity of £195,069 (60% of salary) and a maximum opportunity of £325,115 (100% of salary). Mike Davies had a target opportunity £92,763 (36% of salary) and a maximum opportunity of £154,605 (60% of salary). The temporary reduction in salary that Peter Perry and Mike Davis took will not affect their variable pay payments and these will be calculated on their basic salaries.

FEES FOR CHAIR AND NON-EXECUTIVE DIRECTORS (AUDITED)

How the Chair of the Board and Non-Executive Directors were paid last year

	Fees ¹		Benefits		Total remuneration	
	£000	£000	£000	£000	£000	£000
Non-executive directors	2021	2020	2021	2020	2021	2020
Alastair Lyons	211	222	-	-	211	222
Graham Edwards ²	67	62	-	-	67	62
Joanne Kenrick	59	62	-	-	59	62
John Warren	59	62	-	-	59	62
Debra Bowen Rees	59	15	-	-	59	15
Tom Crick	59	62	-	-	59	62
Jane Hanson	16	-	-	-	16	-
Menna Richards ³	21	73	-	-	21	73
Anna Walker ³	18	62	-	-	18	62

1. Represents reduced fees in the year after the Chair of the Board and the Non-Executive Directors requested their fees for May, June and July were reduced by 20% with the exception of Jane Hanson who joined the Board in January 2021. Due to an administrative error, Tom Crick's fee reduction will take place retrospectively from June 2021.
2. Graham Edwards is Senior Independent Director and receives an additional fee of £10,000 per annum.
3. Stepped down from the Board on 3 July 2020.

REMUNERATION COMMITTEE REPORT (continued)

SECTION 5: PAY DECISIONS FOR NEXT YEAR – 2021/22

PAY FOR EXECUTIVE DIRECTORS

	<u>Base salary</u>
Peter Perry	£331,617
Mike Davis	£262,830

BASE SALARY

When reviewing Executive salaries the Committee considered the proposed increases for the wider workforce, business and individual performance in 2020/21, and National Living Wage and Real Living Wage rates. The Committee decided it would be most appropriate to align Executive Director salary increase with those for the wider workforce in the AMP7 Working Together Agreement. This resulted in a 2% increase from 1 April 2021.

BENEFITS AND PENSION

Benefits and pension arrangements will not change for 2021/22. 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.

For 2021/22 annual variable pay of up to 100% of salary will be able to be earned, based on performance achieved. The performance measures used are set out below and have been set with reference to the aims under the 2020/25 business plan. For 2021/22 the overall framework remains unchanged. The strategic goals have been updated to focus on reputational priorities for 2021/22 by adding metrics based on Employee Training and Expertise and Risk of sewer flooding in a storm. The measure used previously based on priority service for customers in vulnerable circumstances has been removed as performance has been strong, with planned performance for 2021/22 exceeding the target for 2024/25 in the Final Determination. This remains a priority but given the strong track record in this area, there is now an opportunity to incentivise improvement to a similar level in other strategic areas

REMUNERATION COMMITTEE REPORT (continued)

ANNUAL VARIABLE PAY

	Customer Service	Operational Performance	Strategic Goals
Measures	<ul style="list-style-type: none"> C-MeX and D-MeX (Ofwat's measures of customer service for household and developer customers); and Business Customer Satisfaction. <p>Outcome based on total financial rewards/penalties achieved against Ofwat's Outcome Delivery Incentives for these measures over the year.</p>	<p>Outcome based on regulatory reward/penalties achieved against Ofwat's Outcome Delivery incentives for 11 measures of in-year performance.</p> <ul style="list-style-type: none"> Tap water quality Reliability of supply Treatment works compliance Pollution incidents Bioresources disposal Bioresources product quality Sewer flooding to customer properties (internal) Sewer flooding to customer properties (external) Total Complaints Unbilled properties Water process unplanned outages 	<p>Performance against performance commitments from the final determination. For 2021-22 these will be:</p> <ul style="list-style-type: none"> Customer Trust Employee Engagement Employee Training and Expertise Tap water quality Company level of bad debt Risk of sewer flooding in a storm
How much of the scheme?	40%	40%	20%

LONG TERM PLAN

The long-term plan will continue to operate in line with the Policy. As summarised above, performance will be measured under the current five year plan and be based on:

- Totex (total expenditure - operating costs and investments): (50%)
- Overall rewards/penalties for performance development measures: (50%)

REMUNERATION COMMITTEE REPORT (continued)

HOW MUCH COULD OUR EXECUTIVE DIRECTORS EARN NEXT YEAR?

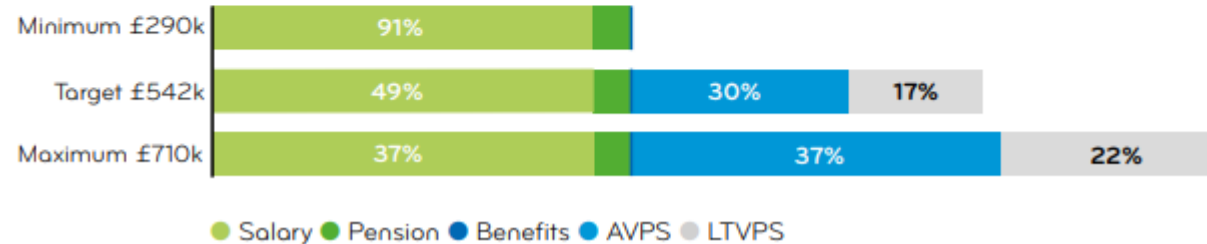
THE GRAPHS BELOW SHOW THE OPPORTUNITIES FOR EACH EXECUTIVE DIRECTOR FOR 2021/22:

- The minimum level of remuneration payable. This comprises basic salary, any travel and car allowances, health insurance benefits and pension;
- On-target level of remuneration which represents 60% of the maximum payout for the annual variable pay and the long-term incentive; and
- The maximum level of remuneration, if all annual variable pay and long-term incentive performance targets were fully achieved.

Chief Executive Officer



Chief Financial Officer



Over the last 10 years, the average outcome for variable pay elements has been 66% of maximum for the AVPS, and 49% of maximum for the LTVPS. The maximum award has not been achieved under either plan during that time.

REMUNERATION COMMITTEE REPORT (continued)

FEES FOR CHAIR AND NON-EXECUTIVE DIRECTORS

The fees payable to the Chair of the Board were reviewed in March 2021 and the Committee resolved that the Chair of the Board's fee should be maintained at the current rate to next be reviewed in spring 2022.

In March 2021, the Chair of the Board and Executive Directors resolved that the fees for Non-Executive Directors should also be maintained at the current rate for a further year, to next be reviewed in spring 2022.

Fees for 2021/22 will be as follows:

Role	Fee
Chair	£221,900
Senior Independent Director	£72,000
Non-Executive Director	£62,000

SECTION 6: OTHER IMPORTANT INFORMATION

WORKFORCE PAY ACROSS DŴR CYMRU

CEO PAY RATIO

This is the second year that we have applied the CEO Pay Ratio Reporting requirements for UK listed companies which compares the CEO's pay to the 25th percentile, median and 75th percentile employees. In order to calculate the ratio we have applied methodology A from the UK Government guidance.

Year	Methodology	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020-21	A	28:1	23:1	18:1
2019-20	A	22:1	18:1	14:1

The median ratio this year represents an increase from last year. This is due to an increase in pension accrual reported for the CEO, which is a one-off adjustment to accruals relating to the increase in his salary on promotion to CEO; this is reflected in the Single Total Figure of Remuneration in the table on page 139.

REMUNERATION COMMITTEE REPORT (continued)

WORKFORCE PAY ACROSS DŴR CYMRU (continued)

The 25th percentile, median and 75th percentile employees were determined on 10 May 2021 using total pay for the year ended 31 March 2021 for all employees as at 31 March 2021. Pay details for the individuals on a full time equivalent basis are set out below:

Year 2020-21	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Salary	28,000	29,389	38,562
Total pay	30,739	38,715	49,656

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 skills and talent.
- Other than for the Executive Directors, the variable pay elements have been estimated for the wider workforce, as individual payments are not finalised until July 2021.
- Other than for the Executive Directors, pension accrual has been excluded as the figures for the wider workforce were not available at the time of reporting.
- Total payments and benefits have been included on a full-time equivalent annualised basis for new hires, part-time employees, unpaid leave relating to long-term sickness and maternity.

REMUNERATION COMMITTEE REPORT (continued)

GENDER PAY GAP

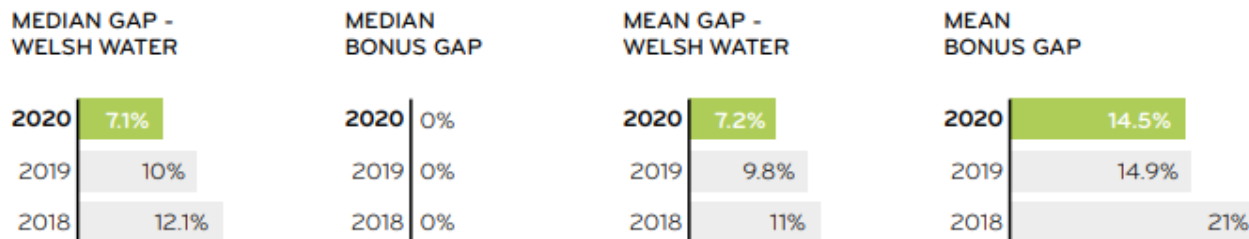
The gender pay gap is defined as the overall median and mean gender pay and bonus gap (based on hourly rate of pay at the snapshot date of 5 April 2020 and bonuses paid in the year to 5 April 2020) regardless of role or seniority. We have seen a decrease in both our median and mean Gender Pay Gaps over the year to March 2020, continuing the downward trend from last year. It is encouraging that our gender pay gap remains significantly lower than the national average. We also acknowledge that the methodology for calculating the Gender Pay Gap on an annual basis means that the outcome for 2022 is likely to be impacted by having fewer women proportionately in our Executive team. Our Gender Pay Gap report (link below) highlights what we are doing to promote diversity and inclusivity at Welsh Water. We are continuing to promote the progression of women through the Company – for further details of some of the actions we are taking to support gender and other forms of diversity throughout our organisation, please see page 88 within our Responsibility section.

Full details of our gender pay reporting are available on our website at dwrcymru.com/genderreport.

DEFINITIONS

Median – The difference between the midpoints in the ranges of men's and women's pay

Mean – The difference between the average of men's and women's pay



Both the Median and the Mean Pay Gap have reduced this year, which reflects a greater proportion of women appointed to the Executive team (five out of 14 or 36%) (2019: three out of nine or 33%) and other promotions of women across the business.

We apply a bonus policy equally for all our workforce — with no discrepancy based on gender or any other background characteristics. The majority of our employees receive the fixed amount Colleague Bonus payment. The midpoint for each gender falls within the numbers of colleagues who receive the Colleague Reward payment for men or women as this is a fixed payment, meaning there is no percentage difference between the two, when calculated on a median basis. As a result, as in previous years, there continues to be no median bonus gap. However, we have a mean bonus gap which reflects the higher proportion of men occupying the most senior positions in the Company where variable pay opportunities are higher.

REMUNERATION COMMITTEE REPORT (continued)

ETHNICITY PAY GAP

During the year, the Committee explored the possibility of including our ethnicity pay gap within this year's annual report in light of developing good practice and as part of our actions to support diversity throughout our organisation. However, when looking at the data it became apparent that we do not currently have sufficient information available under the necessary metrics to produce meaningful information at this time. The Company launched a campaign during 2020/21 to encourage colleagues to update their diversity data within our HR system. The Committee will continue to monitor this going forward, and to encourage the collation of data across the organisation which will make this reporting possible.

ANNUAL CHANGE IN PAY FOR DIRECTORS AND ALL EMPLOYEES

The following table sets out the change in the remuneration paid to Board Directors from FY20 to FY21 compared with the average percentage change for Dŵr Cymru employees:

	% change in salary/fees	% change in benefits	% change in AVP
Directors			
Peter Perry	2	(2.3)	(15.8)
Mike Davis	2	22	(36.5)
	% change in salary/fees	% change in benefits	% change in AVP
Non-executive directors			
Alastair Lyons	-	-	-
Graham Edwards	-	-	-
Joanne Kenrick	-	-	-
John Warren	-	-	-
Debra Bowen Rees	-	-	-
Tom Crick	-	-	-
Jane Hanson	-	-	-
Average Dŵr Cymru Employee	4.5	0	4.1

REMUNERATION COMMITTEE REPORT (continued)

HOW DOES THE CHIEF EXECUTIVE'S PAY COMPARE TO PREVIOUS YEARS?

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total remuneration for Managing Director/Chief Executive (£'000)	678	590	742	974	746	629	679	607	685	876
Total remuneration net of pension accrual (£'000)	547	590	520	690	604	629	601	624	678	571
Annual variable pay outcome	78%	61%	51%	79%	70%	75%	65%	67%	60%	45.7%
Long term plan outcome	40%	50%	78%	91%	65%	65%	27%	25%	19%	23.1%

HOW DOES THE TOTAL SPEND ON EXECUTIVE PAY AND TOTAL STAFF PAY COMPARE TO OTHER EXPENDITURE?

	2020	2021	Change	
			£m	%
Total expenditure	1036.2	828.5	(207.7)	(20)
Employee remuneration costs	162.1	153	(9.1)	(5.6)
Customer return of value	47	11	(36)	(76.6)
Executive Director remuneration costs	1.7	1.3	(0.4)	(23.5)

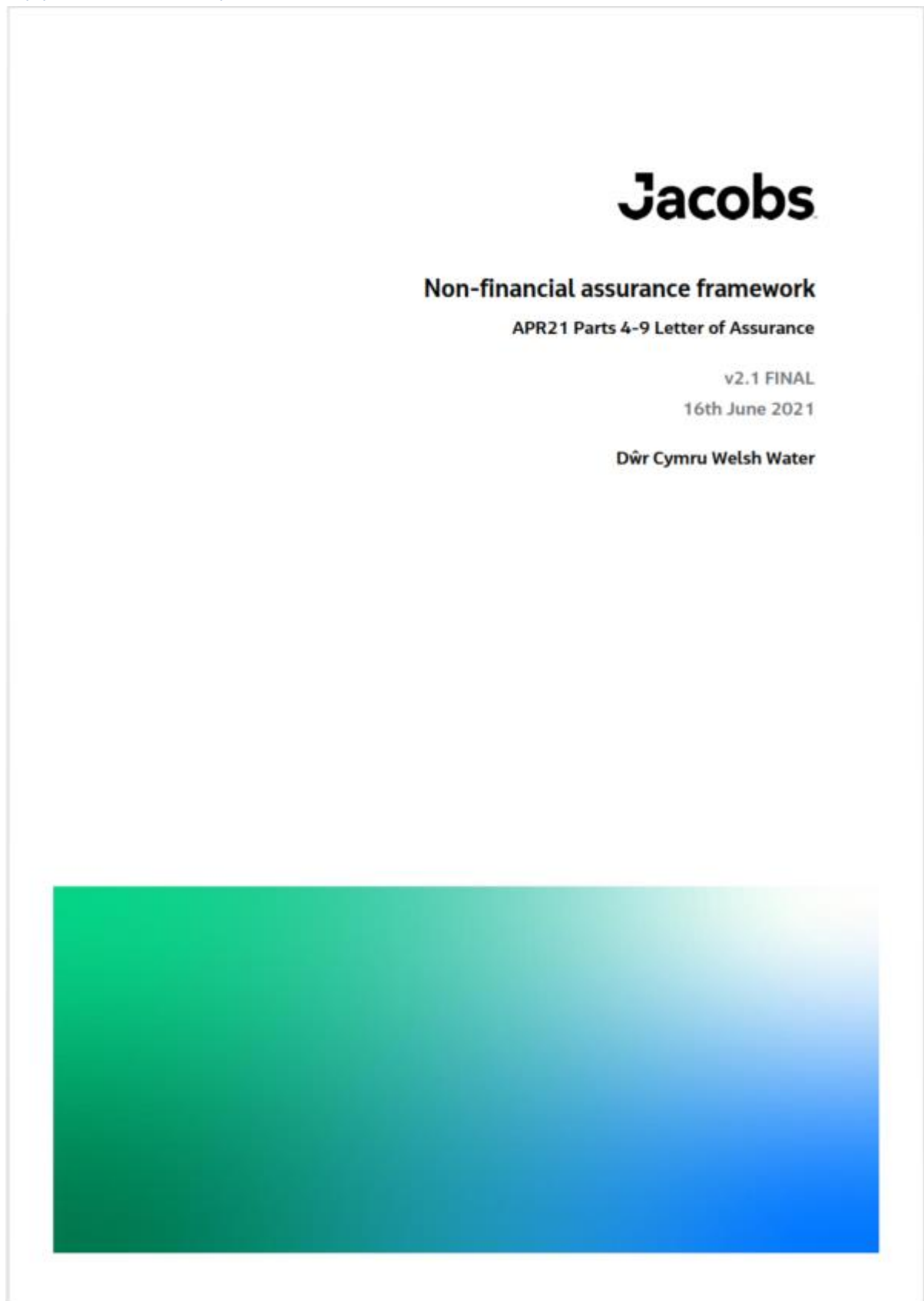
DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Dates of the service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors in place at 31 March 2021 are as follows:

Alastair Lyons 12 April 2016	Graham Edwards 1 October 2013	John Warren 3 May 2012	Debra Bowen Rees 5 December 2019	Tom Crick 1 October 2017
Jane Hanson 3 December 2020	Peter Perry 3 June 2020	Joanne Kenrick 1 November 2015	Mike Davis 3 June 2020	

Enquiries for the inspection by Members of the above service contracts and letters of appointment during the Covid-19 pandemic should be made via email to the Company Secretary at company.secretary@dwrcymru.com

Appendix 7 – Reporter’s Letter of Assurance



Change control

Date	Version	Change	
July 2021	First Published		
September 2021	2	Pages 114 and 115	<ul style="list-style-type: none">• Totex changes following table 4C update.• Change of polarity of voluntary customer sharing arrangement.