Part 1 – Regulatory financial reporting

APR 2023/24

Dŵr Cymru
Welsh Water

July 2024

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Foreword

References to "the Company", "Dŵr Cymru" and "Welsh Water" in the Annual Performance Report Parts 1 to 11 inclusive relate to Dŵr Cymru Cyfyngedig, the sole operating company in the whole business securitisation formed by the Glas Cymru Anghyfyngedig group. References to "Glas Cymru" and "the Group" refer, respectively, to Glas Cymru Holdings Cyfyngedig and the group of which it is the parent.

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. In particular, Regulatory Accounting Guideline 3.14 issued in April 2023 requires the following statements to be made by our Directors:

- statement on executive pay and performance;
- statement on disclosure of information to auditors;
- statement on dividend policy for the appointed business;
- accounting policy note for price control units;
- a note on revenue recognition;
- a note on capitalisation policy;
- a note on bad debt policy;
- ring fencing certificate;
- tax strategy for the appointed business;
- statement on differences between statutory and RAG definitions;
- statement on long term viability;
- statement explaining out/under performance of the return on regulatory equity (Financial Flows and RORE);
- statement explaining the variance on infrastructure network reinforcement charges; and
- statement on innovation competition.

Statement of Directors' responsibilities for regulatory information (continued)

Statement on Directors' pay and standards of 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 Directors' Remuneration Report which can be found within the Group's 2024 Annual Report and Accounts which are 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.

Statement on dividend policy

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

DŴR CYMRU CYFYNGEDIG – APPOINTED BUSINESS

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

No intra-Group dividends have been paid during the year under review and none are expected to be paid in the foreseeable future.

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

Statement of Directors' responsibilities for regulatory information (continued)

Accounting policy note for price control segments

The financial statements have been drawn up in accordance with RAG2 – Guidance for classification of costs across the price control. An accounting policy note for price control units is disclosed in part 2 of this Annual Performance Report. The tables presented in parts 2 and 4 to 11 inclusive have been prepared in accordance with our Accounting Methodology Statement which can be found at www.dwrcymru.com.

Revenue recognition note

The revenue recognition note is included in the accounting policies note in appendix 1 of parts 4 to 11.

Capitalisation policy note

The capitalisation policy note is included in the accounting policies note in appendix 1 of parts 4 to 11.

Bad debt policy note

The bad debt policy note is included in the accounting policies note in appendix 1 of parts 4 to 11.

Statement on sufficiency of non-financial resources

Under paragraph P14 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.

Going concern

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

In assessing the appropriateness of the going concern basis of accounting, the Directors have reviewed the resources available to the Company and the Group in the form of cash and committed bank facilities headroom, which stands at £485 million at 31 March 2024, further extended to in excess of £600m post year end following a new £125m term loan being agreed, as well as consideration of the Group's capital adequacy. The Group presently has £400m revolving credit facilities available to use at its discretion and should the Group and the Company deem beneficial, will be utilised in part to manage operational cash flows. £80m has been drawn by the Group and on-lent to the Company as at 31 March 2024 with repayment made during May 2024. The Group's revolving credit facilities currently have a termination date of February 2027.

Statement of Directors' responsibilities for regulatory information (continued)

Going concern (continued)

The Board has approved a Treasury refinancing strategy which sets out the approach to be followed to meet the Group's financing needs for the next 6 years. The Group has evaluated the present market environment and considered our AMP 8 refinancing requirement, where we will need to refinance over £3bn. This level of liquidity is considered adequate to meet operational needs in the short-term and means we would not require further funding beyond our existing revolving credit facilities until March 2026, where our next material debt repayment is due to occur.

The Group has maintained active relationships with a number of lenders and also monitors market trends, being aware of the regular, well-subscribed debt issuances in the sector. Considering the Group's credit ratings being among the highest in the industry, the Directors are confident in the Group's ability to raise the required funds, in a timely manner and at a competitive rate, with various alternative options available such as early issuance of our AMP 8 refinancing, private placement bonds and term loans.

The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The financial plan has been subjected to a number of severe but plausible downside scenarios in order to assess the Group's ability to operate within existing covenants and facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; low and high inflation environments; elevated levels of bad debt; outcome delivery incentive penalties; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include deferral of capital expenditure and a reduction in other discretionary totex spend. The directors have also assessed the potential impacts resulting from the cost-of-living crisis and interest rates presently affecting the UK, and although they generate a negative on our financials, none of these factors pose a significant concern to disclose in relation to the Group's and the Company's ability to continue as a going concern.

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

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

Statement of Directors' responsibilities for regulatory information (continued)

Statement on ring fencing certificate

The Directors have resolved that a Certificate required under Condition P9 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, for at least the next 12 months, the regulated activities (including the investment programme necessary to fulfil the Company's obligations under the Instrument of Appointment); and

b) the Company will, for at least the next 12 months, have available to it management resources and systems of planning and internal control which are sufficient to enable it to carry out those functions.

c) the Company has available to it sufficient rights and resources other than financial resources

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

Statement on sufficiency of financial resources and facilities

In providing this Certificate, the Directors have taken into account:

a) the Company's Licence, which is in place on a rolling 25-year basis;

b) the certainty on customer tariffs to March 2025 provided by the 2019 Final Determination of prices by Ofwat, following its acceptance by the Board;

c) the financial strength of the Company and the management and other resources available to the Company as recorded in the financial statements for the year ended 31 March 2024;

d) the bond programme of financing implemented by Dŵr Cymru (Financing) UK Plc, an associate Company, inter alia, to provide future financing for the Company (including the investment programme necessary to fulfil the Company's obligations under the Instrument of Appointment);

e) the strong credit rating of the Company's bonds;

Statement of Directors' responsibilities for regulatory information (continued)

Statement on sufficiency of financial resources and facilities (continued)

f) the results from the ongoing monitoring of financial, operational and compliance controls and the risk management process reported to the Board eight formal committees; the Audit Committee; the Remuneration Committee; the Nomination Committee; the Quality and Safety Committee; the Technology Committee; the Finance Committee; Cwm Taf Project Committee; and the Environment, Social and Governance Committee. The Group's internal audit function has carried out a programme of work, which incorporates a review of the control environment;

g) the annual review of the effectiveness of internal controls in compliance with the requirements of the UK Corporate Governance Code;

h) the Company's formal risk and governance arrangements which are monitored by the Audit Committee and Board;

i) the Company's employment policies and strategy;

j) the Company's plans for the AMP7 and AMP8 regulatory periods; and

k) the undertaking that Glas Cymru Holdings Cyfyngedig ("Glas Cymru") has given following the acquisition of the Company, in which Glas Cymru confirms that it (and each of its subsidiaries other than the Company) will:

- provide the Company with all such information as may be necessary to enable the Company to comply with the requirements of the conditions of Appointments, or such additional information as the Director may reasonably require about their activities and the financing of them;
- refrain from any action which would or may cause the Company to breach any of its obligations under the Act or conditions of Appointments;
- ensure that at all times the Board of the Company contains a majority of Non-Executive Directors;
- comply with the Principles of Good Governance outlined in the current UK Corporate Governance Code published by the Financial Reporting Council (or any successor document having a similar purpose or intent) as may from time to time be appended to or approved for the purposes of the Listing Rules of the UK Listing Authority; and
- not make any changes to their respective Memorandum and Articles of Association without the consent of Ofwat.

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.

Statement of Directors' responsibilities for regulatory information (continued)

Statement on sufficiency of financial resources and facilities (continued)

Section P35 of Licence Condition P requires our independent auditors to produce a report that sets out:

- any inconsistencies between the Director's Certificate and either the statements under licence conditions F6.1 or any information which were obtained in the course of their work as the Company's auditors.

The independent auditors' report can be found on page 12.

Licence Condition P26 – maintaining an investment grade rating

The Directors confirm that throughout 2023/24 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. The ratings of the Company's Class A debt at 31 March 2024 were AA, A1 and A and those of Class B debt were A-/negative, A3 and A (all with stable outlook) from Standard and Poor, Moody's and Fitch Ratings. (The Class A bonds are guaranteed by Assured Guaranty UK Ltd (AA/A1/not rated). Moody's and S&P therefore revert to the higher AG credit rating but Fitch reflects the underlying rating of the bonds.

Tax strategy note

As required by RAG 3.14 the tax strategy note is included within this Annual Performance Report, in the accounting policies note in appendix 1 of part 4 to 11, and covers the following key areas:

- the Company's approach to risk management and governance arrangements;
- the Company's attitude towards tax planning;
- the level of risk that the Group is prepared to accept; and
- the Company's approach towards its dealings with HMRC.

Statement on differences between statutory and RAG definitions

Tables 1A, 1B, 1C and 1D all have a column to report any resulting differences between statutory and regulatory definitions on a line by line basis. An analysis of the differences is shown at the end of each table with a narrative explanation of any material movements included in appendix 1 of part 4 to 11. A reconciliation between total borrowings included in the statutory financial statements and borrowings in the regulatory accounts is provided alongside table 1C.

Statement of Directors' responsibilities for regulatory information (continued)

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. Ofwat expects companies to confirm that they are financially viable over the longer term. Our approach to doing this complies with Provision 31 of the UK Corporate Governance Code.
- As a result of our 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 available in the 2024 Glas Cymru Annual Report and Accounts which are available at www.dwrcymru.com.
- **Statement explaining out/under performance of the return on regulated equity (RORE)**
- The movement in RORE compared to the base RORE set at the last price review is reported in appendix 1 of parts 4 to 11. This identifies and quantifies the key components of the out/under performance as required by RAG 3.14.
- **Statement on variance in infrastructure network reinforcement charges**
- This statement applies to English Companies where revenue from infrastructure charges is aligned to costs over a period of time. These rules do not apply in Wales as the infrastructure charges which are set in accordance with the terms of our licence are not directly aligned to costs; as a result, we have not shown any variance in table 2K.
- **Statement on innovation competition**
- The revenue received from customers in 2023/24 for the purposes of innovation competition will not be used for business as usual activities funded through totex. The breakdown of the cash balance between the innovation competition and other appointed activities is shown alongside table 1C.
- **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 material transactions with associated companies except for:

Statement of Directors' responsibilities for regulatory information (continued)

Licence Condition P19 – trading with associate companies at arm's length (continued)

- the 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 DCC as their activities are predominantly related to the regulated water and sewerage business. During the year the Directors' emoluments amounted to £1,555,000 (2023: £1,695,000);
- no dividends were paid or received by the Company during the year;
- Welsh Water Infrastructure Limited (WWIL) intercompany balance at 31.03.2024 was £nil (2023: £3,560); this value has been included in the Company's balance sheet as an intercompany balance;
- Welsh Water Organic Energy Limited (WWOE) intercompany balance at 31.03.2024 was £36,000 (2023: £13,655); this value has been included in the Company's balance sheet as an intercompany balance;
- Welsh Water Organic Energy (Cardiff) Limited (WOEC) intercompany balance at 31.03.2024 was £3,647,719 (2023: £2,098,786); the net increase of £1,548,933 relates to costs recharged to WOEC that have not yet been reimbursed. This value has been included in the Company's balance sheet as an intercompany balance;
- Welsh Water Organic Waste Limited (WWOW) intercompany balance at 31.03.2024 was £123,397 (2023: £480,661); the net decrease of £357,264 relates to repayments of costs previously incurred to WWOW. This value has been included in the Company's balance sheet as an intercompany balance;
- £33,063 (2023: £74,290) of Glas Cymru Holdings Cyfyngedig (CGHC) costs remain outstanding. This value has been included in the Company's balance sheet as an intercompany balance;
- £8,481 (2023: £8,481) of Glas Cymru Anghyfyngedig costs remain outstanding. This value has been included in the Company's balance sheet as an intercompany balance;
- Cambrian Utilities Limited intercompany balance at 31.03.2024 was £25,419 (2023: £25,419). This value has been included in the Company's balance sheet as an intercompany balance;
- £1,971,000 (2023: £1,971,000) from Glas Cymru Anghyfyngedig remains outstanding and is included in the Company's balance sheet as an intercompany balance;
- an intercompany loan of £2,812,458 (2023: £2,812,458) from Dŵr Cymru Holdings Limited remains outstanding and is included in the Company's balance sheet as an intercompany loan;

Statement of Directors' responsibilities for regulatory information (continued)

Licence Condition P19 – trading with associate companies at arm's length (continued)

- intercompany interest payable to the Group's financing company Dŵr Cymru (Financing) UK Plc (DCF), totalled £181,419,000 (2023: £223,724,000) as well as £89,078,022 (2023: £187,352,000) for bond swap indexation. As at 31 March 2024 the balance outstanding on the intercompany loan from DCF which includes loan interest stood at £3,514,537,286 (2023: £3,226,711,324). In addition, the bond swap indexation outstanding on the bonds owed to DCF amount to £433,731,866 (2023: £344,653,844). All borrowings raised by DCF are immediately on-lent to DCC on an arm's length basis. The intercompany loan agreement 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 a margin of 0.01%;
- recharge of costs paid on behalf of Welsh Water Organic Energy (Cardiff) Limited and Welsh Water Organic Waste Limited of £901,260 and £438,012 respectively;
- services provided by the associated companies to the Company was £894,745 for supply of power from Welsh Water Organic Energy (Cardiff) Limited of which £82,216 remained outstanding at 31.03.2024 ; the contract was at arms length; and
- the Company received rent of £82,000 for two sites at Nash and Eign from Welsh Water Organic Waste Limited; the contract was at arms length.

For a complete list please see the accounting policies note in appendix 1 of parts 4 to 11.

Independent auditors' report to the Water Services Regulation Authority (the WSRA) and Dŵr Cymru Cyfyngedig ("the Company)

Opinion

We have audited the tables within Dwr Cymru Cyfyngedig's Annual Performance Report for the year ended 31 March 2024 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), lines 1F.1 to 1F.3, 1F.5 to 1F.8, 1F.12 to 1F.14, 1F.21 to 1F.22 and 1F.24 to 1F.26 of the statement of financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited the Outcome performance tables (3A to 3I) and the additional regulatory information in tables 4A to 4Y, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10G and 11A.

In our opinion, Dwr Cymru Cyfyngedig's Regulatory Accounting Statements have been properly prepared, in all material respects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, 2.09 RAG 3.14, RAG 4.12 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF (Revised) 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Independent auditors' report to the Water Services Regulation Authority (the WSRA) and Dŵr Cymru Cyfyngedig ("the Company) (continued)

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom adopted international accounting standards ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements in parts 1 and 2 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK IASs. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the Regulatory Accounting Statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is appropriate.

Independent auditors' report to the Water Services Regulation Authority (the WSRA) and Dŵr Cymru Cyfyngedig ("the Company) (continued)

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- reviewing the group's borrowing arrangements, in particular the assessment of level of committed undrawn facilities including the revolving credit facility of £400 million;
- assessing the assumptions used in the cash flow forecasts for consistency with Board approved budgets and future plans for the remaining period of AMP (Asset Management Plan) 7 and the latest forecast for the first three months of AMP8;
- testing the arithmetic accuracy of the cash flow forecast;
- evaluating covenant compliance and headroom on those covenants; and
- assessing the appropriateness of management's going concern disclosures in light of the above assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Independent auditors’ report to the Water Services Regulation Authority (the WSRA) and Dŵr Cymru Cyfyngedig (“the Company) (continued)

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors’ Responsibilities set out on page 2, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company’s accounting policies (including the Company’s published accounting methodology statement(s), as defined in RAG 3.14, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors’ responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Accounting Statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We considered the nature of the company’s industry and its control environment and reviewed the company’s documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

Independent auditors' report to the Water Services Regulation Authority (the WSRA) and Dŵr Cymru Cyfyngedig ("the Company) (continued)

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the Regulatory Accounting Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the license conditions imposed by The Water Services Regulatory Authority (Ofwat), Environment Agency, Drinking Water Inspectorate, National Rivers Authority, Natural Resources Wales, Wales Act, GDPR and Health & Safety.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, Ofwat and other relevant regulatory authorities.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditors' report to the Water Services Regulation Authority (the WSRA) and Dŵr Cymru Cyfyngedig ("the Company) (continued)

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2024 on which we reported on 10 July 2024, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP
15 July 2024

1A – Income statement for the year ended 31 March 2024

	Ref	Statutory £m	Adjustments: RAG differences[1] £m	Adjustments: Non-appointed[2] £m	Adjustments: Total adjustment £m	Total appointed £m
Revenue	3	**924.347**	(5.635)	8.109	**(13.744)**	**910.603**
Operating costs	3	**(878.300)**	31.843	(9.529)	**41.372**	**(836.928)**
Other operating income	3	**0.306**	-	-	-	**0.306**
Operating profit	3	**46.353**	26.208	(1.420)	**27.628**	**73.981**
Other income/ (expense)	3	-	(0.072)	-	**(0.072)**	**(0.072)**
Interest income	3	**20.432**	(0.681)	2.072	**(2.753)**	**17.679**
Interest expense[3]	3	**(359.386)**	(18.586)	-	**(18.586)**	**(377.972)**
Other interest (expense) / income [4]	3	-	0.681	-	**0.681**	**0.681**
Loss before tax and fair value movements		**(292.601)**	7.550	0.652	**6.898**	**(285.703)**
Fair value gains on financial instruments	3	**54.786**	-	-	-	**54.786**
Loss before tax	**3**	**(237.815)**	7.550	0.652	**6.898**	**(230.917)**
UK corporation tax	3	**0.056**	-	-	-	**0.056**
Deferred tax	3	**56.615**	(1.897)	(0.163)	**(1.734)**	**54.881**
(Loss)/profit for the year	3	**(181.144)**	5.653	0.489	**5.164**	**(175.980)**
Dividends		-	-	-	-	-

[1] Differences arising from statutory IFRS and RAG definitions are shown in the table on page 20.

[2] See accounting policies note in appendix 1 of parts 4 to 11 (appointed and non-appointed business) for a description of the Company's non-appointed activities.

[3] Interest expense consists of interest payable on:

	£m
External borrowings	(28.771)
Intra group borrowings	(318.058)
Amortisation of:	
Debt issuance cost	(1.468)
Debt premiums	0.739
Lease liabilities	(28.925)
Other loans	(1.492)
	(377.972)

[4] Other interest (expense) / income relates to interest received on pension scheme assets.

1A – Income statement for the year ended 31 March 2024 (continued)

Tax analysis

			Adjustments			
		Statutory £m	RAG differences[1] £m	Non-appointed[2] £m	**Total adjustments £m**	**Total appointed £m**
Current year	3	**(0.093)**	-	-	**-**	**(0.093)**
Adjustments in respect of prior years	3	**0.037**	-	-	**-**	**0.037**
UK Corporation tax	**3**	**(0.056)**	-	-	-	**(0.056)**

Analysis of non-appointed revenue

		Non-appointed[2] £m
Imported sludge	3	-
Tankered waste	3	2.409
Other non-appointed revenue	3	5.700
Revenue	3	**8.109**

[2] See accounting policies note in parts 4 to 11 (appointed and non-appointed business) for a description of the Company's non-appointed activities.

[1] Differences arising from statutory IFRS and RAG definitions are shown in the table on page 20.

1A – Income statement for the year ended 31 March 2024 (continued)

The differences arising from statutory IFRS and RAG definitions are summarised below:

	Revenue recognition - measured income accrual adjustment £m	Removal of interest capitalisation and related depreciation £m	Deferred income release moved from depreciation to other income £m	Infrastructure renewal income moved from operating costs to other income £m	New connection income moved from revenue to other income £m	Searches income moved from revenue to other income £m	Pension interest moved from interest expense to other interest £m	Innovation fund accrual removed from operating expenditure £m	Tax charge relating to measured income accrual and capitalisation of interest £m	**Total £m**
Revenue	0.624	-	-	-	(5.510)	(0.749)	-	-	-	**(5.635)**
Operating costs	-	23.012	14.746	(8.415)	-	-	-	2.500	-	**31.843**
Other operating income								-		**-**
Other income	-	-	(14.746)	8.415	5.510	0.749	-	-	-	**(0.072)**
Interest income	-	-	-	-	-	-	(0.681)			**(0.681)**
Interest expense	-	(18.586)	-	-	-	-	-	-	-	**(18.586)**
Other interest expense	-	-	-	-	-	-	0.681	-	-	**0.681**
Deferred tax	-	-	-	-	-	-	-	-	(1.897)	**(1.897)**
Loss for the year	0.624	4.426	0.000	0.000	0.000	0.00	0.000	2.500	(1.897)	**5.653**

1B – Statement of comprehensive income for the year ended 31 March 2024

	Ref	Statutory £m	Adjustments: RAG differences[1] £m	Adjustments: Non-appointed[2] £m	Adjustments: Total adjustments £m	Total appointed £m
Loss for the year	1A	**(181.144)**	5.653	0.489	**5.164**	**(175.980)**
Actuarial losses on post-employment plans		**19.824**	**-**	**-**	-	**19.824**
Other comprehensive income	3	**106.609**	-	-	**-**	**106.609**
Total comprehensive income for the year	**3**	**(54.711)**	5.653	0.489	**5.164**	**(49.547)**

[2] See accounting policies note in appendix 1 in parts 4 to 11 (appointed and non-appointed business) for a description of the Company's non-appointed activities.

[3] Further details are provided in the statement of changes in equity; in the accounting policies note in appendix 1 in parts 4 to 11.

[1] Differences in the income for the year arising from statutory IFRS and RAG definitions are shown in the table on page 20.

1C – Statement of financial position as at 31 March 2024

	Ref	Statutory £m	Adjustments: RAG differences[1] £m	Adjustments: Non-appointed[2] £m	Adjustments: Total adjustments £m	Total appointed activities £m
Non-current assets						
Fixed assets	3	**7,293.494**	(113.210)	-	**(113.210)**	**7,180.284**
Intangible assets	3	**201.000**	(13.326)	-	**(13.326)**	**187.674**
Investments - loans to group companies	3	**-**	-	-	**-**	**-**
Investments - other	3	**-**	-	-	**-**	**-**
Financial instruments	3	**-**	-	-	**-**	**-**
Retirement benefit assets	3	**31.615**	-	-	**-**	**31.615**
Total non-current assets		**7,526.109**	(126.536)	-	**(126.536)**	**7,399.573**
Current assets						
Inventories	3	**7.899**	-	-	**-**	**7.899**
Trade and other receivables	3	**646.485**	45.275	-	**45.275**	**691.760**
Financial instruments	3	**1.200**	-	-	**-**	**1.200**
Cash and cash equivalents[4]	3	**147.264**	-	42.968	**(42.968)**	**104.296**
Total current assets		**802.848**	45.275	42.968	**2.307**	**805.155**
Current liabilities						
Trade and other payables	3	**(569.247)**	6.995	-	**6.995**	**(562.252)**
Capex creditor	3	**(58.047)**	-	-	**-**	**(58.047)**
Borrowings[3]	3	**(197.203)**	(21.946)	-	**(21.946)**	**(219.149)**
Financial instruments	3	**-**	-	-	**-**	**-**
Provisions	3	**(5.400)**	(15.667)	-	**(15.667)**	**(21.067)**
Total current liabilities	3	**(829.897)**	(30.618)	-	**(30.618)**	**(860.515)**
Net current assets	**3**	**(27.049)**	14.657	42.968	**(28.311)**	**(55.360)**

[1] Differences arising from statutory IFRS and RAG definitions are shown in the table on page 24.

[2] See accounting policies note in appendix 1 of parts 4 to 11 (appointed and non-appointed business) for a description of the Company's non-appointed activities.

[3] A reconciliation between borrowings in statutory accounts and regulatory accounts is shown on page 24.

[4] Cash and cash equivalent value for total appointed activities of £104.296m consists of £4.894m cash balances for innovation competition and £99.402m cash balances for other appointed activities.

1C – Statement of financial position as at 31 March 2024 (continued)

		Statutory £m	Adjustments: RAG differences[1] £m	Adjustments: Non-appointed[2] £m	Adjustments: Total adjustments £m	Total appointed activities £m
Non-current liabilities						
Trade and other payables	3	**(740.246)**	710.242	-	**710.242**	**(30.004)**
Borrowings[3]	3	**(4,445.254)**	4.150	-	**4.150**	**(4,441.104)**
Financial instruments	3	**(46.635)**	-	-	**-**	**(46.635)**
Retirement benefit obligations	3	**(2.600)**	-	-	**-**	**(2.600)**
Provisions	3	**(5.216)**	-	-	**-**	**(5.216)**
Deferred income – grants and contributions		**-**	-		**-**	**-**
Deferred income – adopted assets	3	**-**	(714.392)	-	**(714.392)**	**(714.392)**
Deferred tax	3	**(768.332)**	28.001	0.104	**27.897**	**(740.435)**
Total non-current liabilities	3	**(6,008.283)**	28.001	0.104	**27.897**	**(5,980.386)**
Net assets	3	**1,490.777**	(83.878)	43.072	**(126.950)**	**1,363.827**
Equity						
Called-up share capital	3	**309.900**	-	-	**-**	**309.900**
Retained earnings and other reserves	3	**1,180.877**	(83.878)	43.072	**(126.950)**	**1,053.927**
Total equity[4]	3	**1,490.777**	(83.878)	43.072	**(126.950)**	**1,363.827**

[1] Differences arising from statutory IFRS and RAG definitions are shown in the table on page 24.

[2] See accounting policies note in appendix 1 of parts 4 to 11 (appointed and non-appointed business) for a description of the Company's non-appointed activities.

[3] A reconciliation between borrowings in statutory accounts and regulatory accounts is shown on page 24.

[4] A statement of changes in equity has been provided in the accounting policy note in appendix 1 of parts 4 to 11 to enable reconciliation between tables 1B and 1C.

1C – Statement of financial position as at 31 March 2024 (continued)

The differences arising from statutory IFRS and RAG definitions are summarised below:

	Revenue recognition - measured income accrual adjustment £m	Accrued interest moved from borrowings to trade payables £m	Deferred income £m	Capitalisation of interest removed £m	Tax charge relating to changes £m	Removal of innovation fund provision £m	Overdraft moved from borrowings to trade payables £m	Total £m
Fixed assets	-	-	-	(113.210)	-	-	-	**(113.210)**
Intangible assets	-	-	-	(13.326)	-	-	-	**(13.326)**
Current assets								
Trade and other receivables	4.924	40.351	-	-	-	-	-	**45.275**
Current liabilities								**-**
Trade and other payables	-	(18.405)	15.667	-	-	9.733	-	**6.995**
(8.672)Borrowings	-	(21.946)	-	-	-	-	-	**(21.946)**
Provisions	-	-	(15.667)	-	-	-	-	**(15.667)**
Non-current liabilities								**-**
Trade and other payables	-	(4.150)	714.392	-	-	-	-	**710.242**
Borrowings	-	4.150	-	-	-	-	-	**4.150**
Deferred income – G&C's	-	-	(714.392)	-	-	-	-	**(714.392)**
Deferred tax	-	-	-	-	28.001	-	-	**28.001**
Net assets	**4.924**	**-**	**-**	**(126.536)**	**28.001**	**9.733**	-	**(83.878)**
Equity								
Retained earnings	4.924	-	-	(126.536)	28.001	9.733	-	**(83.878)**
Total equity	**4.924**	**-**	**-**	**(126.536)**	**28.001**	**9.733**	-	**(83.878)**

Reconciliation between total borrowings in Statutory Accounts and Regulatory Accounting Statements

	£m
Borrowings per Statutory Financial Statements	**4,642.457**
Accrued interest payable reclassified as trade and other payables	(22.555)
Accrued interest receivable reclassified as trade and other payables	40.351
Borrowings per Regulatory Accounting Statements	**4,660.253**

1D – Statement of cash flows for the year ended 31 March 2024

Statement of cash flows	Ref	Statutory £m	Adjustments: RAG differences[1] £m	Adjustments: Non-appointed £m	Adjustments: Total adjustments £m	Total appointed £m
Operating profit	**1A**	**46.353**	26.208	(1.420)	**27.628**	**73.981**
27		**-**	(0.072)	-	**(0.072)**	**(0.072)**
Depreciation[2]		**370.790**	(23.012)	-	**(23.012)**	**347.778**
Amortisation – grants and		**14.746**	-	-	**-**	**14.746**
Pension contributions		**(0.300)**	-	-	**-**	**(0.300)**
Movement in provisions		**(13.100)**	-	-	**-**	**(13.100)**
Profit on sale of fixed assets		**-**	-	-	**-**	**-**
Changes in working capital	**1D**	**(39.933)**	(3.124)	-	**(3.124)**	**(43.057)**
Cash generated from operations		**378.556**	-	(1.420)	**1.420**	**379.976**
Net interest paid		**(175.894)**	-	2.072	**(2.072)**	**(177.966)**
Tax rebate		**0.350**	-	-	**-**	**0.350**
Net cash generated from operating		**203.012**	-	0.652	**(0.652)**	**202.360**
Investing activities						
Capital expenditure		**(411.733)**	-	-	**-**	**(411.733)**
Grants and contributions		**32.164**	-	-	**-**	**32.164**
Disposal of fixed assets		**0.300**	-	-	**-**	**0.300**
Net cash used in investing		**(379.269)**	-	-	**-**	**(379.269)**
Net cash flow before financing		**(176.257)**	-	0.652	**(0.652)**	**(176.909)**
Cash flows from financing						
Net loans received		**(39.095)**	-	-	**-**	**(39.095)**
Net cash flow from financing		**(39.095)**	**-**	**-**	**-**	**(39.095)**
Decrease in net cash		**(215.352)**	-	0.652	**(0.652)**	**(216.004)**

[1] Differences arising from statutory IFRS and RAG definitions; for further details see table on page 26.

[2] **Reconciliation to table 2A:**

Depreciation of:	**£m**
Tangible fixed assets (2D)	306.528
Intangible fixed assets (2O)	41.250
	347.778

1D – Statement of cash flows for the year ended 31 March 2024 (continued)

The differences arising from statutory IFRS and RAG definitions are summarised below:

	Revenue recognition: measured income accrual adjustment	Reversal of interest capitalisation	Deferred income	IRE income moved from operating costs to other income	New connections income moved from revenue to other income	Searches income moved from revenue to other income	Removal of innovation fund provision	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Operating profit	0.624	23.012	14.746	(8.415)	(5.510)	(0.749)	2.500	26.208
Other income	-	-	(14.746)	8.415	5.510	0.749	-	(0.072)
Depreciation	-	(23.012)	-	-	-	-	-	(23.012)
Amortisation – grants and contributions	-	-	-	-	-	-	-	-
Changes in working capital	(0.624)	-	-	-	-	-	(2.500)	(3.124)
Movement in net cash	-	-	-	-	-	-	-	-

1E – Net debt analysis (appointed activities) as at 31 March 2024

	Interest rate risk profile			
	Fixed rate m	Floating rate £m	Index-Linked RPI £m	Total appointed £m
Borrowings (excluding preference shares)	494.989	250.311	3,926.087	4,671.387
Preference share capital				-
Total borrowings[2]	494.989	250.311	3,926.087	**4,671.387**
Cash				(8.594)
Short term deposits				(95.702)
Cash and cash equivalents[1]				**(104.296)**
Net debt				**4,567.091**
				Gearing %
Gearing				61.092%
Adjusted gearing[1]				60.231%
Full year equivalent nominal interest cost	20.150	15.178	233.926	269.254
Full year equivalent cash interest payment	20.150	15.178	63.567	98.895
Indicative interest rates				
Indicative weighted average nominal interest rate	4.071%	6.064%	5.958%	5.764%
Indicative weighted average cash interest rate	4.071%	6.064%	1.619%	2.117%
Weighted average years to maturity	9.057	4.330	9.857	9.476

[1] The gearing ratio used by the Company includes accrued interest as well as all cash held within the whole business securitisation structure.

The Ofwat measure of gearing excludes accrued interest and uses cash allocated to the appointed business only:

	Net debt £m	RCV £m	Gearing %
Gearing	4,567	7,476	61.09%
Accrued interest	(18)		
Loan from parent	(3)		
Non-appointed cash	(43)		
	(64)		
Adjusted gearing	4,503	7,476	60.23%

[2]Reconciliation between total borrowings in 1C to 1E:

	Net debt £m
Borrowings per Statement of Financial Position– 1C	4,660.3
Bond issue premium	11.1
Total borrowings per net debt analysis – 1E	4,671.4

1F – Financial Flows

	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
	Year ended 31 March 2024					
		%	%	£m	£m	£m
Regulatory equity	2370.780	2370.780	2220.389			
Return on regulatory	3.85%	3.61%	3.85%	91.275	85.485	85.485
Financing						
Impact of movement from		0.24%	(0.01%)		5.790	(0.300)
Gearing benefits sharing		0.00%	0.00%		0.000	0.000
Variance in corporation		0.30%	0.32%		7.002	7.002
Group relief		0.00%	0.00%		0.000	0.000
Cost of debt		(0.18%)	(0.19%)		(4.277)	(4.277)
Hedging instruments		(0.32%)	(0.34%)		(7.439)	(7.439)
Return on regulatory equity including financing	3.85%	3.65%	3.62 %	91.275	86.561	80.471
Operational performance						
Totex out/(under)		(2.34%)	(2.50%)		(55.408)	(55.408)
ODI		(0.93%)	(1.00%)		(22.157)	(22.157)
C-Mex		0.09%	0.10%		2.191	2.191
D-Mex		(0.05%)	(0.05%)		(1.127)	(1.127)
Retail		(1.10%)	(1.17%)		(25.970)	(25.970)
Other exceptional items		0.00%	0.00%		0.000	0.000
Operational performance		(4.32%)	(4.62%)		(102.471)	(102.471)
RoRE	**3.85%**	(0.67)%	(0.99%)	91.275	(15.910)	(22.000)
RCV growth	4.64%	4.64%	4.64%	110.000	110.000	103.022
Voluntary sharing		(0.39%)	(0.42%)		(9.293)	(9.293)
Total shareholder return	8.49%	3.58%	3.23%	201.275	84.797	71.729
Gross dividend	3.00%	0.00%	0.00%	71.123	0.000	0.000
Interest received on intercompany loans		0.00%	0.00%		0.000	0.000
Retained Value	5.49%	3.58%	3.23%	130.152	84.797	71.729
Totex out/(under)		0.21%	0.23%		5.065	5.065
ODI out/(under)		0.00%	0.00%		0.019	0.019
Total out/(under)		0.21%	0.23%		5.084	5.084

				Average 2020-25		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
		%	%	£m	£m	£m
Regulatory equity	2327.036	2327.036	2236.171			
Return on regulatory	3.82%	3.67%	3.82%	88.893	85.422	85.422
Financing						
Gearing		0.15%	(0.04%)		3.471	(0.792)
Gearing benefits sharing		0.00%	0.00%		0.000	0.000
Variance in corporation		0.80%	0.83%		18.598	18.598
Group relief		0.00%	0.00%		0.000	0.000
Cost of debt		(0.40%)	(0.41%)		(9.268)	(9.268)
Hedging instruments		(1.35%)	(1.41%)		(31.453)	(31.453)
Return on regulatory equity including financing	3.82%	2.87%	2.80%	88.893	66.770	62.507
Operational performance						
Totex out/(under)		(2.04%)	(2.13%)		(47.520)	(47.520)
ODI		(0.70%)	(0.73%)		(16.379)	(16.379)
C-Mex		0.06%	0.06%		1.424	1.424
D-Mex		(0.02%)	(0.02%)		(0.403)	(0.403)
Retail		(1.09%)	(1.13%)		(25.377)	(25.377)
Other exceptional items		0.00%	0.00%		0.000	0.000
Operational performance		(3.79%)	(3.95%)		(88.255)	(88.255)
RoRE	3.82%	(0.92%)	(1.15%)	88.893	(21.485)	(25.748)
RCV growth	5.93%	5.93%	5.93%	137.993	137.993	132.605
Voluntary sharing		(0.45%)	(0.47%)		(10.550)	(10.550)
Total shareholder return	9.75%	4.55%	4.31%	226.886	105.958	96.307
Gross dividend	3.00%	0.00%	0.00%	69.811	0.000	0.000
Interest received on intercompany loans		0.00%	0.00%		0.000	0.000
Retained value	6.75%	4.55%	4.31%	157.075	105.958	96.307
Totex out/(under)		0.22%	0.23%		5.065	5.065
ODI out/(under)		0.00%	0.00%		0.019	0.019
Total out/(under)		0.22%	0.23%		5.084	5.084

1F – Financial flows for the year ended 31 March 2024: commentary

EXECUTIVE SUMMARY: WHAT DOES THE TABLE TELL US?

During the year to 31 March 2024 the total shareholder returns (returns to equity) for Welsh Water totalled 0.68%, after inflation; lower than the 8.49% assumed by Ofwat, line 1F.20. The principal factors contributing to this lower return are an overall Totex (-2.50%), ODI (-1.00%) and Retail (-1.17%) underperformance against our PR19 Final Determination (FD19) targets, as well as negative returns on hedging instruments as a result of macroeconomic environment impacts on inflation, offset by a favourable variance in corporation tax.

Gearing and cost of debt

Our average gearing is marginally lower than Ofwat's assumed 60% for a notional company. This reduces our return on regulatory equity as there is therefore more equity in the business than assumed in FD19 for a notional company. In practice, of course, the Glas group does not have shareholders and all returns are reinvested into the business or returned to customers. Our cost of debt, excluding the impact of hedging instruments, underperforms the FD19 assumptions. The impact of our hedging instruments, while providing cost certainty and stability, has further increased our cost of debt. Overall our cost of debt has been higher than the FD19 assumptions, reducing the returns to equity.

Cost and operational performance

Totex over/(under) spend reports an underperformance of £55m for 2023/24 and £190m for AMP to date of which £17m for 2023/24 and £126m for AMP to date is due to 'disallowable costs' which has been included following updated guidance from Ofwat; this is explained in more detail in the explanatory note to line 10 below. The remaining underperformance is a result of continued inflationary pressures, increased leakage expenditure, increased bad debt provision as a result of bill increases and enhanced capital programme costs, compared to what was allowed in FD19. Our ODI profile reflects an underperformance during the year contributed by our water quality compliance (CRI), water supply interruptions and leakage.

Dividends

No dividends were declared or paid during the year. Dividends paid by Welsh Water do not represent payments to shareholders in the traditional sense. Our group structure is based on a not-for-shareholder business model and Glas Cymru Holdings Cyfyngedig, the ultimate parent Company, has no shareholders. All retained earnings are used for the benefit of customers; in recent years we have used these to reduce the bills of vulnerable customers, to improve service to customers and to bring down the level of gearing to reduce the cost of new debt.

DETAILED TABLE PREPARATION COMMENTARY

Introduction

Welsh Water shares Ofwat's vision for the water sector in England and Wales: one where customers, the environment and wider society have trust and confidence in vital public water and wastewater services. Ofwat intends table 1F to improve the transparency concerning financial flows to investors, providing a comparison in the annual performance reports (APR) between the financial flows to investors on the basis of the actual capital structures of water companies and what they would have been under a notional structure.

In order to support the goal of providing clarity and comparability, we have set out below details of the calculations underpinning each input as well as narrative to explain variances against the PR19 Final Determination.

Line 1 – Regulatory equity

This line reports notional regulatory equity per Ofwat's Regulatory Capital Values publication.

Actual regulatory equity is calculated as the average of the opening and closing RCV, less average net debt (using the opening and closing balance for the reporting period as reported in table 1E).

Actual regulatory equity			2020/21	2021/22	2022/23	2023/24	Average 2020-25
Average of the opening and closing RCV (in 2017-18 year average CPIH prices)			2,275.659	2,308.766	2,352.939	2,370.780	
Opening RCV							
Opening RCV per Ofwat's Regulatory Capital Values (2020-21 year-end prices)			5,917.483	6,151.973	6,437.426	7,029.186	
Outturn CPIH			109.700	116.500	126.800	131.600	
2017-18 year-average CPIH			104.217	104.217	104.217	104.217	
Opening RCV deflated			5,621.699	5,503.332	5,290.907	5,566.553	
Closing RCV							
Closing RCV per Ofwat's Regulatory Capital Values (2020-21 year-end prices)			6,009.951	6,460.303	7,160.606	7,475.710	
Outturn CPIH			109.700	116.500	126.800	131.600	
2017-18 year-average CPIH			104.217	104.217	104.217	104.217	
Closing RCV deflated			5,709.545	5,779.152	5,885.288	5,920.164	
Average RCV			5,665.622	5,641.242	5,588.098	5,743.358	
Less: average net debt (using opening and closing values in Table 1E, in 2017-18 year average CPIH prices)							
Opening net debt							
Table 1E prior year outturn			3,510.947	3,616.980	3,728.384	4,172.256	
Outturn CPIH			108.600	109.700	116.500	126.800	
2017-18 year-average CPIH			104.217	104.217	104.217	104.217	
Table 1E prior year deflated			3,369.238	3,436.186	3,335.277	3,429.169	
Closing net debt							
Table 1E current year outturn			3,616.980	3,728.384	4,172.256	4,567.091	
Outturn CPIH			109.700	116.500	126.800	131.600	
2017-18 year-average CPIH			104.217	104.217	104.217	104.217	
Table 1E current year deflated			3,436.186	3,335.277	3,429.169	3,616.771	
Average net debt			3,402.712	3,385.731	3,382.223	3,522.970	
Actual regulatory equity	**£m**	**3DP**	**2,262.910**	**2,255.511**	**2,205.875**	**2,220.389**	**2,236.171**

Line 2 – Return on regulatory equity

This line reports the allowed equity return per Ofwat's Financial Flows Data Source model.

Line 3 – Gearing

This line reports the impact of having a different level of gearing from that assumed in Ofwat's notional company structure. Our average gearing is slightly lower than Ofwat's notional company level of 60% hence, as we would expect, "shareholder returns" are also slightly lower than allowed in the PR19 Final Determination, although in practice, of course, the Glas group does not have shareholders and all returns are invested back into the business or returned to customers.

			2020/21	2021/22	2022/23	2023/24	Average 2020-25
a)							
Notional gearing			60.00%	60.00%	60.00%	60.00%	
Actual average gearing							
Table 1E prior year (opening)			59.64%	60.18%	57.71%	58.27%	
Table 1E current year (closing)			60.18%	57.71%	58.27%	61.09%	
Actual average gearing			59.91%	58.95%	57.99%	59.68%	
Difference			(0.09%)	(1.05%)	(2.01%)	(0.32%)	
b)							
Adjusted allowed return on regulatory equity - base (Line 1 calculation)			3.78%	3.81%	3.83%	3.85%	
Allowed cost of debt (CPIH adjusted) per Ofwat's Financial Flows Data Source model			2.42%	2.24%	2.16%	2.22%	
			1.36%	1.56%	1.67%	1.63%	
c)							
a) multiplied by b)			(0.00%)	(0.02%)	(0.03%)	(0.01%)	
d)							
Average RCV (Line 2 calculation)			5,689.147	5,641.242	5,588.098	5,743.358	
Gearing	**£m**	**3DP**	**(0.068)**	**(0.928)**	**(1.871)**	**(0.300)**	**(0.792)**

Line 4 – Gearing benefits sharing

The value reported on this line is zero as actual gearing is lower than that for the notional company (see Line 3 calculation, above) and therefore there is no outperformance to share.

Line 5 – Variance in corporation tax

The variance in corporation tax is the difference between the level of corporation tax allowed in the Final Determination and actual corporation tax. The guidance states that we should deduct from the Determination allowance *“the tax payable at the standard rate of corporation tax of the profit/(loss) on appointed activities only and before fair value adjustments, plus or minus any adjustment for accelerated or deferred capital allowances, except in relation to green recovery expenditure which should be excluded, plus or minus any amounts for prior year adjustments plus or minus other Final Determination adjustments to accounting profit”*. We have reflected this guidance in the table below, the data having been drawn from the tax calculations underpinning the corporation tax value reported in table 1A.

Compared to the PR19 corporation tax allowance, the table below reports a positive variance of £7.002m in 2023/24 (i.e. our tax allowance exceeded the corporation tax charge/(credit) calculated using Ofwat's table). However, our actual corporation tax credit for the year was only £0.056m (2023: £0.054m), being £0.047m in 2017/18 prices, which results in a variance of £1.627m (£1.580m + £0.047m). This variance is lower because the table below ignores adjustments for tax losses carried forward, disallowable expenditure and other timing differences which are included in our actual tax calculations. Using the higher variance (£7.002m) overstates the adjusted return on regulated equity (RORE), which we have explained in the section on RORE.

Variance in corporation tax			**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Average 2020-25**
Corporation tax allowance per Ofwat's Financial Flows Data Source model			1.384	1.494	1.531	1.580	
Less: tax payable at the standard rate of corporation tax on the profit/(loss) on appointed activities only, before any fair value adjustments:							
Loss on appointed activities before tax and fair value movements (table 1A)			(130.012)	(207.179)	(518.520)	(285.703)	
Standard rate of corporation tax			19.00%	19.00%	19.00%	25.00%	
Corporation tax credit			(24.702)	(39.364)	(98.519)	(71.426)	
Plus or minus: any adjustment for accelerated or deferred capital allowances			23.943	34.777	30.908	64.633	
Plus or minus any amounts for prior year adjustments			(0.453)	(0.212)	(0.157)	0.037	
Plus or minus other final determination adjustments to accounting profit			-	-	-	-	
Total corporation tax - outturn prices			(1.212)	(4.799)	(67.768)	(6.756)	
Outturn year-average CPIH			109.108	113.117	123.042	129.867	
2017/18 year-average CPIH			104.217	104.217	104.217	104.217	
Total corporation tax - 2017/18 prices			(1.158)	(4.421)	(57.400)	(5.422)	
Variance in corporation tax	**£m**	**3DP**	**2.542**	**5.915**	**58.931**	**7.002**	**18.598**

Line 6 – Group relief

The company has surrendered tax losses of £0.489m for consideration equal to their tax value of £0.122m (£0.489m x 25%) to a fellow group company during the reporting period. As the company has not utilised group relief in calculating its corporation tax liabilities, no entries are required to line 6.

Line 7 – Cost of debt

Our cost of debt, excluding the impact of hedging instruments, is higher than the allowance in Ofwat’s PR19 Final Determination. High level of RPI inflation is the primary reason for the recent increases in our cost of debt as we hold a high proportion of index linked debt.

Cost of debt	**2020/21**	**2021/22**	**2022/23**	**2023/24**
a) Net actual interest paid per income statement (table 1A)				
Interest income	(4.650)	(4.045)	(13.833)	(17.679)
Interest expense	148.267	295.704	532.227	377.972
Net interest	143.617	291.659	518.394	360.293
b) Divided by average net debt				
Opening net debt				
Table 1E opening outturn	3,510.947	3,616.980	3,728.384	4,172.256
Closing net debt				
Table 1E closing outturn	3,616.980	3,728.384	4,172.256	4,567.091
Average net debt	3,563.964	3,672.682	3,950.320	4,369.674
Divided by b)	4.03%	7.94%	13.12%	8.25%
c) Less:				
Movement in CPIH for the reporting period				
CPIH at outturn year-end	109.108	113.117	123.042	129.867
CPIH at outturn year-end	108.242	109.108	113.117	123.042
Movement in CPIH for the reporting period	0.80%	3.67%	8.77%	5.55%
Use Fisher equation to remove CPIH movement	3.20%	4.12%	4.00%	2.56%
Less: allowed cost of debt per Ofwat's Financial Flows Source Data model	2.42%	2.24%	2.16%	2.22%
Cost of debt underperformance	**(0.78%)**	**(1.87%)**	**(1.83%)**	**(0.34%)**

Line 7 – Cost of debt (continued)

			2020/21	2021/22	2022/23	2023/24	Average 2020-25
d) Multiplying c) by the average RCV for the period							
Average RCV (Line 2 calculation)			5,665.622	5,641.242	5,588.098	5,743.358	
c) multiplied by average RCV			(44.192)	(105.491)	(102.262)	(19.527)	
e) Multiplying d) by the notional gearing ratio							
Notional/actual gearing ratio			60.00%	60.00%	60.00%	60.00%	
Cost of debt including impact of hedging instruments			(26.515)	(63.295)	(61.357)	(11.716)	
Exclude hedging instruments (Line 8 calculation)			17.896	46.667	53.808	7.439	
Cost of debt - unadjusted for hedging instruments			(8.619)	(16.628)	(7.549)	(4.277)	
Cost of debt	**£m**	**3DP**	**(8.619)**	**(16.628)**	**(7.549)**	**(4.277)**	**(9.268)**

Line 8 – Hedging instruments

We have determined the £ impact of the hedging instruments as the report year cash cost (within income statement interest) of those instruments. As in prior years, we have excluded from this line the effect of instruments held in our financing Company, Dŵr Cymru (Financing) UK Plc, which swap floating rate bond liabilities to an RPI indexed rate. The reason for their exclusion is that the bonds and related swaps are on-lent to the appointee as a single instrument; their impact is therefore taken into account in Line 7, Cost of debt. The swap payment data has been taken from our internal management accounts.

Hedging instruments			2020/21	2021/22	2022/23	2023/24	Average 2020-25
Floating to RPI swaps			(8.245)	(40.010)	(57.068)	(8.153)	
Floating to fixed swap			(10.492)	(10.643)	(6.459)	(1.117)	
Total - outturn prices			(18.736)	(50.653)	(63.527)	(9.270)	
2020/21 year-average CPIH			109.108	113.117	123.042	129.867	
2017/18 year-average CPIH			104.217	104.217	104.217	104.217	
Total - 2017/18 prices	**£m**	**3DP**	**(17.896)**	**(46.667)**	**(53.808)**	**(7.439)**	**(31.453)**

Line 10 – Totex out/(under)performance

This line reports the difference between actual totex performance, and the amount allowed in the published Final Determination for the reporting period, adjusted for timing differences and the company sharing ratio with customers. The values reported on this line are taken from table 4C, Lines 13, 14, 21 and 24 and converted from outturn prices into 2017/18 CPIH prices. Please refer to table 4C commentary for a breakdown of the elements of the overall totex overspend.

Totex over/(under) spend reports an underperformance of £69m for 2023/24 and £220m for AMP to date of which £17m for 2023/24 and £126m for the AMP is due to 'disallowable costs' (outturn prices). The table provides a breakdown of the disallowable costs. 'Return of value' of £60m for the AMP to date is discretionary expenditure for the benefit of customers as a result of our not-for-shareholder model.

	2020/21	2021/22	2022/23	2023/24	AMP to date
£m outturn					
Return of value	18.925	13.824	11.789	15.444	59.982
Leakage redress	16.000	16.000	-	0.332	32.332
Pension exceptional item	-	-	24.420	-	24.420
Customer compensation and fines	-	1.429	6.023	1.704	9.770
Total disallowable costs	**34.925**	**31.253**	**42.232**	**17.480**	**125.890**

Totex out/(under)performance			**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Average 2020-25**
Company share of totex out/(under)performance (table 4c Lines 13, 14, 21 23 and 24)							
Water resources			2.681	8.071	(2.740)	6.148	
Water network plus			(20.995)	(23.880)	(59.376)	(51.360)	
Wastewater network plus			(8.567)	(11.270)	(16.293)	(20.983)	
Bioresources			(16.406)	0.790	(3.180)	(2.850)	
Additional Control			-	-	-	-	
Total - outturn prices			(43.286)	(26.289)	(81.589)	(69.045)	
Outturn year-average CPIH			109.108	113.117	123.042	129.867	
2017/18 year-average CPIH			104.217	104.217	104.217	104.217	
Total - 2017/18 prices	**£m**	**3DP**	**(41.346)**	**(24.220)**	**(69.106)**	**(55.408)**	**(47.520)**

Line 11 – ODI out/(under) performance

This line reports the overall financial value of the ODI out/(under)performance in respect of the reporting period.

The data feeding into this line have been taken from table 3A, wherein a full commentary can be found.

The historical performance has been updated following RAG 4.12 which updates the guidance to include the wastewater ODIs reported in 3B
Historical data for 2020/21 and 2021/22 has been updated for Water Supply interruptions, Leakage and PCC have been updated for the restated values in the 2022-23 in-period ODI determination. This probably should have gone in last year with the in-period ODI submission. I haven't made it impact 2023-24 but instead it goes into the 2020-25 average.
Under/Outperformance accruals have been added in this year for the measures that are end of period ODIs.

ODI out/(under)performance	2020/21	2021/22	2022/23	2023/24	Average 2020-25
Table 3A					
Water quality compliance (CRI)	(1.059)	(3.660)	(1.659)	(2.801)	
Water supply interruptions	(2.826)	(6.139)	(10.370)	(10.594)	
Leakage	(1.982)	(3.360)	(4.486)	(5.578)	
Per capita consumption	(0.966)	(1.487)	(1.823)	(1.580)	
Mains repairs	(0.133)	-	(2.152)	(1.336)	
Unplanned outage	-	-	-	-	
Acceptability of drinking water	(1.107)	(0.891)	(1.059)	(1.757)	
Lead pipes replaced	-	-	-	-	

Line 11 – ODI out/(under) performance(continued)

ODI out/(under)performance (continued)			2020/21	2021/22	2022/23	2023/24	Average 2020-25
Business customer satisfaction			(0.125)	(0.125)	(0.125)	(0.250)	
Unbilled properties			(0.340)	0.052	(0.601)	0.026	
Visitors to recreational facilities			(0.530)	0.168	0.019	0.259	
Delivery of our reservoirs enhancement programme			-	-	-	-	
Delivery of our water network improvement programme			-	-	-	-	
Delivery of our South Wales Grid water supply resilience scheme			-	-	-	-	
Delivery of our new visitor centre			-	-	-	-	
Cwm Taf Water Supply Strategy Scheme (Underperformance)			-	-	-	-	
Cwm Taf Water Supply Strategy Scheme (Outperformance)			-	-	-	-	
			(9.068)	(15.494)	(22.256)	(23.610)’	
Internal sewer flooding			(1.581)	1.154	1.880	0.385	
Pollution incidents			0.543	0.150	(0.333)	(1.531)	
Sewer collapses			(0.069)	-	-	-	
Treatment works compliance			-	(0.476)	(0.350)	0.693	
km of river improved			0.095	0.852	1.420	4.260	
Bioresources product quality			0.454	0.454	0.413	0.454	
Bioresources disposal compliance			-	-	(0.013)	-	
Sewer flooding on customer property (external)			0.660	(0.881)	(0.476)	(1.097)	
Total complaints			(0.054)	-	(0.030)	(0.048)	
Surface water removed from sewers			(0.050)	(0.050)	(0.050)	(0.304)	
Community education			(0.112)	(0.105)	0.014	0.027	
Combined sewer overflow storage systems			-	-	-	-	
			(0.114)	1.097	2.475	1.453	
Total - 2017/18 prices	**£m**	**3DP**	**(9.182)**	**(14.397)**	**(19.781)**	**(22.157)**	**(16.379)**

Line 12 – C-Mex out/(under) performance

This line reports the C-Mex out/(under) performance disclosed in Ofwat’s Final determination of Dŵr Cymru's in-period outcome delivery incentives for 2021-22 document, accounted for on an accrual basis.

Line 13 – D-Mex out/(under) performance

This line reports the D-Mex out/(under) performance disclosed in Ofwat's Final determination of Dŵr Cymru's in-period outcome delivery incentives for 2021-22 document, accounted for on an accrual basis.

Line 14 – Retail out/(under) performance

This line reports the difference between the FD19 allowed retail operating costs (excluding margin) compared to the actual costs reported in table 2C.

Retail out/(under)performance			2020/21	2021/22	2022/23	2023/24	Average 2020-25
Allowed retail operating costs per Ofwat's Financial Flows Data Source model			38.218	37.281	34.664	33.205	
Actual retail operating costs (table 2C, line 21) - outturn prices			71.043	59.293	74.635	73.740	
Outturn year-average CPIH			109.108	113.117	123.042	129.867	
2017/18 year-average CPIH			104.217	104.217	104.217	104.217	
Actual retail operating costs - 2017/18 prices			67.858	54.628	63.216	59.176	
Retail out/(under)performance	**£m**	**3DP**	**(29.640)**	**(17.346)**	**(28.552)**	**(25.970)**	**(25.377)**

Line 15 – Other exceptional items

A zero value has been reported on this line as all exceptional (Covid-related) and atypical (weather-related) expenditure has been included within totex and to report on this line would be duplication. There have been no proceeds from land sales during the reporting year.

Line 18 – RCV growth from inflation

The values used in this calculation are included in Ofwat's published Regulatory Capital Values.

RCV growth from inflation			**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Average 2020-25**
Data from Ofwat's Regulatory Capital Values							
Total: RCV at prior year expressed in prior year prices			5,905.241	6,009.951	7,160.606	7,475.71	
Total: Indexation roll forward in current year update			61.828	440.157	768.285	346.860	
Actual performance adjustment 2015-20	**%**	**2DP**	**1.05%**	**7.32%**	**10.73%**	**4.64%**	**5.93%**

Line 19 – Voluntary sharing arrangements

This line reports the value of any payment associated with voluntary sharing arrangements or similar schemes as set out in Ofwat's published document, PR19 final determination: aligning risk and return technical appendix. In the case of Welsh Water, our voluntary sharing relates to the company's contribution to the cost of providing more affordable social tariffs during 2023/24 (we incur this 'cost' by billing less than Ofwat allows us to and so our total revenues are lower).

Voluntary sharing arrangements			**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Average 2020-25**
Company contribution to social tariffs			(11.724)	(12.228)	(12.330)	(11.580)	
Outturn year-average CPIH			109.108	113.117	123.042	129.867	
2017/18 year-average CPIH			104.217	104.217	104.217	104.217	
Voluntary sharing arrangements	**£m**	**3DP**	**(11.198)**	**(11.266)**	**(10.444)**	**(9.293)**	**(10.550)**

Line 21 – Gross dividend

This line reports the total amount of dividends paid during the period for the appointee business only. The value has been obtained from Ofwat's financial flows, line 37, per prior years query log instructions.

			2020/21	2021/22	2022/23	2023/24
Notional						
Gross dividend	**%**	**2DP**	**3.00%**	**3.00%**	**3.00%**	**3.00%**
Actual						
Gross dividend	**%**	**2DP**	**-%**	**-%**	**-%**	**-%**

Line 24 – Totex out/(under) performance

This line reports the end of period performance adjustments from the previous AMP. The value has been obtained from Ofwat's financial flows model.

Line 25 – ODI out/(under) performance

This line reports the end of period performance adjustments from the previous AMP. The value has been obtained from Ofwat's financial flows model.

Dŵr Cymru
Welsh Water