Registered Nº: 3975719

Glas Cymru Anghyfyngedig

Annual report and financial statements for the year ended 31 March 2023

Registered office
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St Mellons
Cardiff
CF3 0LT

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Foreword

These financial statements for Glas Cymru Anghyfyngedig (the Company) cover the year to 31 March 2023.

Glas Cymru Anghyfyngedig (Glas Cymru) is the parent company of the group of companies funded under a whole Business Securitisation Common Terms Agreement (the Group).

The Company's immediate parent and holding company is Glas Cymru Holdings Cyfyngedig (GCHC); a company limited by guarantee and registered in England & Wales.

The Company's group structure consists of:

- Glas Cymru (Securities) Cyfyngedig, the holding company of Dŵr Cymru (Holdings) Ltd and its subsidiaries;
- Dŵr Cymru (Holdings) Ltd, an intermediate holding company of Dŵr Cymru Cyfyngedig and Dŵr Cymru (Financing) UK plc;
- Dŵr Cymru (Financing) UK plc. a public limited company incorporated in the UK and is the 'issuer' company for the group's bonds, which are listed on the Luxembourg Bourse. The company on-lends the proceeds of any bonds issued to Dŵr Cymru Cyfyngedig; and
- Dŵr Cymru Cyfyngedig, the Group's principal trading company (referred to as both Dŵr Cymru and Welsh Water). Its principal activity is the supply of water and treatment and disposal of wastewater under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

Directors and advisers

Directors

Peter Perry	
Peter Mike Davis	
Roger Morgan	(resigned 30 September 2022)
Matthew Jones	(appointed 14 November 2022)

Company Secretary

Nicola Foreman	(appointed 6 February 2023)
Nicola Williams	(resigned 6 February 2023)

Independent auditor

KPMG LLP
Assembly Square
3 Britannia Quay
Cardiff
CF10 4AX

Solicitor

Linklaters LLP
One Silk St
London
EC2Y 8HQ

Principal banker

National Westminster Bank Plc
27 High St
Brecon
LD3 7LF

Strategic report

The Directors present the Strategic report of Glas Cymru Anghyfyngedig for the year ended 31 March 2023.

Principal activities
The principal activities of the Group are the supply of water and the treatment and disposal of wastewater under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

The principal activity of Glas Cymru Anghyfyngedig is a holding company, with references to the Board referring to the joint Board of Glas Cymru Holdings Cyfyngedig (GCHC) and Dŵr Cymru Cyfyngedig (DCC).

Business review
The Group is in a strong financial position as at 31 March 2023; gearing remains low and one of the market leaders at 58% (2022: 58%) and we have retained our sector-leading credit ratings.

Revenue:
Our revenue mainly comes from the water and wastewater services we provide to customers. Our prices are set every five years by Ofwat's price review process and this, to a large extent, determines how much we can invest in our services and infrastructure. Revenue in the year was 4% higher than last year, mainly due to price rises, which were in line with Ofwat's allowance but notably well below headline inflation in the period, partly offset by a £15 million reduction in respect of our restatements for leakage and Per Capita Consumption (PCC) data.

We are acutely aware of the pressures the current cost-of-living crisis is having on our customers. We continue to expand our range of customer assistance tariffs, with 127,000 customers now getting help to pay their bills

Operating Expenditure (Opex)
100% of our cost base relates to regulated activity and is therefore funded as set out in Ofwat's price determination. In this way, inflationary increases are also funded, although there is a timing difference as costs are reflected in customer bills the year after the higher costs are incurred.

Energy

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

In early 2020, we forward purchased around 60% of our gas requirement for the five years to March 2025. The remainder is hedged by the export of biomethane from our gas-to-grid plant. We continue to invest to increase our capacity to generate our own energy and in FY 23 we produced 22% of our total consumption requirement. We aim to increase this to 35% by 2025. While we have mitigated much of the cost pressure to date, we have paused power hedging activity while underlying prices, and the costs of hedging, are high. We are currently reviewing our purchasing strategy for the next price review period to 2030.

Bad debt

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

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

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

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

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

Exceptional items:

In the year to 31 March 2023, we have recognised an exceptional item totalling £30.8 million. This item represents the award of pension increases above a 5% cap. Under a 'best endeavours' clause in our pension scheme rules full RPI increases could only be awarded if certain criteria were met. In the current year scheme awards above a 5% cap have been paid by the pension scheme and, as the scheme is now in surplus, these conditions are expected to be paid in the future. Therefore, the expense in the year represents the additional awards given. In the future it is expected that changes to this assumption will be presented in Other Comprehensive Income as required under IAS19. This is disclosed as exceptional in this year as the accounting treatment of these increases through the profit and loss account will only occur this year, it is of a significant value, and it does not closely reflect day-to-day operational expenditure. For the avoidance of doubt management will make consideration of the 'best endeavours' clause in all future periods and as such any movement in estimate will be presented as Other Comprehensive Income as required under IAS19.

In the year to 31 March 2022 we recognised an exceptional item totalling £(3.8) million. This item represents a release of the bad debt provision as a result of anticipated bad debt charges associated with the Covid-19 pandemic not materialising during the year; this is disclosed as exceptional due to its nature and with the corresponding Covid-19 charge having, in the previous year, been shown as exceptional.

Climate change

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

Leakage and per capita consumption restatement

We have restated performance data for leakage and PCC which was reported to Ofwat for the financial years 2021 and 2022. On 25 May 2023, Ofwat announced an investigation into our reporting of leakage and PCC. We have informed Ofwat that we intend to action a customer redress package of £29 million, representing approximately 3.7% of Welsh Water's regulatory revenue of £793 million in 2021-22.

The redress package consists of two elements:

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

In this years financial statements, we have provided for the £15 million to be refunded to customers in 2023-24. The forgone overspend recovery of £14 million will manifest itself in a lower Regulatory Capital Value (RCV) at 1 April 2025 than would otherwise be the case. As it is not appropriate to set a provision in the financial statements for future changes to RCV, this element of the customer redress package is disclosed only in the notes to the financial statements.

We believe we are proposing an appropriate package of customer redress for our regulatory misreporting 2020-21 and 2021-22, and its effects. However, the final decision rests with Ofwat and will not be known until their investigation is completed, the timing of which is uncertain.

Under normal circumstances, overspends during the AMP are partially recovered from customers at the next price control through an adjustment to the Regulated Capital Value (RCV). This would ordinarily allow 42% - amounting to £14 million - of this overspend to be recovered. The decision has been taken to forego these recoverable costs and the regulatory capital value will not be uplifted at the next Price Control.

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

Underlying profit/(loss)

We define underlying profit/(loss) as profit/(loss) before taxation less fair value movements on derivative financial instruments, thus excluding the non-cash impact of market movements, which better reflects the elements within our control. Our underlying loss increased to £310 million compared to prior year (£102 million) principally caused by a year-on-year increase of 70% in finance costs to £318 million (FY 22: £187 million) due to higher indexation charges on our index-linked debt, the recognition of an exceptional charge of £31 million representing the award of pension increases in line with RPI and an increase in depreciation and amortisation, which rose by 5% to £346 million (FY 22:£328 million), as a result of revaluing the asset base to the regulatory capital value.

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

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

Interest rate management

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

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

Gains and losses on derivative financial instruments

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

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

In the year the movement in the value of swaps was a non-cash gain of £160 million (FY 22: loss of £114 million), driven mainly by changing market expectations of interest

Loss before tax:

The Loss before tax was £150 million, a decrease of £65 million on last year (2022: £215 million), as a result of the factors outlined above.

Taxation:

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

Full details of our corporation tax and deferred tax charges are provided in note [••] and our full tax strategy is available at Tax strategy

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Group tax strategy:

The tax strategy is managed at a group level by the Glas Cymru Holdings Cyfyngedig (GCHC). The Group is committed to acting in an open and transparent way in respect of its tax affairs. We pay a range of taxes, including business rates, employer's National Insurance and environmental taxes. We do not enter into artificial tax arrangements, use tax havens or take an aggressive stance in the interpretation of tax legislation. Full details of our tax strategy are published annually on our website at dwrcymru.com/tax strategy. The Group has complied with the Tax Strategy for the year ended 31 March 2023.

Fair tax mark accreditation:
The Fair Tax Mark is an independent certification which recognises organisations that demonstrate they are paying the right amount of corporation tax at the right time and in the right place. More than 75 businesses have now been certified since the accreditation was launched in 2014. We aim for clarity and transparency in our tax strategy and are pleased to have been the first Welsh company to have secured the Fair Tax Mark accreditation.

Pension funding:
Glas Cymru's defined benefit pension liability at 31 March 2023 as reported on the balance sheet was £12 million, a £93 million increase on last year (2021: £81 million liability). This valuation has been prepared in accordance with the IAS 19 basis for accounting purposes which is not the same as the actuarial valuation of the scheme used for funding purposes. The difference between the two amounts is recognised as a surplus or obligation in the statement of financial position. Where this difference results in a defined benefit surplus, this is recognised in accordance with IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', on the basis that the group has an unconditional right to a refund of any surplus that may exist following the full settlement of plan liabilities in a single event.

Cash flow:
Net cash generated from operating activities for the year ended 31 March 2023 totalled £229 million, which decreased from the £314 million generated in the previous year. The decrease is driven by lower cash generated from operations and higher interest paid.

The net cash outflow from investing activities for the year ended 31 March 2023 was £291 million, which increased from £247 million expensed in the previous year. This was principally caused by a higher level of investment in our capital programme.

Net cash inflows from financing activities totalled £63 million, compared with £67 million last year.

Capital Investment

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

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

We will invest an additional £100 million in river water quality improvements, most of which we plan to deliver during AMP7. This is available to us from the advantage of our Glas Cymru non-shareholder business structure being not-for-profit.

Net asset position:
The balance sheet shows net assets of £1,500 million at 31 March 2023 (2022: 1,086 million). The net book value of Property, plant and equipment has risen by £695 million (11%), a consequence of revaluing the Group's asset base to Glas Cymru's regulatory capital value. Cash balances are £364 million, reflecting the investment in capital described above. The net deferred tax liability has increased by £154 million (19%).

Liquidity:
At 31 March 2023, total liquidity stood at £564 million FY22: £502 million), comprising cash and equivalents of £364 million and undrawn facilities of £200 million. We invest cash prudently, depositing for a maximum of three months, and only with highly rated banks and liquidity funds. We achieved an average deposit yield of 3.86% during the year, which compares favourably with the BlackRock ICS Sterling Liquidity Fund yield of 2.00%. We also have bilateral revolving credit facilities of £200 million (all of which is currently undrawn) with a group of four key relationship banks. For further details.

Gearing:
UK water companies express their regulatory gearing as the ratio of net debt to regulatory capital value, to show a measure of the Company's indebtedness relative to the value of the business recognised by Ofwat. Since Glas Cymru was established in 2001 with gearing at 93%, we have consistently de-leveraged, i.e. reduced our proportionate level of debt, with gearing standing at 58% at 31 March 2023, in line with the Board's policy to maintain gearing at around 60%. Under the terms of our whole-business securitisation structure, we must maintain gearing below 85%. We therefore have significant headroom to deal with emerging risks.

Going concern:

The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements for the year ended 31 March 2023 have been prepared on the going concern basis. (Full details are provided under "basis of preparation" in note 1 to the financial statements.)

Financial key performance indicators

The Company is part of a group controlled by Glas Cymru Holdings Cyfyngedig (GCHC, the "group"). The Directors of Dŵr Cymru Cyfyngedig use group-wide key performance measures as indicators to the development, performance and position of the Company. These are discussed in the 2022-23 Annual Report and Accounts of GCHC which does not form part of this report (available on the Group's website at Corporate Reports).

Customers are at the heart of everything we do. We measure our performance via eight "Outcomes" which are based on broad groupings of targets set by Ofwat at the last price review – "Outcome Delivery Incentives" (ODIs). The groupings represent the key elements of the essential services we provide to our customers across our supply area.

The regulatory targets are supplemented by our internal business and financial planning processes. Every year targets are discussed 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.

Financial key performance indicators (continued)

The Board also takes the opportunity to understand the views expressed by customers and other stakeholders in the extensive engagement exercises undertaken as part of establishing Welsh Water 2050, and in the context of setting the Group's five-year business plans for 2020-25.

Future developments

Working on our Welsh Water 2050 Strategy for the next 30-year period has 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.

Our detailed business plan for AMP7, 2020-25 seeks to balance ensuring the affordability of the essential services we provide with the investment needed to maintain a resilient infrastructure. All gains eventually go to our customers, so that the interests of the Group and of customers are aligned, and the strategic direction of the Group takes this into account.

As well as delivering excellent service for customers, we need to manage costs carefully to keep bills as affordable as possible. The Board sets the Executive Remuneration policy which includes a significant element of variable pay, dependent on the Executive Directors delivering strong and consistent performance which achieves improved services for customers. This is reinforced by a focus on transparency and honesty in all communications with our Members, customers and regulators, acknowledging those areas where we can still do better, and building on the progress we have made to deliver better service to customers.

Principal risks and uncertainties

From the perspective of the Group, the principal risks and uncertainties are integrated with the principal risks of the GCHC group and are not managed separately and are discussed in the 2022-23 Annual Report and Accounts of GCHC. These include:

- Environmental Performance and Reputation;
- Business continuity;
- climate change impacts and transition risks;
- Health and safety major incident;
- Cyber information and operational technology;
- performance and costs;
- Loss of trust, particularly by customer;
- People: talent and diversity;
- Finance risk and customers' ability to pay;

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

- public health (micropollutants in drinking water and plastics in wastewater); and
- Legislative divergence

The above emerging risks are also discussed in the 2022-23 Annual Report and Accounts of GCHC.

Strategic report (continued)

S172 statement
The Directors are required to act in a manner which complies with their duties as set out in the Companies Act 2006.

The relevant provisions of Section 172 of the Companies Act require a director of a company to act in a way they consider, in good faith, would most likely promote the success of the company. I n doing this, the director must have regard to, among other matters:

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

Set out below is an overview of how the Board has performed its duties in this regard during the year. For further information, please see the Governance Report on our Group Annual Report.

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

Customer engagement
The customer voice is represented through the Independent Challenge Group (ICG). Board members attended a Customer Immersion Day in June 2022 to gain insight into our customers' priorities as part of our PR24 preparation, and an online Community Research Forum on the subject of Combined Storm Overflows (CSOs) in March 2023.

The Board's obligation to promote the long-term success of the company
The potential consequences of decisions in the long term is a natural focus for our long-term investment and planning. As a customer-led business, addressing the long-term impacts on our communities and the environment are absolutely central to our strategy. Delivering that strategy necessarily involves fostering relationships with governments, regulators, suppliers and customers, but it also critically depends on colleagues across the business and in our supply chain.

Stakeholder engagement
The Board regularly hears directly from our principal stakeholders, including our regulators, through their attendance at Board meetings. The views of regulators are gathered both directly through invitations to join our Board and Quality and Safety Committee (QSC) meetings, and indirectly as regulatory correspondence and meeting details are relayed by members of the Executive team through monthly management reports to the Board.

During 2022-23, the QSC heard directly from some of the Directors of Natural Resources Wales (June 2022) and the Chief Inspector of the Drinking Water Inspectorate (March 2023).

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

The Chair, and Chief Executive of Ofwat, together with the Wales Director and the Senior Director of Strategy and Planning, attended the September 2023 Board meeting.

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

Supplier engagement
Supply chain risk is noted as one of the principal strategic risks reviewed at every Board meeting, and the Board receives monthly reports from the Commercial Director, including an update on procurement issues and key supplier issues. Board members also meet regularly with representatives of contractors working on our Capital Projects programme when attending site visits helps ensure that the services provided to customers, and the delivery of our investment schemes and the provision of other goods and services, are in line with our expectations and company values. We have a Supplier payment policy and we are a signatory of the UK Government Prompt Payment Code.

Employee engagement
The Board promotes inclusivity and supports developing each individual to their full potential. Regular updates on health and safety turnover, absence and sickness levels are received and key policies such as Equality, Diversity and Inclusivity, and pay, are reviewed at the Board or at relevant Committee meetings. There are also regular updates from the Executive on discussions with the recognised trade unions through the Senior Negotiating team and in relation to employee engagement surveys and the action plan agreed by the Executive Team in response to colleague feedback from the survey.

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

Engagement with Glas Members
The role of Glas Members is set out in the Governance Report of our Group Annual Report. Our Members are drawn from across the supply area and the independent Member Selection Panel, chaired by Sir Paul Silk, aims to ensure a broad spread of background, skills and experience within the Membership.

Debra Bowen Rees, one of our Non-Executive Directors, is a member of the independent Member Selection Panel and, therefore, takes a particular interest in the Glas Membership.

The Panel carries out an annual recruitment process to refresh the Membership as Members step down (after a maximum 9-year term). The Board meets with Members in July and December each year and welcomes input from Members on key strategic issues at these meetings, where there is always an opportunity for Member feedback and discussion.

The Company Secretariat team ensures that Members are kept up to date on current issues affecting the business on a regular basis, and feeds back Member views in a report to the Board at each Board Meeting.

Engagement with the independent challenge group
This group comprises customer and environment advocates from a broad variety of backgrounds. It meets regularly to review and comment on customer research, strategy, policy and initiatives. The Chair of the Independent Challenge Group attended the PR24 Customer Insight item on the Board's Strategy Day agenda in November 2022.

Engagement with the independent environmental advisory panel (IEAP)
This group includes representatives from environmental non-governmental organisations (NGOs), academics and third sector organisations. The independent Environmental Adviser to the Board's Quality and Safety Committee attends meetings of the IEAP, and reports back to the Quality and Safety Committee on issues of relevance to the Committee.

Engagement with investors
During 2022-23 we held meetings with bond investors via video conference, but in July 2022 we convened our annual Investors Meeting in person. Members of the Board and Executive team attend this meeting and the Treasury team is in regular contact with investors and credit rating agencies throughout the year. All formal communications with investors are approved by the Board, and investors receive a six-monthly Investor Report which they are welcome to follow up on with the Treasury team.

The role of the executive team
The Dŵr Cymru Executive team is responsible, with the Chief Executive and Chief Financial Officer, for the operational management of the Group. It is designated as senior management for the purpose of the Code but not for the purposes of section 414C(8) of the Companies Act 2006. The team comprises the senior functional management roles and those with responsibility for interacting with the Company's principal stakeholders.

Our Managing Directors for Water, Waste Water and Retail (Household Customers) attend all Board meetings. From 6 February 2023 Nicola Foreman replaced Nicola Williams as Group Company Secretary and as a Member of the Executive Team.

The role of the Board
The Board oversees measures to ensure that stakeholder interests are always taken into account. Papers prepared by the Dŵr Cymru Executive team for Board approval highlight relevant stakeholder considerations to be discussed as part of the debate when making decisions. This is to ensure that sufficient attention is given to stakeholder concerns, and that the interests of all relevant stakeholders are taken into account in the Board's decision making.

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

Strategic report (continued)

The role of the Board (continued)

Through direct engagement with employees through employee engagement sessions, informal meetings with managers and by conducting operational site visits the Board is able to see and experience first hand how our culture and values are applied across the business. Maintaining an effective culture within Welsh Water is a key component to support the delivery of our strategies and the Board's decision making needed to promote the long-term success of the Group.

By order of the Board

N Foreman
Company Secretary
16 June 2023

Directors' report

The performance review of the Group can be found within the Strategic Report on pages 3 to 10. This provides detailed information relating to the Group, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2023. Full details and analysis of the operational performance of Dŵr Cymru Cyfyngedig during the year to 31 March 2023 are included in the published 2022-23 Annual Report and Accounts of GCHC.

The Directors have pleasure in presenting their annual report, together with the audited financial statements for the year ended 31 March 2023 on pages 25 to 67.

Directors

The Directors of the Company who were in office during the year, and up to the date of the signing of the financial statements, are set out on page 2.

Directors' indemnity

The Company has in place Directors' and Officers' insurance giving cover against legal action brought against the Directors and an indemnity in circumstances where a Director has not acted fraudulently or dishonestly. The indemnity is a qualifying indemnity for the purpose of the Companies Act and is for the benefit of all Directors. No claims have been made against this policy since the date of the last report.

Employees

The Board recognises the importance of attracting, developing and retaining the right people. In accordance with best practice, we have employment policies in place which provide equal opportunities for all employees, irrespective of sex, race, colour, disability, sexual orientation, religious beliefs or marital status. Further information on the Board's methods for engaging with the workforce are on our Group Annual Report.

Engagement with stakeholders

Details of how the Directors have had regard to the need to foster the Group's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Group during the financial year, are set out in the Strategic Report on our Group Annual Report.

Research and development

With the support of our customers, regulators, and governments alike for improved services and reducing our carbon and environmental footprint, we continue to look for better ways of working or advances in technology. We have made good progress delivering the agenda set out in our Innovation Strategy, with links to over 100 academic and other institutions, technology specialists, and global innovation concerns - see website link to Innovation Strategy - Innovation Strategy. For details on our investment and research into technical and innovation projects see page 129 of the Strategic Report in the Group Annual Report and Accounts.

Corporate governance

During the year ended 31 March 2023 we have applied the principles and complied with the provisions of the 2018 UK Corporate Governance Code and Ofwat's Guidance on Board Leadership, Transparency and Governance, as updated in 2019, and as required by our Licence conditions. Further details can be found in the Governance section on our Group Annual Report.

Persons of significant control

We maintain a Register of People with Significant Control to comply with the requirements of the Small Business, Enterprise and Employment Act 2015 (2015 Act). The Company has identified registrable relevant legal entities (RRLEs) within the Group structure.

Innovation

Over the past 12 months, we have made good progress delivering the agenda set out in our Innovation Strategy which we refreshed and published in 2022 with links to over 100 academic and other institutions, technology specialists, and global innovation concerns. Our refreshed strategy confirms the original 2 drivers of our approach to innovation are still very much fit for purpose.

Firstly, to develop and progress new technologies to improve customer service, create efficiencies and reduce resource use, carbon and costs. Secondly, to use our research and evidence-led work to help shape the views of regulators and governments, and so enable new innovative policies to be developed which facilitate and support the delivery of our 2050 vision, for example, on catchment solutions and nutrient trading.

Innovation (continued)
In 2022 we progressed 46 technology-related projects from a total of 179 which have arrived at our Innovation web-based portal. We have also won or are part of innovation projects worth £35.7 million, via the Ofwat £200 million innovation fund. Our research programme, which includes our biodiversity projects and others targeted at enabling regulatory change, has so far this AMP committed £3.3 million which is leveraged to £32 million by third-party investments, mostly from the EU LIFE fund, UKRI, and the Welsh Government. Such projects and initiatives continue to be reviewed through our well-established iLab process, and support both our AMP7 KPI targets and Welsh Water 2050 to ensure our investment remains appropriately targeted.

In May 2023 our innovative project idea to use artificial intelligence (AI) to improve the way in which water companies monitor algae levels in reservoirs was awarded £385,000 in funding from Ofwat's Innovation Fund. The project is one of 16 solutions awarded a share of the award fund in the water regulator's latest innovation competition – the Water Breakthrough Challenge.

The initiative will use artificial intelligence (AI) to transform algal monitoring into a high-throughput, high-accuracy laboratory or field-based process for a fraction of the cost of historical algal monitoring methods, allowing better risk prediction and enabling water companies to take earlier, more cost-effective and targeted actions.

The Water Breakthrough Challenge encourages initiatives that help to tackle the biggest challenges facing the water sector, such as achieving net zero, protecting natural ecosystems and reducing leakage, as well as delivering value to society.

Our research work has been used to help support policy change in the EU through Eureau, the European industry trade body. In December 2022, we were pleased to see the incorporation of the producer responsibility principle in the draft Urban Wastewater Treatment Directive, requiring the pharmaceutical industry to fund any quaternary treatment processes required to further reduce the presence of pharmaceutical products in treated sewage effluents. This sets a powerful precedent and should assist the whole water sector and pharmaceutical and chemical industries to move to a more sustainable footing. Our research programme is now focusing on a wide range of topics, including how best to progress nature-based sustainable investments for our supply area.

We ran our biennial virtual Innovation Conference in September 2022, celebrating our innovation successes to date, and looking forward to AMP8 in terms of establishing stronger partnerships to deliver improvements and efficiencies for our customers. Over 500 delegates registered to attend, and we are currently working through the various innovations and research topics raised to pick the best of them for investment and support.

We are also very active in the support of Spring Innovation Ltd, the centre of excellence for innovation in the water sector. We hope to see the new Company flourish and enable us to more efficiently undertake trials of treatment processes etc, as well as share knowledge more effectively across the whole sector.

For further information on innovation with our Group, please visit pages 129 to 132 of the Group Annual Report and Accounts.

Greenhouse gas emissions
Our greenhouse gas (GHG) emissions are reported using the water industry Carbon Accounting Workbook (CAW) managed by UK Water Industry Research. This is updated annually to accommodate new emissions factors and techniques in emissions reporting and is relied upon by the water sector to report its emissions to regulators and government. In addition to using this reporting tool our data is audited annually to ISO 14064 carbon reporting standard. Our GHG emissions data can be found in the Group Annual Report and Accounts, page 120.

Corporate social responsibility
We see ourselves as more than just a water company providing drinking water and taking away wastewater – we are at the heart of the communities we serve and want to play a positive role to improve the world around us. We are committed to playing our part in ensuring we benefit not just the customers we have now – but also our future customers.

Education programme and our visitor attractions
In Community Education, we're now past the impact that the pandemic had on our recent performance. This year, we've seen significant improvement and have met our ambitious target to reach c.80,000 children and young people through our education programme in 2022-23. This is both through our outreach programme and at our education centre in Cilfynydd.

Our education programme delivers enriching, informative and practical sessions to help inspire future generations. It covers a range of important environmental and sustainability themes, while also encouraging a positive attitude towards STEM (Science, Technology, Engineering & Mathematics) subjects from an early age. Our free provision is highly regarded and in high demand from schools and practitioners.

Directors’ report (continued)

Education programme and our visitor attractions (continued)
The experiences, knowledge and skills captured within our outreach and education centre-based sessions also offer a strong industry link, helping our young people as they strive for future employment, lifelong learning and active citizenship. 80,212 pupils have taken part in one of our sessions, which has been delivered through 789 education sessions – and involved over 1,000 hours spent with pupils in classrooms. Despite the remnants of social restrictions on some large school hall gatherings during the beginning of the year, we delivered our education programme to significantly more pupils as the year went on. The content, created and presented by qualified teachers, uses a combination of outdoor, classroom-based, assembly hall and online sessions to ensure maximum impact.

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

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

In 2022 we saw c.739,000 visitors to our four visitor centres at Llyn Brenig in north Wales, Elan Valley in mid Wales, Llandegfedd in south-east Wales and Llys-y-Frân in the west. We also have two sites where recreational access has been improved at Lliw and Swiss Valley Reservoirs, also in the west.

Supporting vulnerable customer and social tariffs
We are currently experiencing the worst cost-of-living crisis in the UK since the 1970s. With inflation increasing to over 10% in the fourth quarter of 2022, businesses and households have faced increasing financial pressure.

It is therefore more important than ever that we support our customers, not least given that deprivation levels in Wales are among the highest in the UK. We provide a comprehensive package of support to help customers facing affordability challenges, and run proactive communications campaigns, such as ‘Here for You’, throughout the year to encourage those in difficulty to contact us to discuss their circumstances.

With over 1.4 million household customers in most of Wales and parts of England, we are:

- Making available £62 million across the 5 years to 2025 to provide financial assistance to our customers.
- Supporting 127,000 of our customers via discounted bills through social tariffs – a larger number, proportionate to the Group’s size, than any other water company in England and Wales.
- Proud to have earmarked over £12 million in FY 23 to support our vulnerable customers as we aim to support an additional 50,000 low-income households.
- Working with over 300 local organisations (including Citizen’s Advice, Welsh Government’s NEST scheme to support energy efficiency improvements, Job Centre Plus, housing associations and foodbanks) to help identify and support customers who may be eligible for a discounted bill.

From April 2023, customers on our HelpU tariff have had their annual bill capped at £291, a significant reduction on the average household bill of £499. To date, working households have usually been ineligible for financial assistance from us, but we introduced a new scheme in late 2022 which is enabling them to apply for support from our newly established Cymuned (Community) Support Fund. The scheme offers short-term support to working households who find themselves in a situation where their bills exceed their income. Qualifying households may receive a 3-month charge-free period, equating to a discount of around £100-£120 on the average bill. Those who apply need to undergo an income and expenditure assessment which is completed by trusted organisations, such as Citizens Advice. The scheme was initially introduced in across Rhondda Cynon Taf in south Wales and Denbighshire in north Wales, and we plan to extend its availability more widely.

We have also supported our employees through the cost-of-living crisis. Having already implemented the increase to the Real Living Wage for all affected employees, we worked with our recognised trade unions to make a one-off payment of either £1,000 or £2,000 to eligible colleagues in December 2022 and agreed a 6.2% pay award from 1 April 2023 for most of our employees.

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

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

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

Our achievements in Newport include:

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

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

In June 2022 the Group published its first Biodiversity Strategy – which is available at dwrcymru.com/en/blog/biodiversity-strategy-2022.

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

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

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

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

Our biodiversity mission links directly to our duty in Section 6 of the Environment (Wales) Act 2016. It requires us to produce and publish a corporate biodiversity action plan and report progress every 3 years. Our first Biodiversity plan was published in 2017 and refreshed in 2020. Our latest updated plan will be published in 2023. By delivering this mission we will support and meet our legislative requirements relating to biodiversity and ecology, and so help move our business to a sustainable footing. The strategy aims to deliver performance improvements in both the short term and the medium term through to 2030, and ensure our plans remain aligned with the longer-term objectives of Welsh Water 2050.

Social
Our Group vision is to Earn the Trust of our Customers Every Day. Building strong relationships with our customers and communities is key to maintaining that trust as we deliver essential services to 3.1 million people across our supply area. It is central to our strong staff engagement that they feel able to make a positive impact through their service delivery.

Equality, diversity and inclusivity
Every organisation is only as good as its people, and so we want to recruit and retain the best talent. Talent is indifferent to gender, race, or sexual orientation: it is what an individual is endowed with. We want to have the widest possible appeal to talent in all its forms and this comes by being recognised externally as having an inclusive culture, somewhere people are valued for who and what they are. We need all our people to recognise and value that culture so they talk about it to their friends and communities and spread the word that Welsh Water is a great place to work.

In the water sector, we have historically had a predominantly white male workforce. We have, therefore, continued our focus on improving our diversity across genders, LGBT+ and nonbinary, race, disability, social background and more, to better reflect the communities we serve. We are currently reviewing our targeted data-led approach underpinning our strategy to better inform us on where we need to move the dial on equality, diversity and inclusivity.

Our work to reinforce this culture continues to be driven by:

- An experienced Equality, Diversity and Inclusivity lead working with colleagues, teams and networks across the business.
- Our well-established Inclusivity Forum which includes ambassadors for all the protected characteristics and identifies areas in which the business can improve its efforts to be more inclusive.
- Monitoring progress, using quantitative and qualitative data to highlight where barriers exist, show the impact of our interventions, and make appropriate adjustments where needed.
- Using employee-led network groups to feed back to evaluate initiatives, to assess if policies are working for everyone, and to provide a platform for feedback and improvements.

Internal programmes
We want inclusivity to be at the heart of what we do at Welsh Water, and over the past 12 months, we have:

- Delivered inclusive language training to colleagues at all levels, including our Non-Executive Directors, demonstrating the importance of top-level down initiatives.
- Delivered a range of modules for colleagues around diversity to include conversations about race, being an ally, and unconscious bias.
- Had regular communication with the Executive Team on initiatives and areas for focus.
- Continued with reverse mentoring for Directors and senior managers with colleagues from different backgrounds sharing their lived experience.

External relationships
We have also worked with the following organisations over the last year:

- Energy and Utility Skills – our Inclusion Lead attends these for best practice sharing across the industry looking at ways we can improve.

Directors' report (continued)

Equality, diversity and inclusivity (continued)

- Business in the Community – as a signatory to the Race Charter, but also working with our dedicated inclusion advisor delivering webinars available to all colleagues. We're also part of the Age at Work Leadership group, working together with other organisations to understand the challenges and opportunities of an ageing work population and share good practice.
- Stonewall Cymru – continuing our membership as a diversity champion, taking part in the annual Stonewall Index and delivering modules for colleagues.
- WISE (Women in Science and Engineering) – partnering for best practice approaches that we can introduce and embed into our way of working.
- Chwarae Teg – delivering a series of modules supporting development of women in the organisation.
  Mahogany Inclusion Partners - delivering a number of modules supporting development for Black, Asian or ethnic minority colleagues.

Board composition

As part of the annual effectiveness review of the Board and Board Committees, the Board considers the balance of skills, knowledge, experience, independence and diversity representation as reviewed by the Committee. The Board is alert to opportunities to improve the current level of diversity with regard to skills, experience, backgrounds, race, gender and personal attributes of Board Members. The Committee reports on its progress in implementing the Board Diversity policy and monitoring the diversity of the Board and on the Group's gender diversity ratios in its annual report. It also reports on its oversight of plans to promote diversity within our workforce to ensure that the individuals working for us are representative of the communities that we serve, in accordance with the Group's policies supporting the development of equality, diversity and inclusivity across the business. At the end of the year, 50% of our Board (2022: 33%) and 33% of the Executive team (2022: 37.5%) are female, while in the wider workforce, of those senior managers reporting directly to a member of the Executive team, 38% (2022: 23.4%) are female.

Further information please visit the Group Annual Report and Accounts for our Board composition, succession and evaluation on pages 156 to 157, Group Annual Report and Accounts.

Our support for graduates and apprentices

Recruiting our future workforce

We're continuing to invest in recruiting new talent into Welsh Water by identifying those with the right skills, attributes, and behaviours to become our highly skilled workforce of the future. We continue to review the programmes we offer, and our apprentice offering is for craft roles as well as in support functions and degree apprenticeships.

We continue to partner with the University of south Wales to deliver our network75 programme which is a combined work placement and part-time study route to a degree allowing students to work, earn and learn. Over the past 12 months, we've recruited 41 graduates and apprentices and two colleagues have taken part in the network75 programme.

Auditor FY23

KPMG LLP act as Auditor to Glas Cymru Group (the Group) for the accounts for the year ended 31 March 2023. As part of the audit process we have confirmed that, as far as each Director is aware, there is no relevant audit information of which the Auditors are unaware, that they have taken any necessary steps to be made aware of any such information and to establish that the Group's Auditor is aware of that information. We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the Group's performance;
- the Strategic Report includes a fair review of the performance of the business, its risks and strategy for the future; and
- the Directors consider the Annual Report to be fair, balanced and understandable.

In considering the development of the system of controls, the management team reviews the materiality and the relative cost benefit associated with each identified significant risk. The internal control systems are designed to provide reasonable assurance against misstatements, loss or failure. The process to review the effectiveness of internal control includes discussion with management on significant risk issues and a review of plans for, and results from, internal and external audit.

The Audit Committee reports the results of its review to the Board, which then draws its collective conclusion on the effectiveness of the system of internal controls. In fulfilling this responsibility, the Board considers regular reports from the Audit Committee, the Quality and Safety Committee and from management, and relies on its routine monitoring of key performance indicators and monthly reports of financial and operational performance.

Taken as a whole, these processes enable the Board to review the effectiveness of the internal control system during the course of the year. KPMG LLP will not be subject to re-appointment as Auditor to the Group (see Auditor FY24).

Directors’ report (continued)

Auditor FY24
Following a re-tender of external audit services completed during FY23, a decision to appoint Deloitte LLP as Auditor to the Group was approved by the Glas Cymru Board, subject to Members’ approval at the AGM in July 2023. Deloitte LLP will act as Auditor of the Group for the accounts for the year ending 31 March 2024 and be subject to annual re-appointment by the Members at the AGM in respect of each subsequent financial year. Accordingly, in accordance with Section 489 of the Companies Act 2006, a resolution proposing the appointment of Deloitte LLP as Auditor of the Group will be put to the Members at the forthcoming AGM.

Human rights
We are committed to respecting human rights in relation to colleagues, and our supply chain (see page 111 of our Group Annual Report for information on our Supplier Code of Conduct). Our internal Code of Conduct is supported by several Group policies including, Anti-bullying and Harassment, Whistleblowing, Anti-bribery and Corruption, and Anti-Fraud.

Working collaboratively
One of the prevalent features in Wales is our ability to work in close partnerships, as is required in the case of public bodies by the Well-being of Future Generations (Wales) Act. The Act requires public bodies to demonstrate in their decision making the impact that they could have on people living in Wales in the future as well as in the present. This is to show that they are acting in accordance with the sustainable development principle, as defined in the Act. The Act directly supports 5 ways of working which are all compatible with our Vision and views on sustainability, albeit we are not a public body as defined under the Act. These are:

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

Whistleblowing
A healthy culture where individuals feel able to speak out about anything that causes them concern is an important part of our three lines of defence compliance model. Colleagues, suppliers, business partners and other stakeholders are encouraged to ‘Speak Up’ to raise concerns about conduct which is contrary to our values. Where appropriate, concerns will be investigated by the Business Assurance Team, reporting directly to the Audit Committee. The Committee receives reports on the outcome of investigations in private sessions with the Head of Business Assurance. We are fully committed to protecting any employee who reports a breach or suspected breach of the Code of Conduct or raises any other public interest disclosure. We publicise an external helpline, which provides an additional confidential and secure means to raise concerns.

Sustainable Procurement Policy
We have established our sustainable procurement aspirations through collaboration with key stakeholders, covering environmental, economic and social areas. Our aspirations have been mapped against DCWW’s ESG Strategy Objectives, the Well-being of Future Generations (Wales) Act and are included in our Sustainable Procurement Policy (SPP). We have assessed the impact on these sustainable procurement aspirations in the key categories we procure by undertaking risk and opportunity heatmapping of existing procurement contracts against the aspirations. We are in the process of detailing our implementation plan for deployment of the Sustainable Procurement Policy in the current financial year.

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

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

Directors’ report (continued)

Modern Slavery Awareness

We held an annual week-long campaign on modern slavery awareness. In October 2022, Procurement, in conjunction with the Hope for Justice Alliance, engaged with and trained 36 operational Contract Managers, 15 colleagues from the Procurement and Compliance teams, and 37 suppliers (which provide services with a higher risk of modern slavery occurring in their supply chain) on how to identify the signs that modern slavery may be occurring and to confirm our reporting procedures in the event that modern slavery is suspected to be taking place. We also highlighted the Supplier Code of Conduct and the requirement to comply with this during the training sessions. Our Anti-slavery statement can be found at dwrcymru.com/antislavery.

All members of the Procurement team have completed the Chartered Institute of Procurement and Supply’s (CIPS) Ethical Procurement and Supply e-Learning and Test certification and Welsh Water successfully attained the CIPS Corporate Ethics Mark accreditation. This signals to Welsh Water’s suppliers, customers, potential employees, and other stakeholders that they are dealing with an organisation that is committed to ensuring its staff are trained in ethical sourcing and supplier management, and that we have adopted ethical values in the way in which we source and manage suppliers.

Anti-bribery , corruption and anti-fraud

Our Group policy makes it clear that we will not tolerate any acts of fraud, dishonesty, bribery, corruption, theft or improper disclosure of confidential information. the Group treats these issues very seriously and expects any issues to be reported immediately. This is reinforced by our strict policy on hospitality and gifts from suppliers, which is regularly monitored and actively enforced. The Audit Committee carries out an annual review of our systems of internal control as part of our ongoing efforts to prevent bribery and corruption in our business and our supply chain.

No breaches of policy were notified to Internal Audit or the external whistleblowing hotline during the period 2022-23.

Conflicts of interest

We require our employees to perform their duties honestly and to avoid conflict between any personal, financial or commercial interests and their responsibilities to Welsh Water.

Data protection and information security

Welsh Water is committed to ensuring that we handle the personal information of our customers and employees in a responsible and honest way, including respecting their data protection rights in compliance with legislation. Our Privacy Statement is available on our website at Privacy-policy.

Political donations

It is Board policy not to make donations to political parties or to incur political expenditure. A payment of £28,136 was made in May 2022 to Step Change to support the work the charity does in providing debt advice to our customers. We are disclosing this payment as this organisation also campaigns for government policy change, including on debt issues. However, none of the funding provided would have been used directly to support campaign work. Other than this, no donations or payments were made which would require to be disclosed under section 366 of the Companies Act 2006.

Financial risk management

The Group’s operations expose it to a variety of financial risks that include the effect of changes in debt market prices, credit risk, liquidity risk and interest rate risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs.

Dividend

No dividend was declared or paid in the year (2021: none).

Task Force on Climate-related Financial Disclosures : Climate risk assessment

Our commitment to our customers and the environment involves us mitigating and adapting to the impacts of climate change. From April 2022, certain large businesses in the UK are required by law to include climate risks in their annual reporting. Welsh Water views corporate governance as a core discipline and as such has taken the decision to report in line with these requirements by following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We have worked with Jacobs to produce a climate risk disclosure, covering the four key disclosure areas of the TCFD: Governance, Strategy, Risk Management, and Metrics & Targets, and recognising that this is our first year of reporting we are taking steps towards future full compliance with the 11 TCFD recommended disclosures. The full report is available at TCFD Report.

Going concern

The financial statements for FY23 have been prepared on the going concern basis. For the Directors’ Going Concern statement and detail of why the Going Concern assumption is considered appropriate, see page 31 within accounting policies.

Directors’ report (continued)

Regulatory accounts
Condition F of the Instrument of Appointment under which Dŵr Cymru Cyfyngedig operates requires that Dŵr Cymru Cyfyngedig publish additional financial information as an ‘appointed business’. A copy of this information will be published on Dŵr Cymru Cyfyngedig’s website by 15 July 2023 and will also be available on request from the Company Secretary.

Group structure
These financial statements for Glas Cymru Anghyfyngedig cover the year to 31 March 2023. The Company’s immediate parent company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales.

Disclosure of information to auditor
The Directors who held office at the date of approval of this Directors’ report confirm that, so far as they are each aware, there is no relevant audit information of which the Group’s auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group’s auditor is aware of that information.

By order of the Board

N Foreman
Company Secretary

Registered office:
Linea
Fortran Road
St Mellons
Cardiff
CF3 0LT

16 June 2023

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent Company financial statements in accordance with UK-adopted international accounting standards and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Glas Cymru Anghyfyngedig

Opinion

We have audited the financial statements of Glas Cymru Anghyfyngedig ("the Company") for the year ended 31 March 2023 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement Of Changes In Equity, Consolidated Balance Sheet, Parent Company Balance Sheet, Parent Company Statement Of Changes In Equity, Consolidated Cash Flow, Parent Company Cash Flow Statement, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2023 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and the interest cover and regulated asset ratios relevant to debt covenants over this period was the impact of increasing costs and inflation.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and facilities (a reverse stress test).

We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

Independent auditor’s report to the members of Glas Cymru Anghyfyngedig (continued)

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board/ audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management/ directors including the AVPS and LTVPS target for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting. On this audit we do not believe there is a fraud risk related to revenue recognition because of the regulated nature of the revenues recognized and limited opportunity or incentive for management to manipulate these revenues.

We also identified a fraud risk related to the inappropriate accounting treatment of pension benefit increases in response to possible impacts on covenant compliance.

We performed procedures including:

- Challenging the accounting treatment of the pension benefit increases by considering the requirements of IAS 19;
- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included fixed asset, borrowings and cash entries made to unrelated accounts;
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group’s regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies’ legislation), distributable profits legislation, taxation legislation, pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group’s license to operate. We identified the following areas as those most likely to have such an effect: compliance with Ofwat regulatory legislation, Environment Agency, Drinking Water Inspectorate, National Rivers Authority, Natural Resources Wales, Wales Act, health and safety, GDPR and employment law recognising the financial and regulated nature of the Group’s activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Independent auditor's report to the members of Glas Cymru Anghyfyngedig (continued)

For the leakage and per capita consumption reporting matter discussed in note 17 we assessed accounting treatment and disclosures against our understanding from regulator correspondence and independent third-party reports.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and Directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 20, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor’s report to the members of Glas Cymru Anghyfyngedig (continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members, as a body, for our audit work, for this report, or for the opinions we have formed.

James Ledward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

16 June 2023

Consolidated income statement for the year ended 31 March 2023

Continuing activities	Note	**2023 £m**	2022 £m
Revenue	2	**841.3**	807.0
Operating costs:			
- Operational expenditure	3	**(374.1)**	(323.0)
- Impairment of trade and other receivables	3	**(24.8)**	(23.7)
- Other operating income	3	**5.3**	6.0
- Exceptional item	3	**(30.8)**	3.8
- Infrastructure renewals expenditure	3	**(78.0)**	(61.8)
- Depreciation and amortisation	3	**(345.6)**	(327.8)
		(848.0)	(726.5)
Operating (loss)/profit		**(6.7)**	80.5
Profit on disposal of property, plant and equipment		**0.4**	0.6
(Loss)/profit before interest		**(6.3)**	81.1
Financial expenses:			
Financial income	4a	**14.7**	4.1
Financial expenses	4a	**(318.5)**	(187.1)
Fair value gain/(losses) on derivative financial instruments	4b	**160.2**	(113.5)
		(143.6)	(296.5)
Loss before taxation		**(149.9)**	(215.4)
Taxation	5	**25.8**	(8.6)
Loss for the year		**(124.1)**	(224.0)

The Company has taken the exemption under section 408 of the Companies Act 2006 not to present the parent company's income statement. The result of the parent company for the year to 31 March 2023 was £nil (2022: nil).

Consolidated statement of comprehensive income for the year ended 31 March 2023

	Note	**2023**	2022
		£m	£m
Loss for the year		**(124.1)**	(224.0)
Items that will not be reclassified to profit or loss			
Actuarial gain recognised in the pension scheme	21	**124.5**	10.5
Related deferred tax	6	**(31.1)**	2.7
Revaluation of property, plant and equipment	7	**593.4**	448.4
Related deferred tax	6	**(148.4)**	(192.3)
		538.4	269.3
Total comprehensive gain for the year		**414.3**	45.3

Consolidated balance sheet as at 31 March 2023

	Note	**2023**	2022
		£m	£m
Assets			
Non-current assets			
Property, plant and equipment	8	**6,959.2**	6,264.1
Intangible assets	9	**202.2**	203.2
Other financial assets:		**-**	-
- derivative financial instruments	15	**318.5**	344.0
- employee benefits	21	**12.0**	-
		7,491.9	6,811.3
Current assets			
Inventories		**5.3**	4.3
Trade and other receivables	11	**650.6**	592.6
Cash and cash equivalents	12	**363.5**	502.0
Other financial assets:			
- derivative financial instruments	15	**27.1**	84.1
		1,046.5	1,183.0
Total assets		**8,538.4**	7,994.3
Liabilities			
Current liabilities			
Trade and other payables	13	**(685.1)**	(613.0)
Provisions	17	**(17.8)**	(2.8)
Other financial liabilities:			
- borrowings	14	**(94.7)**	(85.3)
- derivative financial instruments	15	**(26.3)**	(56.7)
		(823.9)	(757.8)
Net current assets		**222.6**	425.2
Non-current liabilities			
Trade and other payables	13	**(540.8)**	(447.2)
Employee benefits	21	**-**	(80.7)
Provisions	17	**(5.4)**	(5.7)
Other financial liabilities:			
- borrowings	14	**(4,090.9)**	(3,981.2)
- derivative financial instruments	15	**(753.9)**	(966.2)
Deferred tax - net	6	**(823.3)**	(669.6)
		(6,214.3)	(6,150.6)
Total liabilities		**(7,038.2)**	(6,908.4)
Net assets		**1,500.2**	1,085.9
Equity			
Revaluation reserve		**1,692.0**	1,339.7
Retained earnings		**(191.8)**	(253.8)
Reserves		**1,500.2**	1,085.9

The notes on pages 31 to 67 form part of the financial statements.

The financial statements on pages 25 to 67 were approved by the Board of Directors on 16 June 2023 and were signed on its behalf by:

P M Davis
Director

Registered № 3975719

Consolidated statement of changes in equity for the year ended 31 March 2023

	Share capital £m	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 April 2021	-	1,157.1	(116.5)	1,040.6
Loss for the year	-	-	(224.0)	(224.0)
Actuarial loss net of tax	-	-	13.2	13.2
Revaluation net of tax	-	256.1	-	256.1
Transfer to retained earnings	-	(73.5)	73.5	-
At 31 March 2022	**-**	**1,339.7**	**(253.8)**	**1,085.9**
Loss for the year	**-**	**-**	**(124.1)**	**(124.1)**
Actuarial gain net of tax	**-**	**-**	**93.4**	**93.4**
Revaluation net of tax	**-**	**445.0**	**-**	**445.0**
Transfer to retained earnings	**-**	**(92.7)**	**92.7**	**-**
At 31 March 2023	-	**1,692.0**	**(191.8)**	**1,500.2**

Parent company balance sheet as at 31 March 2023

	Note	2023 £m	2022 £m
Assets			
Non-current assets			
Investments	10	**-**	-
Loans to group undertakings	11	**3.3**	3.3
		3.3	3.3
Current assets			
Trade and other receivables		**0.2**	0.2
Liabilities			
Current liabilities			
Trade and other payables		**(3.5)**	(3.5)
		(3.5)	(3.5)
Net assets		**-**	-
Reserves			
Share capital	25	-	-
Retained earnings		-	-
Total reserves		-	-

Parent company statement of changes in equity for the year ended 31 March 2023

	Share capital £m	Retained earnings £m	Total £m
Balance at 1 April 2021	-	-	-
Profit for the year	-	-	-
Balance at 1 April 2022	-	-	-
Profit for the year	-	-	-
Balance at 31 March 2023	-	-	-

The financial statements on pages 25 to 67 were approved by the Board of Directors on 16 June 2023 and were signed on its behalf by:

P M Davis
Director

Registered № 3975719

Consolidated cash flow statement for the year ended 31 March 2023

	Note	2023	2022
		£m	£m
Cash flows from operating activities			
Cash generated from operations *	18a	**377.5**	428.0
Interest paid	18b	**(149.6)**	(116.6)
Income tax received		**0.6**	2.3
Net cash generated from operating activities		**228.5**	313.7
Cash flows from investing activities			
Interest received		**13.2**	4.0
Purchase of property, plant and equipment		**(296.6)**	(237.1)
Purchase of intangible assets		**(38.6)**	(37.3)
Proceeds from sale of plant and equipment		**0.4**	0.8
Grants and contributions received		**30.5**	23.1
Net cash outflow from investing activities		**(291.1)**	(246.5)
Net cash flow before financing activities		**(62.6)**	67.2
Cash flows from financing activities			
Bond issue		**-**	300.0
Bond Issue costs		**-**	(2.9)
Term loan repayments		**(58.4)**	(55.8)
Payment of lease liabilities		**(17.5)**	(15.6)
Net cash flow from financing activities		**(75.9)**	225.7
(Decrease)/increase in cash and cash equivalents	19b	**(138.5)**	292.9
Cash and cash equivalents at 1 April		**502.0**	209.1
Cash and cash equivalents at 31 March	12	**363.5**	502.0

There were no cash flow activities to report for the parent company during the year to 2023 (2022: none).

*** Exceptional items are excluded from cash flows generated from operations, per note 18.**

Notes to the financial statements

1. Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2023

Glas Cymru Anghyfyngedig ('the Company') is a private company incorporated, domiciled and registered in Wales in the UK. The registered number is 3975719 and the registered address is Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently to both years presented.

Basis of preparation

The consolidated financial statements of Glas Cymru Anghyfyngedig and the parent company financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards ("UK-adopted IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed assets, other financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss. The presentational currency of these accounts is GBP and all balances are shown rounded in £m.

The preparation of financial statements to conform with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on pages 38-40.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Intra-group transactions and profits are eliminated on consolidation. The parent company financial statements present information about the Company as a separate entity and not about its group.

Going concern

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

In assessing the appropriateness of the going concern basis of accounting the Directors have reviewed the resources available to the Group in the form of cash and committed bank facilities as well as consideration of the Group's capital adequacy.

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

Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain headroom within the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken our financial metrics, they remain within the investment grade credit rating and in compliance with our borrowing covenants.

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

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES
The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 April 2022:

Amendments
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018–2020

The adoption of these standards, amendments and interpretations has not had a material impact on the financial statements of the Group or parent company.

Future changes to accounting standards
At the date of approval of these financial statements, the following Standard and Amendments, which have not been applied in these financial statements, were in issue but not yet effective:

Amendments
- IAS 1 Disclosure of Accounting Policies.
- IAS 8 Definition of Accounting Estimates.
- IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction.
- IFRS 17 Insurance Contracts.

During the financial year, we reviewed our exposure to IFRS 17 and concluded that we do not anticipate any impact arising from the new standard. The Directors anticipate that the adoption of this Standard and these Amendments in future periods will have no material impact on the financial statements of the Group or parent company.

Revenue recognition

Revenue represents the income receivable in the ordinary course of business for services provided, excluding value added tax. Where services have been provided, but for which no invoice has been raised at the year-end, an estimate of the value is included in revenue. Revenue recognised reflects the value of services provided to customers in the year. Where customers have made payments in advance as at the year end, this is recognised as deferred income.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The Group recognises that contracts with customers are, in a majority of cases, governed by legislative requirements rather than discrete commercial arrangements. As a result, the application of judgement is important in determining the most appropriate treatment of certain income streams.

The key consideration in respect of the Group's activities is where revenues from bundled goods and services require separation, which may result in deferring or recognising revenue immediately. Our core water and sewerage supply services (including retail) constitute more than 99% of total income; however, there are some peripheral income streams which do require more in-depth consideration. All water companies have a legal obligation to allow third parties to establish an authorised connection to their networks and a number of activities may be necessary in order to achieve this, giving rise to the following transactions and accounting treatments under IFRS 15:

- Connection charges: these are amounts received from developers for connection to the network which the group recognise as income on delivery of that performance obligation.
- Infrastructure charges and requisitions: third party contributions towards the Group's obligation to ensure future service provision to the connection or mains over its life; the Group estimate that an average connection lasts for 80 years and defer the release of charges over that period.
- Asset adoptions: usually sewers adopted at no cost, whereby the receipt of the asset is out of scope of IFRS 15 and should therefore be recognised at fair value (with deferral of related non-cash income).
- Diversions: payment in return for moving a water or sewer main to accommodate other infrastructure changes. The performance obligation is to move the main, with no additional asset creation, therefore revenue is recognised immediately.

Other operating income principally relates to sales of gas. Revenue from sales of gas is recognised upon delivery. Exports of renewable electricity is included with power costs as it is treated as a natural hedge to our consumption. Our energy strategy is to enter into contracts which fix the price of consumption less exports of future power purchases in order to reduce the impact of power price variances. Exports of electricity is recognised upon delivery.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board.

Exceptional items
Exceptional items are those significant items which are disclosed separately by virtue of their size and/or nature to enable a true understanding of the Group's performance.

Investments
The parent company's investments comprise equity holdings in wholly-owned subsidiaries, as set out in note 10. These are stated at fair value with any resultant gain or loss being recognised directly in equity, in the revaluation reserve (note 7).
The fair value has been calculated using a discounted cash flow technique, alongside considering observable market transactions, with reference to the Group's weighted average cost of capital.

Business combinations
In accordance with IFRS 3, business combinations are accounted for using the acquisition method as at the acquisition date, being the date on which control is transferred.

Property, plant and equipment
The economic value of the Group's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during its five yearly price reviews. The Group considers that a fair value approach to valuing its assets better reflects the underlying value of the assets than historical cost accounting which understates the assets' current value in use.

As at 31 March 2023 the total value of tangible and intangible fixed assets has been revalued to the Group's 'shadow-RCV' (Regulatory Capital/Asset Value), being the 31 March 2023 RCV published by Ofwat in its PR19 Final Determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

The carrying value of assets is reviewed for impairment if circumstances dictate that the carrying value may not be recoverable; asset lives and residual values are reviewed annually.

Property, plant and equipment comprise:

a) Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and

b) Other assets (including properties, over ground operational structures and equipment, and fixtures and fittings).

Infrastructure assets

Infrastructure assets comprise principally impounding reservoirs and a network of underground water and wastewater systems. For accounting purposes, the water system is segmented into components representing categories of asset classes with similar characteristics and asset lives. The wastewater system is segmented into components representing geographical operating areas, reflecting the way the Group operates its wastewater activities.

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

The depreciation charge for infrastructure assets is determined for each component of the network and is based on each component's cost, estimated residual value and the expected remaining average useful life. The useful average economic lives of the infrastructure components range principally from 60 to 150 years.

<u>Other assets</u>

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

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

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

Borrowing costs
Borrowing costs are general and specific borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Intangible assets
Intangible assets, which comprise principally computer software, system developments and research and development, are included at cost less accumulated amortisation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when the relevant recognition criteria are met (as per IAS 38).

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

Leases
The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease liability.

The Group presents right-of-use assets that do not meet the definition of investment property in property, plant and equipment and lease liabilities in borrowings in the balance sheet.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payment arising from a change in an index or rate or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has also elected to apply a single discount rate to the portfolio of leases that are deemed to have reasonably similar characteristics as well as to exclude any initial direct costs in the measurement of the right-of-use asset. The discount rate of 4% is based on the Group's estimated incremental borrowing rate.

All other leases that do not involve right-of-use assets are charged to the income statement over the period of the lease.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group has used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular the Group:

- did not recognise right of use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right of use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right of use asset at the date of initial application: and
- used hindsight when determining the lease term.

Grants and customer contributions

Grants and customer contributions in respect of expenditure on Property, plant and equipment have been offset against these assets. Grants and customer contributions in respect of revenue expenditure are credited to the income statement over the same period as the related expenditure is incurred.

Capital expenditure programme incentive payments
The Group's agreements with its construction partners involved in delivering capital expenditure programmes incorporate incentive bonuses payable after completion of the programmes. The cost of property, plant and equipment additions includes an accrual for incentive bonuses earned to date, relating to projects substantially completed at the year-end, where the likelihood of making the incentive payment is considered probable. Amounts recoverable from contract partners relating to targets not being achieved are recognised only on completed projects.

Trade receivables
Trade receivables are recognised initially at fair value and measured subsequently at amortised cost less provision for impairment. They are first assessed individually for impairment, or collectively where the receivables are not significant individually. Where there is no objective evidence of impairment for an individual receivable, it is included in a group of receivables with similar credit risk characteristics and these are assessed collectively for impairment based on the expected credit loss. Movements in the provision for impairment are recorded in the income statement.

Cash and cash equivalents
Cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition and typically include cash in hand and deposits with banks or other financial institutions.

Pension benefits

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 2022.

The asset recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting year. 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 Group operates a defined contribution scheme, the DCWW Group Personal Pension Plan, which all employees are eligible to join. Obligations for contributions to the scheme are recognised as an expense in the income statement in the period in which they arise.

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

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

Derivative instruments utilised by the Group are interest rate swaps, inflation swaps and power hedges. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the Group. Derivatives are recognised initially and subsequently re-measured at fair value. During the year to 31 March 2023, only one of the Group's derivatives qualified for hedge accounting (2022: none), but the Company elected not to apply hedge accounting. These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

Financing income and expenses
Financing expenses include interest payable, indexation on index-linked borrowings, index-linked swaps and finance charges on lease liabilities recognised in profit or loss using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation
The Group continues to invest heavily in capital expenditure for the benefit of our customers. The tax relief for this capital expenditure and the interest we 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, respectively. Current tax is the expected tax payable on the taxable income for the year using rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Amounts receivable from tax authorities in relation to research and development tax relief under the RDEC scheme are recognised within operating profit in the period in which the research and development costs are treated as an expense. Where amounts are outstanding at the year end and have not been formally agreed, an appropriate estimate of the amount is included within other receivables.

Deferred taxation
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax has been recognised in relation to rolled-over gains except for where reinvestment has been made in certain operational assets which the Group plans to use until the end of their useful economic life. The Group anticipates that these assets will then be scrapped for negligible proceeds, or proceeds less than their tax base, and therefore no chargeable gain is expected to arise in the future.

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

Provisions
Provisions for restructuring costs, restatement of leakage and per capita consumption performance, uninsured losses and billing disputes are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been estimated reliably. The provision of £15 million for the restatement of leakage and per capita performance represents the Board's decision to apply a £10 refund to every customer's bill in financial year 2023/24. Restructuring provisions comprise employee severance and pension fund top-up costs. Where the Group receives claims that are either not covered by insurance or where there is an element of the claim for which insurance cover is not available, a provision is made for the expected future liabilities. Provisions are not recognised for future operating losses.

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

Financing risk management objectives and policies

Treasury activities are managed within a formal set of treasury policies and objectives, which is reviewed regularly and approved by the Board at least annually. The policies specifically prohibit any transactions of a speculative nature and the use of complex financial instruments. Certain detailed policies for managing interest rate, currency, inflation risk and liquidity risk are approved by the Board and may be changed only with the consent of Dŵr Cymru Cyfyngedig's Security Trustee. The risk is mitigated further by limiting the level of exposure to any one counterparty.

The Group uses financial instruments to raise finance and manage operational risk; these instruments principally include listed bonds, leases, bank loan facilities and derivatives.

Credit risk

The Group's Board approved treasury policy adopts a prudent approach to cash management and timed deposits are placed for a maximum of three months with banks subject to minimum long-term rating criteria of A-/A3/A-. Bonds can be purchased from certain AA-rated counterparties with maturities of up to one year and commercial paper purchases of up to one year can be placed with certain AAA-rated supranationals only. During the year ended 31 March 2023 the maximum cash investment with a single counterparty was £100 million (2022: £100 million).

Interest rate risk

The Group is covenanted to hedge at least 85% of its total outstanding financial liabilities into either index-linked or fixed rate obligations. As at 31 March 2023, the Group had hedges covering 100% of its total outstanding financial liabilities into either index-linked or fixed rate obligations, including free cash balances (2022: 100%). For this purpose, floating rate interest liabilities are hedged through a combination of derivative instruments and cash balances. The regulatory framework under which revenues and the regulatory asset value are indexed also exposes the Group to inflation risk. Therefore, subject to market constraints and Board approval, the Group may seek to raise new debt through index-linked instruments or enter into appropriate hedging transactions.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £4,135 million as at 31 March 2023 (2022: £4,019 million), none related to floating rate debt (2022: none). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2023, 97.0% (2022: 94.6%) of the Group's gross debt was at fixed or index-linked (RPI) rates of interest after taking into account interest rate and RPI swaps. The hedges established to manage interest rate risks are economic in nature, but do not satisfy the specific requirements in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £435 million in the balance sheet at 31 March 2023 (2022: £595 million) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil.

Power price hedges

The Group enters into contracts which fix the price of a proportion of future power purchases in order to reduce the impact of power price variances. These contracts qualify as financial instruments and are included within the financial statements.

Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The Group's policy is to ensure that the maturity profile does not impose an excessive strain on its ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £4,135 million (2022: £4,019 million) can fall due in any 24-month period.

Liquidity risk

The Group maintains committed banking facilities in order to provide flexibility in the management of its liquidity.
Under the Common Terms Agreement which governs obligations to bondholders and other financial creditors, the Group is required to have cash available to fund operations for 12 months.

As at 31 March 2023, the Group had committed undrawn borrowing facilities of £200 million (2022: £200 million) and cash and cash equivalents (excluding debt service payments account) of £362 million (2022: £460 million). There is also a £10 million overdraft facility renewable on an annual basis.

As at 31 March 2023 there was also a special liquidity facility of £135 million (2022: £135 million); this is required in order to meet certain interest and other obligations that may not be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the Group's debt financing covenants. The facility has been provided by an insurance provider and is renewable on a rolling five-year evergreen basis.

Capital risk

The Group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the Group operates, the Group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the Group's borrowing covenants) as a proportion of its Regulatory Capital Value as determined by Ofwat and linked to movements in the Retail Prices Index . As at 31 March 2023 the measure of regulatory gearing was 58% (2022: 58%).

In respect of the risks detailed above, further quantitative disclosures are provided in note 16.

Notes to the financial statements (continued)

Critical accounting estimates and judgements

The preparation of financial statements conforming to IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Provision for impairment of trade receivables

Accounting judgement- Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. Management use standardised collection rates to determine the level of bad debts. These are as follows:

Measured debt based on historical data:

- 100% of debt not recovered for a period of over two years old;
- 99% of debt between 1-2 years; and
- 5% of debt less than a year old.

Unmeasured debt based on historical data:

- 100% of debt not recovered for a period of over two years old;
- 99% of debt between 1-2 years; and
- 8% of debt less than a year old.

Accounting estimate - The probability of failing to recover a debt is based on expected credit loss, determined by past experience, as shown in the bullet points above, and expected future movements in collection rates, adjusted for changes in external factors (including the estimated impact of the Covid-19 pandemic and the current affordability crisis impacting UK households). The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. The key sensitivity assumptions used in the provisioning process are as follows:

- A £2 million increase in the provision, equivalent to 1% deterioration in cash collection rates, providing for the current economic situation; and
- 90% of charging orders will be recovered in future periods based on historic trend.

To the extent that the failure to recover debts in arrears alters by 5%, the provision for impairment would increase or decrease by £3.7 million (2022: £5.5 million).

Parent company's expected credit losses
The Company approached its impairment assessment of intercompany loans via historical and forward-looking analyses, using both qualitative and quantitative information. A core focus of the forward-looking analysis was cash flow forecasts for the next two years, to 31 March 2025. This is aligned with the end of Dŵr Cymru Cyfyngedig (DCC, the group's operating company)'s current period of regulated revenues during which there is certainty of billed turnover values. In addition, consideration was made to the long-term viability assessment with a review period over seven years.

The above assessment led management to conclude that the Company's intercompany loan is of low credit risk, and this is supported by the Group's high-quality credit (ratings of A3, A- and A from Moody's, S&P and Fitch respectively). As such, the loan falls within 'stage 1' of IFRS 9's impairment model and 12-month expected credit losses can be calculated. These were determined to be immaterial and therefore no adjustment to carrying values nor additional disclosures were considered necessary.

Pension benefits
The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, price inflation and mortality rates, which are used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high-quality corporate bonds, denominated in sterling, that have time to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2023 would increase or reduce by £5.7 million (2022: £8.8 million). The key assumptions include: discount rates, price inflation and life expectancy. It should be noted that actual rates may differ from the assumptions used due to changing market and economic conditions and longer or shorter lives of participants and, as such, this represents a key source of estimation uncertainty. Sensitivities in respect of the assumptions used during the year are disclosed in note 21.

Pension benefits (continued)

If the scheme's assets underperform relative to the discount rate used to calculate the liabilities, this will increase the value of the projected deficit. With the exception of cash, assets consist of pooled investment funds, alternative strategy funds and property funds which are not quoted on an active market. Of total assets amounting to £412 million (2022: £427.5 million), assets with a fair value of £114.8 million (2022: £99.9 million) are Level 3 financial assets; these are considered to be the least liquid and hardest to value and are therefore subject to a higher degree of estimation. The fair value of these assets has been estimated based on the latest available observable prices, updated with reference to movements in comparable observable indices to the reporting date, and adjusted for judgements to reflect differences in the liquidity and credit components of the asset pricing. A 5% movement in the fair value of these Level 3 financial assets would increase or decrease the overall carrying value of the pension liability by £5.7m (2022: £5 million) (See also note 21).

Accounting judgement impact on pension benefits

The mortality assumption used to calculate the present value of the pension obligations is broken down into two distinct parts. Firstly, current mortality rates (base table), and secondly, how these rates should allow for future improvements. For the present value calculation, the S3PxA base tables have been used, adjusted for weightings of 101% for males and 104% for females allowing approximately for the error in the S3PxA tables notified by the Continuous Mortality Investigation (CMI) in June 2022, with improvements in line with the CMI 2021 projection model, with a long-term trend rate of 1.0% p.a. We have applied the parameters of A = 0.5, S kappa = 7.0 and W = 10% to the CMI 2021 assumptions. This represents the only change from the judgements adopted last year and has been updated to reflect the mortality experience noted by the CMI in the current year. The CMI model is used by UK pension schemes and insurance companies which need to make assumptions about future mortality rates.

Accounting for leakage and per capita consumption restatement

The Group is proposing a customer redress package totalling £29 million to address the restatement of the Group's leakage and per capita consumption performance. On 25 May 2023, Ofwat launched an investigation into "Welsh Water leakage performance". Pending Ofwat's investigation and formal acceptance of our proposed customer redress package, the ultimate financial impact remains uncertain. The customer redress package proposed, being made up of an immediate rebate to customers and the foregoing of Regulatory Capital Value (RCV) uplift, which will reduce bills in future periods, represents Ofwat's likely outcome of their investigation, referencing prior enforcement orders issued by Ofwat.

Accounting estimate: The total customer redress package proposed reflects 3.7% of the Group's 2022 regulated revenue, being the Group's best estimate as at 31 March 2023 of Ofwat's likely imposed redress. Were this percentage to increase by 0.1% in absolute terms, the financial impact would increase by £0.8 million.

Accounting judgement: The Group has applied judgement to the proposed structure of the package, splitting the redress between immediate customer rebate and foregoing future RCV. The Group's proposed customer redress package consists of £15 million, representing the Board's decision to apply a £10 refund to every customer's bill in financial year 2023/24, and £14 million for the RCV uplift the Group will forego at PR24. A provision has been recognised for the £15m element as an obligation arose during the year and will be credited to all account holders as at 31 March 2023 in the next 6 months.

A provision is not recognised at 31 March 2023 for the £14m redress element as it represents lower expected prices to be charged to customers to be agreed at a future date through the regulatory mechanism. Under the regulatory mechanism for PR24, the Group is entitled to recover regulatory overspend for 2020-21 and 2021-22 that is attributable to leakage expenditure, but the Group will not take this into account in our RCV uplift on 1 April 2025.

Fair value estimation

In accordance with IFRS 13 Fair Value Measurement, trading and treasury derivatives of the Group are categorised into different levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).
Level 3: inputs for the asset or liability not based on observable market data.

All of the Group's treasury derivatives are categorised as Level 2. In accordance with IFRS 13 an adjustment factor has been applied to the swaps based on industry standard practice to take into account credit risk by estimating future cash flows based on applicable interest rate curves. Projected cash flows are then discounted back using discount factors which are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate.

Trading derivatives, relating to power price hedges, are categorised as Level 2 where marked-to-market valuations are received for these trades. Where marked-to-market valuations are not received the fair values are estimated rather than observable, and are therefore categorised as Level 3.

Fair value estimation (continued)
At 31 March 2023 the fair values of derivatives were as follows:

Level 2:
Assets: trading derivatives £10.0 million, treasury derivatives £335.6 million (2022: trading derivatives £17.1 million, treasury derivatives £389.0 million).

Liabilities: trading derivatives £nil, treasury derivatives £780.2 million (2022: trading derivatives £nil, treasury derivatives £1,022.9 million).

Level 3:
Assets: trading derivatives £nil, (2022: trading derivatives £22.0 million).

Liabilities: trading derivatives £nil, (2022: trading derivatives £nil).

Trading derivatives relate to power hedges. Treasury derivatives relate to interest rate swap contracts. All derivatives are recorded on the balance sheet at fair value.

Level 2 debt investments are valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

Level 3 debt instruments are valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties. Level 3 debt instruments are valued by comparing valuations from Level 2 trades for the same periods, with the valuations from observable trades being inflated or deflated to allow for any fixed price variations.

Capitalisation
There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, including employee and other internal expenditure on both infrastructure and non-infrastructure assets meet the relevant criteria for capitalisation (directly attributable to the asset, provide probable economic benefit and can be measured reliably) and therefore are included in the valuation of Property, plant and equipment, or alternatively should be expensed immediately. We capitalise expenditure relating to employee costs on both a direct and an indirect basis, through the use of timesheets and estimation of overhead costs that is attributable to a capital project, which is reviewed at a minimum annually. Were our capitalisation percentage to increase or decrease by 5% this would result in a financial impact of £9.3m, based on total employment costs. This is monitored continually through a process of capital programme cost challenge and operating cost scrutiny, complemented by a third-party analysis of the capital programme breakdown between maintenance costs charged to the income statement and property, plant and equipment additions to the balance sheet.

Useful economic life impact on depreciation
The estimated useful economic lives of Property, plant and equipment (PPE) and intangible assets is based on management's experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE and intangibles investment to the Group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively. As such, this is a key source of estimation uncertainty. The depreciation and amortisation expense for the year was £346.8 million. A 10 per cent increase in average asset lives would have resulted in a £31.5 million reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £34.6 million increase in this figure.

Climate change
The natural environment within which the Group operates is constantly changing, and this influences how its water and wastewater services are to be delivered in the future. The Group has embedded ambitious climate-related targets within its strategic goals, affecting the portfolio of assets required in its operations to deliver such services. We have conducted a high-level review, in line with our TCFD disclosures, for potential impacts of climate change and environmental legislation or the Group's decarbonisation measures predominantly in respect of the valuation of the property, plant and equipment held by the Group and provisions or contingent liabilities. No amendments were considered necessary in the financial statements this year with further analysis to be conducted throughout the new financial year. We will review the impact of climate change on the financial statements annually upon further information becoming available.

The Group will continuously look to further enhance the accuracy of its useful life assessment through the introduction of more forward-looking information in asset life reviews. The Group will continue to mitigate the exposure that the carrying value of its book asset base has to climate-related risks through strategic planning activities that incorporate defined climate scenarios, climate change mitigation pledges, and long-term climate projections. The Group installs permanent flood defences and other resilience measures at the most vulnerable facilities to protect its assets.

Further information on our climate-change strategy is available on page 75 of the Group Annual Report.

2. Segmental information

The Directors consider that there is only one operating segment, being the operation of water and sewerage business (and peripheral commercial activities) in the UK. As the Group has only domestic activities there is also only one geographical segment; therefore, the disclosures for this segment have also already been given in these financial statements.

While the Group operates in a single segment, its activities can be disaggregated into the following principal income streams:

Group	2023	2022
	£m	£m
Regulated revenue		
Water	**330.6**	321.6
Sewerage	**457.3**	424.2
Retail	**46.9**	55.0
Total regulated revenue	**834.8**	800.8
Other (non-regulated)	**6.5**	6.2
Total revenue	**841.3**	807.0

Regulated revenue relates to the provision of water, sewerage and related retail services operating under Dŵr Cymru Cyfyngedig's licence as part of the water industry and England and Wales, regulated by The Office of Water Trading (Ofwat).

Other (non-regulated) revenue relates to income streams which are not subject to Ofwat's price control; these principally comprise organic energy generation and certain other activities which are peripheral and/or complementary to the Group's core water and sewerage business.

On 25 May 2023, Ofwat launched an investigation into "Welsh Water's reporting of leakage and PCC and on 31 May 2023 served a S203 Notice under the Water Industry Act 1991 requiring further information from the Company.

To compensate customers, the Group is proposing customer redress totalling £29 million, of which £15 million has been provided for during the year, with further information available in note 17. The provision has been accounted for in the table above within our regulated Water revenue for the year.

3. Operating costs

The following items have been included in arriving at the operating cost:

Group	2023	2022
	£m	£m
Operating expenditure		
Power	**74.3**	62.7
Chemicals	**21.9**	10.5
Materials and equipment	**9.6**	8.7
Vehicles and plant	**6.6**	7.6
Office expenses	**5.9**	5.7
Property costs	**3.5**	3.5
Insurance	**6.6**	6.8
Water and Sewerage contractors	**27.1**	22.4
Laboratories and analytical services	**1.4**	1.3
Collection commissions	**1.9**	3.1
IT contracts	**14.9**	12.9
Bought-in services and other costs	**51.0**	37.7
	224.7	182.9
Employee costs (note 20)	**185.0**	165.0
Staff costs capitalised	**(79.1)**	(67.5)
	105.9	97.5
Research and development credit	**(0.5)**	(0.6)
Rates	**27.0**	26.2
Natural Resources Wales/Environment Agency charges	**16.3**	16.5
Fees payable to auditors	**0.7**	0.5
Total operational expenditure	**374.1**	323.0
Impairment of trade and other receivables	**24.8**	23.7
Other operating income	**(5.3)**	(6.0)
Exceptional items	**30.8**	(3.8)
Infrastructure renewals expenditure	**78.0**	61.8
Depreciation and amortisation		
- Depreciation of property, plant and equipment	**318.4**	300.3
- Release of deferred income	**(12.4)**	(10.2)
- Amortisation of intangible assets	**39.6**	37.7
Total depreciation and amortisation	**345.6**	327.8
Total operating costs	**848.0**	726.5

The Group incurred insignificant expenses relating to short-term leases, leases of low-value assets or variable lease payments in 2023 and 2022.

Other operating income principally comprises income from the export of internally generated gas. Exports of renewable electricity is included within power costs as it is treated as a natural hedge to our consumption. Our energy strategy is to enter into contracts which fix the price of consumption less exports of future power purchases in order to reduce the impact of power price variances. During the year, consumption charges amounted to £82.6 million (2022: £76.7 million) and we exported £15m (2022: £14.0 million).

3. Operating profit (continued)

Services provided by the Group's auditors

During the year the group obtained the following services from its auditors; £630,000 of which were paid by the Group's wholly-owned subsidiary, Dŵr Cymru Cyfyngedig whilst the remainder were paid by the subsidiaries in the Welsh Water Holdings Limited group.:

	Group	
	2023	2022
Audit fees	**£000**	£000
Audit of subsidiary companies	**467**	305
Total audit fees	**467**	305
Audit-related assurance services		
Review of interim financial statements	**60**	33
Regulatory audit services pursuant to legislation	**111**	84
Investor report reviews	**8**	4
Price review assurance	**3**	-
Bond issuance reviews	**-**	25
Environment Agency levy assurance work	**-**	6
Total audit and audit-related assurance services	**649**	457
Total cost of services provided by the Group's auditors	**649**	457

Regulatory audit services include audit work in respect of regulatory requirements: the Annual Performance Report.

The Board has adopted a formal policy with respect to services received from external auditors. The external auditors will not be used for internal audit services and all non-audit work will be subject to prior competitive tendering or approval by the Audit Committee.

Exceptional item

In the year to 31 March 2023, we have recognised an exceptional item totalling £30.8 million. This item represents award of pension increases above a 5% cap. Under a 'best endeavours' clause in our pension scheme rules full RPI increases could only be awarded if certain criteria were met. In the current year scheme awards above a 5% cap have been paid by the pension scheme and, as the scheme is now in surplus, these conditions are expected to be paid in the future. Therefore, the expense in the year represents the additional awards given. In the future it is expected that changes to this assumption will be presented in Other Comprehensive Income as required under IAS19. This is disclosed as exceptional in FY23 as the accounting treatment of these increases through the profit and loss account will only occur this year, it is of a significant value, and it does not closely reflect day-to-day operational expenditure. For the avoidance of doubt management will make consideration of the 'best endeavours' clause in all future periods and as such any movement in estimate will be presented as Other Comprehensive Income as required under IAS19.

In the year to 31 March 2022 we recognised an exceptional item totalling £(3.8) million. This item represented a release of the bad debt provision as a result of anticipated bad debt charges associated with the Covid-19 pandemic not materialising during the prior year; this was disclosed as exceptional due to its nature.

4. Financing costs

a) Finance cost before fair value losses on derivative financial instruments

	Group	
	2023	2022
	£m	£m
Finance income	**14.7**	4.1
Financial expenses:		
Interest payable on bonds	**(54.8)**	(51.1)
Indexation on index-linked bonds	**(161.4)**	(67.0)
Indexation on index-linked loan	**(30.3)**	(17.9)
Interest payable on leases (including swaps to RPI)	**(66.3)**	(37.9)
Other loan interest	**(24.9)**	(22.2)
Other interest payable and finance costs	**(7.0)**	(5.8)
Net interest charge on pension scheme liabilities	**(2.1)**	(1.6)
Capitalisation of borrowing costs under IAS 23 (2023: 7.90%; 2022: 5.1%)	**28.3**	16.4
Financial expenses	**(318.5)**	(187.1)
Net finance cost before fair value adjustments	**(303.8)**	(183.0)

b) Fair value gains/(losses) on derivative financial instruments

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges. Consequently, the Group's interest rate and index-linked swaps are fair valued at each balance sheet date with the net loss or gain disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 15 in respect of derivative financial instruments recognised in the balance sheet.)

	Group	
	2023	2022
	£m	£m
Fair value gains/(losses) on interest rate swaps	**32.1**	(158.4)
Fair value gains on index-linked swaps	**157.2**	13.5
Fair value (losses)/gains on trading derivatives	**(29.1)**	31.4
Total fair value gains/(losses) on derivative financial instruments	**160.2**	(113.5)

Interest rate swap movements are caused by fluctuations in long-term interest rates, while the index-linked swap movements result from fluctuations in the value of index-linked gilts.

5. Taxation

Analysis of credit in the year:

	Group	
	2023	2022
	£m	£m
Current tax		
- Current tax on loss of the year	**-**	-
- Current tax on research and development credit	**(0.1)**	(0.1)
- Adjustment in respect of prior years	**0.1**	0.2
Total current tax	-	0.1
Deferred tax		
- Origination and reversal of timing differences	**46.1**	39.6
- Adjustment in respect of prior years	**(20.3)**	(0.2)
- Effect of tax rate change	**-**	(48.1)
Total deferred tax (note 6)	**25.8**	(8.7)
Taxation credit/(charge)	**25.8**	(8.6)

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 £0.6 million (2022: £0.6 million). The tax credit is taxable and the corresponding charge of £0.1 million (2022: £0.1 million) is shown above. The Research & Development Expenditure Credit claimed is a government incentive that provides tax credits for qualifying R&D expenditure. Claims are made based on an assessment of qualifying expenditure in accordance with the criteria specified under the incentive.

Current taxes in respect of prior years of £0.1 million (2022: £0.1 million) relate to tax credits for R&D, energy efficient capital expenditure and the remediation of contaminated land.

Deferred taxes in respect of prior years includes a £21.0 million charge (2022: £nil) arising from movements in deferred taxes resulting from changes to the valuation of interest rate and inflation linked swaps during the year. At 31 March 2022, the underlying temporary difference was expected to reverse after March 2023 when the corporation tax rate would be 25%, and accordingly deferred taxes were calculated using this rate. Following significant changes to the interest rates and inflation during the period, there has been a reversal in the current period in which the corporation tax rate is 19%. The additional tax charge of £21.0 million has therefore been shown as a prior year item as it relates to a change in estimate made in a previous period.

Prior year deferred taxes also include a credit of £0.6 million (2022: £0.2 million charge) relating to adjustments to deferred tax balances in respect of capital expenditure.

The Group estimates that expenditure of £49 million will qualify for a 130% 'super deduction' (2022: £26 million) which reduces deferred tax liability. Consequently, a tax credit of £2.8 million (£49 million x 30% x 19%) has arisen in the period (2022: £1.5 million).The effective rate of tax for the year is lower (2022: lower) than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

	Group	
	2023	2022
	£m	£m
Loss before tax	**(149.9)**	(215.4)
Loss before tax multiplied by the corporation tax rate in the UK of 19% (2022: 19%)	**28.5**	40.9
Effect of:		
- Adjustments in respect of prior years	**(20.2)**	-
- Depreciation charged on non-qualifying assets	**(1.7)**	(2.8)
- Expenses non-deductible for tax purposes	**(0.1)**	(0.1)
- 130% super deduction for plant and machinery	**2.8**	1.5
- Effect of changing rate for deferred taxes from 19% to 25%	**-**	(48.1)
- Difference in standard rate of corporation tax (19%) and rate used for deferred tax (25%)	**16.5**	-
Taxation	**25.8**	(8.6)

5. Taxation (continued)

Current tax reconciliation
The table below reconciles the notional tax charge at the UK corporation tax rate to the total current tax charge for the year.

	Group	
	2023	2022
	£m	£m
Loss before tax	**(149.9)**	**(215.4)**
Expected tax charge (19%)	**28.5**	**40.9**
Depreciation in excess of capital allowances	**(34.6)**	**(38.4)**
Pension costs in excess of payments	**(6.2)**	**(0.3)**
Expenses not deductible for tax purposes	**(0.2)**	**(0.2)**
Corporate interest restriction	**-**	**(0.5)**
Fair value movements in derivatives - non taxable	**66.0**	**(3.7)**
IFRIC 18 - release of income not taxable	**2.3**	**1.9**
Movement in provisions deductible when paid	**0.3**	**1.2**
Capitalised interest - tax deductible when capitalised	**5.4**	**3.1**
R&D Expenditure Credits taxed in prior years	**0.1**	**0.1**
Adjustments in respect of prior years	**0.1**	**0.2**
Tax losses carried forward	**(61.7)**	**(4.4)**
Group relief	**-**	**0.2**
Total tax	**-**	**0.1**

The Group invests heavily in capital expenditure and is therefore able to claim tax relief in the form of capital allowances, a Government tax relief which aims to stimulate this type of investment. As the Group has no shareholders the surpluses it generates help keep water bills down and are also reinvested to improve the quality of services to customers, rather than being paid to shareholders as dividends. This reinvestment is often in the form of capital expenditure which attracts further capital allowances. As a result of the Group's profit forecasts and the capital allowances it is able to claim, the Group does not expect to pay corporation tax during AMP7 (2020 – 2025).

The most significant factor impacting the Group's current tax charge is the difference between depreciation charged on property, plant and equipment in the financial statements and the tax relief claimed for this expenditure (capital allowances). Deferred taxes are recognised on the temporary difference between the carrying amount of the fixed assets in the accounts and the amount that will be deductible for tax purposes in future years. Depreciation exceeds the claim for capital allowances as the Group is able to determine the amount of capital allowances it claims during each period in accordance with the tax legislation. Capital allowances have not been fully claimed this year, or in the prior period.

Treasury derivative financial instruments are carried at their fair value. Fair value gains and losses arising between balance sheet dates are recognised in the income statement but are not subject to corporation tax. Deferred taxes are recognised on the temporary difference which is equal to the net fair value of the derivatives in the financial statements less the amounts which have been deducted for tax purposes.

Tax relief is claimed for interest costs which include the effect of the current year cash flows relating to treasury derivative financial instruments. Tax relief is also claimed for interest which is capitalised as part of fixed assets (see note 4). The group is entirely UK resident for tax purposes and is funded wholly by external debt which is fully deductible in accordance with UK tax legislation. During the year the group elected to be treated as 'qualifying infrastructure companies' under the Public Benefit Infrastructure Exemption provided for within the corporate interest restriction legislation. As a result there is no interest restriction for the current period (2022: £0.5 million).

New debt is raised through bond issues and the Group's bonds are listed on the Luxembourg stock exchange. As 'quoted Eurobonds', there is no requirement to deduct UK withholding tax from interest payments. As such, there are no tax advantages to listing bonds in Luxembourg compared to London, as bonds listed on either exchange benefit from a withholding tax exemption in relation to interest. Whilst bonds are issued as bearer bonds, they are transferred electronically via Euroclear and Clearstream and have not been issued in 'definitive form' (paper form).

6. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2022: 25%).

The movement in the deferred tax provision is as shown below:

	Group	
	2023	2022
	£m	£m
At 1 April	**669.6**	471.3
(Credit)/charge to income statement	**(25.8)**	8.7
Charge/(credit) to statement of comprehensive income	**31.1**	(2.7)
Charge to revaluation reserve	**148.4**	192.3
At 31 March	**823.3**	669.6

Analysis of amounts charged to the Statement of comprehensive income and revaluation reserve:

	Group	
	2023	2022
	£m	£m
Defined benefit pension scheme	**31.1**	2.0
Increase in corporation tax – pension scheme	**-**	(4.7)
Charged/(credited) to the Statement of comprehensive income	**31.1**	(2.7)
Revaluation of fixed assets	**148.4**	85.2
Increase in corporation tax rate – revaluation of fixed assets	**-**	107.1
Charged to the Revaluation Reserve	**148.4**	192.3

	Group	
	2023	2022
	£m	£m
Effect of:		
- Tax allowances in excess of depreciation	**365.0**	356.3
- Deferred tax on revaluation of fixed assets	**565.9**	446.1
- Capital gains rolled over	**4.0**	4.0
- Deferred tax on tax losses carried forward	**(91.0)**	(6.2)
- Deferred tax on losses on derivative financial instruments	**(22.5)**	(109.3)
- Pensions	**3.7**	(19.3)
- Other tax differences	**(1.8)**	(2.0)
Net deferred tax	**823.3**	669.6

Deferred taxes have been recognised on the temporary difference between the carrying amount of the fixed assets in the accounts and the amounts that will be deductible for tax purposes (capital allowances) in future years. As capital allowances have exceeded the depreciation charged on the fixed assets to date, there is a deferred tax liability of £365.0 million at the balance sheet date (2022: £356.3 million).

A deferred tax liability of £565.9 million (2022: £446.1 million) has also been recognised in relation to revaluation surpluses arising from revaluing fixed assets to reflect Ofwat's 'shadow regulatory capital value'. The associated deferred tax charge is charged to the revaluation reserve.

The Group has recognised a deferred tax asset of £22.5 million (2022: £109.3 million) in respect of derivative financial instruments which are carried at their fair value in the accounts. The fair value movements relating to derivatives are not subject to corporation tax in the period in which they arise but are taxable/deducible in later periods when the actual cash flows occur. The maturities of the derivatives are set-out in note 15, and in some cases extend to 2057.

A deferred tax asset of £3.7 million (2022: £19.3 million) has been recognised in relation to the surplus (2022: deficit) on the pension scheme – see note 21.

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. These deferred tax assets will be recovered against the deferred tax liabilities in relation to fixed assets which will reverse in the same periods. The Group has the ability to determine the amount of capital allowances it claims, enabling taxable profits to be available in the periods in which deferred tax assets are recovered.

6. Deferred tax (continued)

The group has tax losses of £364.0 million carried forward at 31 March 2023 (2022: £34.5 million).

Deferred tax has not been provided on £133.0 million of chargeable gains which have been rolled over where the new asset has been classified as operational structure e.g. concrete tanks. These assets are typically demolished or scrapped at the end of their useful economic life and therefore we do not expect a chargeable gain will arise in the future. If deferred tax were recognised in respect of these gains, then the deferred tax liability at 31 March 2023 would increase by £33.3 million (2022: £33.3 million) being the rolled over gain multiplied by the rate used to calculate deferred taxes of 25% (2022: 25%).

The Group has a deferred tax asset of £0.3m at 31 March 2023 (2022: £0.3m asset).

7. Revaluation reserve

The economic value of the Group's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during its five yearly price reviews. The Group considers that a fair value approach to valuing its assets better reflects the underlying value of the assets than historical cost accounting which understates the assets' current value in use.

As at 31 March 2023 the total value of tangible and intangible fixed assets for Dŵr Cymru Cyfyngedig has been revalued to the Group's 'shadow-RCV', being the 31 March 2023 RCV published by Ofwat in its PR19 Final determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

The carrying value of assets is reviewed for impairment if circumstances dictate that the carrying value may not be recoverable, asset lines and residual values are reviewed annually.

	Group	
Revaluation reserve movement	**2023**	2022
	£m	£m
Revaluation reserve as at 1 April	**1,339.7**	1,157.1
Revaluation of assets to RCV	**593.4**	448.4
Depreciation charge on revalued assets	**(114.5)**	(90.7)
	478.9	357.7
Deferred tax on revaluation	**(148.4)**	(192.3)
Deferred tax on depreciation charge	**21.8**	17.2
	(126.6)	(175.1)
Revaluation reserve as at 31 March	**1,692.0**	1,339.7

8. Property, plant and equipment

Group - Current year	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2022	**42.6**	**3,029.5**	**4,891.6**	**281.4**	**8,245.1**
Revaluation	**-**	**210.8**	**-**	**-**	**210.8**
Additions net of grants and contributions	**-**	**205.1**	**215.0**	**0.1**	**420.2**
Disposal	**(0.6)**	**-**	**-**	**(2.7)**	**(3.3)**
At 31 March 2023	**42.0**	**3,445.4**	**5,106.6**	**278.8**	**8,872.8**
Accumulated depreciation					
At 1 April 2022	**25.0**	**-**	**1,682.7**	**273.3**	**1,981.0**
Revaluation	**-**	**(71.7)**	**(310.9)**	**-**	**(382.6)**
Charge for the year	**0.8**	**71.7**	**243.2**	**2.7**	**318.4**
Released on disposal	**(0.6)**	**-**	**-**	**(2.6)**	**(3.2)**
At 31 March 2023	**25.2**	**-**	**1,615.0**	**273.4**	**1,913.6**
Net book value					
At 31 March 2023	**16.8**	**3,445.4**	**3,491.6**	**5.4**	**6,959.2**
At 31 March 2023 (historic cost)	**16.8**	**2,275.9**	**2,397.9**	**5.4**	**4,696.0**

The net book value of Property, plant and equipment includes £343.3 million in respect of assets in the course of construction (2022: £297.3 million)
The net book value of Property, Plant and equipment includes £118.0 million of borrowing costs capitalised in accordance with IAS 23 (2022: £96.5 million), of which £25.1 million were additions in the year (2022: £14.3 million).

Right-of-use assets
Included within the above are right-of-use assets as analysed below:

Group - 2023	Infrastructure assets £m	Operational structures £m	Total £m
Net book value at 1 April 2022	**657.0**	**26.4**	**683.4**
Disposal	**-**	**(26.9)**	**(26.9)**
Revaluation	**81.6**	**3.4**	**85.0**
Depreciation charge for the year	**(54.0)**	**(2.8)**	**(56.8)**
Net book value at 31 March 2023	**684.6**	**0.1**	**684.7**
Net book value at 31 March 2023 (historical cost basis)	**452.2**	**0.1**	**452.3**

The disposal of £26.9 million represents the termination of a lease arrangement, with the Group retaining ownership of the underlying asset.

8. Property, plant and equipment (continued)

2022	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
At 1 April 2021	43.0	2,798.2	4,734.0	278.6	7,853.8
Revaluation	-	85.5	-	-	85.5
Additions net of grants and contributions	-	145.8	157.6	4.0	307.4
Disposal	(0.4)	-	-	(1.2)	(1.6)
At 31 March 2022	42.6	3,029.5	4,891.6	281.4	8,245.1
Accumulated depreciation					
At 1 April 2021	24.1	57.4	1,691.5	272.0	2,045.0
Revaluation	-	(123.0)	(239.9)	-	(362.9)
Charge for the year	0.9	65.6	231.1	2.7	300.3
Released on disposal	-	-	-	(1.4)	(1.4)
At 31 March 2022	25.0	-	1,682.7	273.3	1,981.0
Net book value					
At 31 March 2022	17.6	3,029.5	3,208.9	8.1	6,264.1
At 31 March 2022 (historic cost)	17.6	2,120.8	2,333.3	7.8	4,479.5

Right-of-use assets
Included within the above are right-of-use assets as analysed below:

Group - 2022	Infrastructure assets £m	Operational structures £m	Total £m
Net book value at 1 April 2021	633.3	29.0	662.3
Revaluation	62.3	3.0	65.3
Depreciation charge for the year	(38.6)	(5.6)	(44.2)
Net book value at 31 March 2022	657.0	26.4	683.4
Net book value at 31 March 2022 (historical cost basis)	459.9	19.2	479.1

The Group’s leases are principally made up of water and sewerage treatment infrastructure assets and equipment in order to carry out its operations.

The parent company owns no Property, plant or equipment.

9. Intangible assets

Group - 2023	Cost £m	Amortisation £m	Net book value £m
At 1 April 2022	**499.5**	**(296.3)**	**203.2**
Additions/(charge) for year	**38.6**	**(39.6)**	**(1.0)**
At 31 March 2023	**538.1**	**(335.9)**	**202.2**

Prior year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2021	462.2	(258.6)	203.6
Additions/(charge) for year	37.3	(37.7)	(0.4)
At 31 March 2022	499.5	(296.3)	203.2

9. Intangible assets (continued)

Intangible assets principally comprise computer software and related system developments.

The net book value of intangible assets includes £33.0 million in respect of assets in the course of construction (2022: £45.1 million).

The net book value of intangible assets includes £12.6 million of borrowing costs capitalised in accordance with IAS 23 (2022: £10.6 million) of which £3.1 million were additions in the year (2022: £2.1 million).

The parent company owns no intangible assets.

10. Investments

Group
Equity of less than 10% is held in the following unlisted company:

	Principal activities	Country of incorporation	Holding
Water Research Centre (1989) plc	Water research	England and Wales	B Ordinary Shares of £1

Parent company
The parent company has a £1 investment in Glas Cymru (Securities) Cyfyngedig (100% holding) and has indirect investments in the following subsidiary undertakings:

	Principal activities	Tax Residency	Country of incorporation	Holding
Dŵr Cymru (Holdings) Limited	Holding company	UK resident	England and Wales	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	UK resident	England and Wales	100%
Dŵr Cymru (Financing) UK plc	Raising finance	UK resident	England and Wales	100%

The registered office of all the above companies is Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT.

11. Trade and other receivables

	Group	
	2023	2022
	£m	£m
Current		
Trade receivables	**596.9**	558.0
Provision for impairment of receivables	**(73.2)**	(69.5)
Trade receivables - net	**523.7**	488.5
Prepayments and accrued income	**109.0**	92.4
Other receivables	**17.8**	11.7
Total trade and other receivables	**650.5**	592.6

As at 31 March 2023, based on a review of historical collection rates it was considered that £73.2 million (2022: £69.5 million) of trade receivables were impaired and these have therefore been provided for. The impaired receivables relate mainly to the measured and unmeasured supply of water and sewerage services. Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired.

11. Trade and other receivables (continued)

The ageing of receivables was as follows:

Current year Trade receivables	Total £m	Provided for £m	Net £m
Billings in advance	**408.1**	**-**	**408.1**
Under one month	**22.9**	**(0.9)**	**22.0**
Between one and six months	**40.2**	**(1.6)**	**38.6**
Between six months and one year	**28.2**	**(1.1)**	**27.1**
Between one and two years	**42.6**	**(32.8)**	**9.8**
Between two and three years	**26.4**	**(24.2)**	**2.2**
Over three years	**28.5**	**(12.6)**	**15.9**
	596.9	**(73.2)**	**523.7**

Prior year Trade receivables	Total £m	Provided for £m	Net £m
Billings in advance	384.6	-	384.6
Under one month	16.2	(1.4)	14.8
Between one and six months	30.1	(3.1)	27.0
Between six months and one year	22.6	(1.8)	20.8
Between one and two years	32.2	(30.1)	2.1
Between two and three years	22.0	(20.3)	1.7
Over three years	50.3	(12.8)	37.5
	558.0	(69.5)	488.5

Movements in the provision for impairment of trade receivables are as follows:

	Group	
	2023 **£m**	2022 £m
At 1 April	**69.5**	77.8
Charge to income statement	**23.7**	18.8
Receivables written off during the year as uncollectable	**(20.0)**	(27.1)
At 31 March	**73.2**	69.5

During the year the Group has written off £20.0 million of debt which had been provided for in full (2022: £27.1 million). The charge to bad debt provision in note 3 includes £1.1 million written off debt from third-party companies who bill on our behalf and is not included in the provision for impairment of trade receivables.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The creation and release of provision for impaired receivables have been included in operational expenditure.

The risk of impairment of other classes of trade and other receivables is very low. All trade and other receivables are denominated in sterling.

The tables below illustrate the impact of applying the “expected loss” model in accordance with IFRS 9. Debt provisioning is based on historical experience as adjusted for certain forward-looking factors, including the impact of charging orders which improve the underlying collectability of debt. The Group holds around 7,400 charging orders as collateral against £12 million of debt (2022: 7,000 orders against £12 million of debt).

11. Trade and other receivables (continued)

Current year	Historical default rates	Forward-looking adjustment	Adjustment total	Historical impairment	Forward-looking adjustment	Total impairment
	%	%	%	£m	£m	£m
Billed in advance	-	-	-	-	-	-
< 1 month	**5.2%**	**(1.2%)**	**4.1%**	**1.2**	**(0.3)**	**0.9**
1 > 6 months	**5.2%**	**(1.2%)**	**4.1%**	**2.1**	**(0.5)**	**1.6**
6 months > 1 year	**5.2%**	**(1.2%)**	**4.1%**	**1.5**	**(0.3)**	**1.2**
1 > 2 years	**79.4%**	**(2.6%)**	**76.8%**	**33.9**	**(1.1)**	**32.8**
2 > 3 years	**93.3%**	**(1.5%)**	**91.8%**	**24.6**	**(0.4)**	**24.2**
> 3 years	**82.3%**	**(9.4%)**	**72.9%**	**15.1**	**(2.6)**	**12.5**
	-	**-**	**-**	**78.4**	**(5.2)**	**73.2**

Prior year	Historical default rates	Forward-looking adjustment	Adjustment total	Historical impairment	Forward-looking adjustment	Total impairment
	%	%	%	£m	£m	£m
Billed in advance	-	-	-	-	-	-
< 1 month	9.2%	(0.9%)	8.3%	1.9	(0.2)	1.7
1 > 6 months	10.2%	(0.9%)	9.3%	4.0	(0.4)	3.6
6 months > 1 year	11.4%	(0.9%)	10.5%	3.4	(0.3)	3.1
1 > 2 years	73.9%	(0.9%)	73.0%	30.6	(0.4)	30.2
2 > 3 years	75.9%	(2.8%)	73.1%	21.5	(0.9)	20.6
> 3 years	78.1%	(7.8%)	70.3%	12.2	(1.9)	10.3
				73.6	(4.1)	69.5

The Group's trade receivables provisioning methodology incorporates an "expected loss" model which also determines an appropriate level of losses against which to provide in the measured income accrual. The impact on the accrual as at 31 March 2023 is £4.1m, being a revenue provision of 5% against a gross balance of £82.0m (2022: £4.0 million and 5%).

The parent company's loan to group undertakings of £3.3 million (2022: £3.3 million) represents two loans to wholly-owned subsidiaries, Dŵr Cymru Holdings Limited (£1.9 million) and Dŵr Cymru Cynfyngedig (£1.4 million). The loan attracts interest at a rate of 5% and is repayable on demand. Interest accruing on the loan is included in trade and other receivables.

12. Cash and cash equivalents

	Group	
	2023	2022
	£m	£m
Cash at bank and in hand	**27.3**	52.0
Short-term deposits	**336.2**	450.0
	363.5	502.0

The effective interest rate on short-term deposits as at 31 March 2023 was 3.9% (2022: 0.7%) and these deposits had an average maturity of 46 days (2022: 31 days). All cash and cash equivalents were held in sterling.

13. Trade and other payables

	Group	
	2023	2022
	£m	£m
Current		
Trade payables	**64.2**	49.3
Capital payables	**56.1**	38.4
Other taxation and social security	**3.6**	3.8
Accruals and deferred income	**561.2**	521.5
	685.1	613.0

	2023	2022
	£m	£m
Non-current		
Deferred income	**540.8**	447.2

14. Other financial liabilities – borrowings

	Group	
	2023	2022
Current	**£m**	£m
Interest accruals	**30.3**	12.1
Bonds	**(0.7)**	(0.7)
Term loans	**64.2**	56.3
Lease liabilities	**0.9**	17.6
	94.7	85.3

	Group	
	2023	2022
Non-current	**£m**	£m
Interest accruals	**20.0**	35.7
Bonds	**3,148.7**	2,986.5
Term loans	**545.0**	581.0
Lease liabilities	**377.2**	378.0
	4,090.9	3,981.2

The parent company has no borrowings.

A security package was granted by DCC, as part of the Group's bond programme for the benefit of holders of senior bonds, finance lessors and other senior financial creditors. The obligations of DCC are guaranteed by the Group, Glas Cymru (Securities) Cyfyngedig and Dŵr Cymru (Holdings) Limited. The main elements of the security package are:

i) a first fixed and floating security over all of DCC's assets and undertaking, to the extent permitted by the Water Industry Act, other applicable law and its licence; and

ii) a fixed and floating security given by the guarantors referred to above which are accrued on each of these companies' assets including, in the case of Dŵr Cymru (Holdings) Limited, a first fixed charge over its shares in DCC.

The Group's Class A Bonds of £1,141 million (2022: £1,075 million) benefit from a guarantee from Assured Guaranty UK Ltd. Assured Guaranty's credit rating is graded as A1/AA by Moody's, Standard & Poor's and is not rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher of the financial guarantor's rating or the underlying rating of these bonds, of A1/AA/A from Moody's, Standard & Poor's and Fitch respectively. The underlying rating (A3/A-/A) reflects the standalone credit quality of these bonds without the benefit of the guarantee from Assured Guaranty and is the same as the credit ratings of the Group's Class B bonds of £1,517 million (2022: £1,422 million).

The Group's Class C bonds of £500 million (2022: £500 million) were rated Baa2/BBB/BBB+ by Moody's, Standard & Poor's and Fitch respectively.

15. Derivative financial instruments

Derivative financial instruments are held for economic hedging purposes. However, they do not qualify as accounting hedges and movements in their fair value are taken to the income statement (see note 4b).

Group - 2023	Fair values	
	Assets	Liabilities
	£m	£m
Current		
Index-linked swaps	**18.0**	**(21.0)**
Interest rate swaps	**3.3**	**(5.3)**
Power hedging swaps	**5.8**	**-**
	27.1	**(26.3)**
Non-current		
Index-linked swaps	**307.9**	**(723.2)**
Interest rate swaps	**6.5**	**(30.7)**
Power hedging swaps	**4.1**	**-**
	318.5	**(753.9)**
Total	**345.6**	**(780.2)**

Group - 2022	Fair values	
	Assets	Liabilities
	£m	£m
Current		
Index-linked swaps	53.2	(49.2)
Interest rate swaps	-	(7.5)
Power hedging swaps	30.9	-
	84.1	**(56.7)**
Non-current		
Index-linked swaps	335.9	(915.4)
Interest rate swaps	-	(50.8)
Power hedging swaps	8.1	-
	344.0	**(966.2)**
Total	**428.1**	**(1,022.9)**

The Group has reviewed all contracts for embedded derivatives that are required to be accounted for separately if they do not meet certain requirements set out in IFRS 9; the Group has no such embedded derivatives.

The parent company has no derivative financial instruments or embedded derivatives.

Interest rate swaps
At 31 March 2023 an interest rate swap fixes the interest rate on £192 million (2022: £192 million) of floating liabilities held by the Group. The maturity date of the swap is 31 March 2031 and the fixed interest rate is 5.67% per annum, payable quarterly.

Index-linked swaps

Lease swaps
The index-linked swaps have the effect of index-linking the interest rate on £378 million (2022: £379 million) of lease liabilities by reference to the Retail Prices Index (RPI).

The notional amount of index-linked swaps allocated to leases as at 31 March 2023 was £384 million (2022: £389 million), representing the average balance on the leases subject to floating interest rates for the year to 31 March 2023. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

15. Derivative financial instruments (continued)

The principal terms of the index linked swaps are as follows:

Notional amount	£384 million amortising (2022: £389 million amortising)
Average swap maturity	12 years (2022: 14 years)
Average interest rate	1.64% fixed plus RPI (2022: 1.63% fixed plus RPI)

Bond swap

The index-linked swap have the effect of index-linking the interest rate on £1,250 million of fixed rate bonds by reference to the RPI (2022: £1,250 million).

The principal terms are as follows:

Indexed notional amount	£1,595 million (2022: £1,407 million)
Swap maturity	15 years (2022: 17 years)
Interest rate	(0.16)% indexed by RPI (2022 (0.16)% indexed)

16. Financial risk management

The policies of the Group in respect of financial risk management are included in the accounting policies note on pages 36 and 37. The numerical financial instrument disclosures as required by IFRS 7 are set out below.

a) Interest rate risk
The effective interest rates at the balance sheet dates were as follows:

	2023	2022
Assets:		
Cash and cash equivalents	**3.9%**	0.7%
Liabilities:		
Bonds	**4.5%**	3.1%
Term loans	**3.0%**	0.6%
Other unsecured loans	**4.6%**	4.3%
Lease obligations	**6.1%**	2.3%

Trade and other receivables and payables are non interest-bearing.

The effective interest rates ignore the effect of the interest rate and index-linked swaps set out in note 15. They also exclude the indexation charge applicable to the index-linked bonds.

b) Liquidity risk

Group - 2023	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	**363.5**	-	-	-	**363.5**
Trade and other receivables	**650.5**	-	-	-	**650.5**
	1,014.0	-	-	-	**1,014.0**
Liabilities:					
Bonds	**0.8**	**0.8**	**950.5**	**2,208.1**	**3,160.2**
Term loans	**64.1**	**88.5**	**219.6**	**236.8**	**609.0**
Other unsecured loans	**0.2**	-	-	-	**0.2**
Lease liabilities	**0.9**	**250.8**	**33.0**	**93.4**	**378.1**
Trade and other payables	**685.1**	**12.4**	**37.1**	**491.3**	**1,225.9**
Future interest payable	**171.7**	**157.5**	**357.3**	**725.0**	**1,411.5**
	922.8	**510.0**	**1,597.5**	**3,754.6**	**6,784.9**

16. Financial risk management (continued)

Liquidity risk

Group – 2022	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	502.0	-	-	-	502.0
Trade and other receivables	592.6	-	-	-	592.6
	1,094.6	-	-	-	1,094.6
Liabilities:					
Bonds	0.8	0.8	566.1	2,431.8	2,999.5
Term loans	56.3	85.3	232.6	263.0	637.2
Other unsecured loans	-	-	-	0.2	0.2
Finance lease liabilities	17.6	1.0	282.6	94.4	395.6
Trade and other payables	613.0	10.2	30.6	406.4	1,060.2
Future interest payable	140.4	126.2	347.7	626.5	1,240.8
	828.1	223.5	1,459.6	3,822.3	6,333.5

The minimum lease payments fall due as follows:

	2023 £m	2022 £m
Gross lease liabilities		
Within one year	**24.0**	24.5
Between two and five years	**319.5**	257.5
After five years	**127.4**	167.6
	470.9	449.6
Future interest	**(92.8)**	(54.0)
Net lease liabilities	**378.1**	395.6
Net lease liabilities are repayable as follows:		
Within one year (note 14)	**0.9**	17.6
Between two and five years	**283.8**	283.6
After five years	**93.4**	94.4
Total over one year (note 14)	**377.2**	378.0

c) Fair values

The fair values of the Group's derivative financial instruments are set out in note 15. The following table summarises the fair value and book value of the Group's bonds.

	2023		2022	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bonds (note 14)	**3,160.2**	**2,973.7**	2,999.5	3,604.2

The fair values of all other financial instruments are equal to the book values.

16. Financial risk management (continued)

d) Borrowing facilities

As at 31 March 2023 the Group had available undrawn committed borrowing facilities of £200 million, in respect of which all conditions precedents have been met (2022: £200 million).

	2023	2022
	£m	£m
Expiring in more than one year:		
- revolving credit facilities	**200.0**	200.0
	200.0	200.0

The facilities are all available for two years with a one-year extension option.

At 31 March 2023 Dwr Cymru (Financing) UK PLC had a special liquidity facility of £135 million (2022: £135 million), which it is required to maintain in order to meet certain Group interest and other obligations that cannot be funded through operating cashflow of the Group, in the event of a standstill being declared by the Security Trustee. A standstill would arise in the event that Dwr Cymru Cyfyngedig defaults on its debt financing covenants. The facility is a 5-year evergreen facility provided by an insurance provider.

All of the above facilities are at floating rates of interest.

e) Capital risk management

Gearing ratios (Glas Cymru Holdings Cyfyngedig group)

	2023	2022
	£m	£m
Total borrowings	**(4,185.6)**	(4,066.5)
Less: cash and cash equivalents	**379.4**	515.1
Net debt	**(3,806.2)**	(3,551.4)
Regulatory capital value (RCV)	**7,161.3**	6,460.3
Total capital	**3,355.1**	2,908.9
Less: unamortised bond costs and swap indexation	**(357.2)**	(170.7)
Total capital per bond covenants	**2,997.9**	2,738.2
Gearing ratio	**58%**	58%

As set out on pages 36 and 37, the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt with the Ofwat-determined RCV.

Under the Common Terms Agreement regulatory gearing is calculated as the level of net debt in the whole business securitisation group (under Glas Cymru Anghyfyngedig) relative to the regulatory capital value.

17. Provisions

Group – 2023	Restructuring provision £m	Uninsured loss provision £m	Other provisions £m	Total £m
At 1 April 2022	**3.7**	**4.3**	**0.5**	**8.5**
Charged to income statement	**-**	**1.1**	**15.0**	**16.1**
Unused amounts reversed	**-**	**-**	**-**	**-**
Utilised in year	**(0.6)**	**(0.8)**	**-**	**(1.4)**
At 31 March 2023	**3.1**	**4.6**	**15.5**	**23.2**
Split as:				
Amounts to be utilised within one year	**1.4**	**1.4**	**15.0**	**17.8**
Amounts to be utilised after more than one year	**1.7**	**3.2**	**0.5**	**5.4**
At 31 March 2023	**3.1**	**4.6**	**15.5**	**23.2**

Group - 2022	Restructuring provision £m	Uninsured loss provision £m	Other provisions £m	Total £m
At 1 April 2021	10.5	4.6	0.5	15.6
Charged to income statement	-	1.3	-	1.3
Unused amounts reversed	(4.8)	-	-	(4.8)
Utilised in year	(2.0)	(1.6)	-	(3.6)
At 31 March 2022	**3.7**	**4.3**	**0.5**	**8.5**
Split as:				
Amounts to be utilised within one year	1.4	1.4	-	2.8
Amounts to be utilised after more than one year	2.3	2.9	0.5	5.7
At 31 March 2022	**3.7**	**4.3**	**0.5**	**8.5**

The parent company had no provisions at 31 March 2023 (2022: none).

Restructuring provision
This provides for the cost of a reduction in the headcount of 182 to meet a challenging cost efficiency target for the regulatory period 2020 to 2025. This forecast is reassessed each year.

For the year to 31 March 2022, £4.8 million restructuring cost was released following lower-than-expected headcount reductions in the prior year, partially recovered through natural attrition and a delay in the profiling of reductions. This amount was written back to the income statement.

Uninsured loss provision
This provision is in respect of uninsured losses and instances where insurance does not cover a deductible amount. The utilisation period of these liabilities is uncertain due to the nature of claims but is estimated to be within five years.

Other provisions
Other provisions are made for certain other obligations which arise during the ordinary course of the Company's business.

Glas Cymru's 2021-22 Annual Report and Accounts disclosed that reported leakage and per capita consumption (PCC) data for 2020-21 and 2021-22 was subject to an ongoing internal review. This included an independent report into leakage and PCC reporting which identified two main areas of non-compliance with the Ofwat prescribed methodology for reporting Leakage and PCC. The reviews concluded that reported leakage performance had been understated for the two years and that reported PCC data had been overstated for the same period. We shared with Ofwat the detailed findings of our review, including remedial actions to be taken to address the control weaknesses identified, and our proposed customer redress. On 25 May 2023, Ofwat launched an investigation into "Welsh Water's reporting of leakage and PCC and on 31 May 2023 served a S203 Notice under the Water Industry Act 1991 requiring further information from the Company.

17. Provisions (continued)

To compensate customers, the Company is proposing customer redress totalling £29 million. Our ultimate financial liability for this matter remains uncertain pending Ofwat's formal acceptance of our proposed customer redress package and the outcome of its own investigation. Having due regard to these uncertainties, we have, under other provisions, provided for £15 million of the total £29 million customer redress package, representing the Board's decision to apply a £10 refund to every customer's bill in financial year 2023-24. The remaining £14 million represents the Regulatory Capital Value (RCV) uplift the Company will forego at PR24. Under the regulatory mechanism for PR24, the Company is entitled to recover regulatory overspend for 2020-21 and 2021-22 that is attributable to leakage expenditure, but we will not take this into account in our RCV uplift on 1 April 2025. As we are unable to set a provision in the financial statements for changes to future RCV, this element of the customer redress package is only disclosed in the financial statements.

18. Net cash inflow from operating activities

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group	
	2023	2022
	£m	£m
Operating (loss)/profit	(6.7)	**80.5**
Adjustments for:		
- Depreciation and amortisation	345.7	**327.8**
- Changes in working capital:		
Increase in trade and other receivables	**(56.4)**	**(24.5)**
Increase in inventories	**(1.0)**	**-**
Increase in trade and other payables	**51.7**	**51.3**
Exceptional item – Pension increase	**29.6**	**-**
Increase/(decrease) in provisions	**14.6**	**(7.1)**
	38.5	**19.7**
Cash generated from operations	**377.5**	**428.0**

b) Interest paid

	Group	
	2023	2022
	£m	£m
Interest payable per income statement	**318.5**	187.1
Less non-cash items:		
- Indexation on index-linked bonds	**(161.4)**	(67.0)
- Indexation on index-linked debt	**(30.3)**	(17.9)
- Amortisation of bond issue costs	**(1.5)**	(1.5)
- Interest charge on pension scheme liabilities	**(2.1)**	(1.6)
- Amortisation of bond issue premium	**0.8**	0.8
- Effect of capitalisation under IAS 23	**28.3**	16.4
- (Decrease)/Increase in accruals	**(2.7)**	0.3
	(168.9)	(70.5)
Interest paid	**149.6**	116.6

19. Analysis and reconciliation of net debt

Net debt is defined as the value of cash and cash equivalents less net accrued interest and total borrowings.

a) Net debt at the balance sheet date may be analysed as:

	Group	
	2023	2022
	£m	£m
Cash and cash equivalents	**363.5**	502.0
Debt due after one year	**(3,693.7)**	(3,567.5)
Debt due within one year	**(63.5)**	(55.6)
Lease liabilities	**(378.1)**	(395.6)
Accrued interest	**(50.3)**	(47.8)
	(4,185.6)	(4,066.5)
Net debt	**(3,822.1)**	(3,564.5)

b) The movement in net debt during the year may be summarised as:

	Group	
	2023	2022
	£m	£m
Net debt at start of year	**(3,564.5)**	(3,545.8)
Movement in net cash	**(138.5)**	292.9
Movement in debt arising from cash flows	**75.9**	(227.1)
Movement in net debt arising from cash flows	**(62.6)**	65.8
Movement in accrued interest	**(2.5)**	0.4
Indexation of index-linked debt	**(192.5)**	(84.9)
Other non-cash movements	**-**	-
Movement in net debt during the year	**(257.6)**	(18.7)
Net debt at end of year	**(3,822.1)**	(3,564.5)

20. Employees and Directors

a) Directors' emoluments

The aggregate emoluments of the Directors of Dŵr Cymru Cyfyngedig for their services as Directors of the Company are set out below:

	2023	2022
	£000	£000
Salary (including benefits in kind)	**1,089**	**1,119**
Fees	**605**	**556**
	1,694	**1,675**
Long-term incentive plan	**-**	**146**
Highest paid Director: P Perry (2022: P Perry)		
Aggregate emoluments[1]	**380**	**503**
Accrued pension under defined benefit scheme	**412**	**73**
Long-term incentive plan	**-**	**99**

[1] excluding pension accrual and long-term incentive plan

Retirement benefits are accruing for one Director (2022: one) under defined benefit schemes. None of the Directors are a member of the defined contribution scheme (2022: none).

Remuneration payable to the Executive Directors in respect of the financial year ended 31 March 2023 was as follows:

- When reviewing Executive salaries, the Committee considered the proposed increases for the wider workforce, and business and individual performance to date in FY23, and the rates of the National Living Wage and Real Living Wage. The Committee decided to accept the recommendation of the Executive Directors that it would be appropriate to award an increase lower than the increase for the wider workforce. The wider workforce had an agreement in place to award an increase in line with CPIH in December. However, in partnership with our trade unions we agreed an increase of 6.2%, (3% lower than CPIH in December 2022) and a cost of living payment of £2,000. The Executive team members were awarded a 4.0% increase. All increases were with effect from April 2023.
- Under the AVPS, up to 100% of salary can be earned in any year. The overall performance achieved for FY23 in the Executive Directors' AVPS was 41.39%. This compares with 40% in 2021-22.
- Under the LTVPS for the period 2020 to 2025, performance is assessed annually against interim goals. Interim payments are made up to 60% of maximum for each of the two elements: Totex perfromance; and Overall ODI outcomes for performance development measures. Overall performance is assessed over the five-year period of the AMP. This could result in payment or recovery of any under or overpaid amounts in the final year.
- The scorecard outcomes under both the AVPS and LTVPS were, in the Committee's view, a balanced reflection of the business performance in a very challenging year for the business and the wider water industry. However, as announced on 11 May 2023, the Executive Directors have elected to waive their entitlement to a variable pay-out in respect of FY23 under both the AVPS and the LTVPS and the Committee accepted this. While a number of the AVPS and LTVPS targets were either partially or fully met, this decision reflects the individuals' recognition of their duties to manage the environmental impact of our operations (particularly river water quality). The Executive Directors are aware of the high level of public sentiment in this regard, and in a year when the extreme weather events impacted our wider ability to manage these challenges, Peter Perry and Mike Davis did not feel it appropriate to receive variable pay for FY23.

(Further details are provided in the 2023 Remuneration Report which forms part of GCHC's 2023 annual report and consolidated financial statements.)

20. Employees and Directors (continued)

b) Staff costs during the year

	2023	2022
	£m	£m
Wages and salaries	**156.3**	137.9
Social security costs	**17.6**	14.9
Other pension costs	**11.1**	12.2
	185.0	165.0

Of the above, £87.5 million (2022: £67.5 million) has been capitalised, being the investment cost of employees work on the capital programme. For March 2022, exceptional items amounting to £3.8 million have been disclosed separately on the face of the income statement (note 3).

Average monthly number of people (including executive directors) employed by the Group	**2023** **Number**	2022 Number
Regulated water and sewerage activities	**3,554**	**3,547**

The Board delegates certain of the Group's Strategic and operational activities to the Dŵr Cymru Executive, a senior management group comprising both executive Directors and employees. Total remuneration of these key personnel was as follows:

	2023	2022
	£m	£m
Executive directors	**1.1**	**1.1**
Other key personnel	**3.5**	**3.3**
	4.6	**4.4**

21. Pension commitments

The Group operates a funded defined benefit pension scheme (based on final pensionable salary and pensionable service), the DCWW Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund.

The Welsh Water Pension Scheme was closed to new members from 31 December 2005. A new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from 1 January 2006.

EFRBS

During 2011, the Group put arrangements in place via an Employer-Financed Retirement Benefit Scheme (EFRBS) for four 'capped' Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the DCWW Pension Scheme. At 31 March 2023, there were two remaining Executive Members with entitlements under this arrangement, one of whom is in receipt of his benefits.

Risks

Through the Scheme, the Group is exposed to numerous risks, the most significant of which are detailed below:

• Asset volatility:
Scheme liabilities are calculated using discount rates set with reference to bond yields (although discount rate methodology differs for accounting and funding purposes). If Scheme assets deliver a return which is lower than the discount rate, this will create or increase the Scheme deficit (all other things being equal). The Scheme holds various return seeking assets which are expected to outperform bonds in the long-term, albeit at the risk of short-term volatility.

• Movement in bond yields:
A decrease in corporate bond yields will increase the Scheme liabilities, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

• Inflation risk:
As a large majority of the members' benefits are linked to inflation (subject to maximum annual caps), a high level of inflation will result in an increase of benefits attributable to the members, which will in turn increase the Scheme's liabilities.

21. Pension commitments (continued)

• Life expectancy
The Scheme's obligations are to provide members with benefits for the remainder of their lives, so an increase in life expectancy will result in the Scheme paying members' benefits over a longer period, which will in turn increase the Scheme's liabilities.

Defined benefit scheme
A full actuarial valuation of the scheme was undertaken as at 31 March 2022 by Joanne Eynon of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated as at 31 March 2023 and the principal assumptions made by the actuaries were:

	2023	2022
Discount rate	**4.6%**	2.8%
RPI Inflation assumption	**3.3%**	3.7%
Rate of uncapped pension increases	**3.3%**	3.7%
Rate of capped pension increases	**3.2%**	3.5%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	**86.8 years**	86.8 years
- Current pensioners aged 65 - females	**89.0 years**	89.2 years
- Future pensioners aged 65 (currently aged 45) - males	**87.8 years**	87.8 years
- Future pensioners aged 65 (currently aged 45) - females	**90.2 years**	90.3 years

Mortality experience since 2020 does not provide reliable data to set a future assumption due to the effects of COVID 19. The disclosures at 31 March 2023 therefore use the CMI 2021 mortality projection model with an initial improvement parameter of 0.5 and a 10% weighting applied to 2020 and 2021 mortality experience. Other CMI parameters are as in the core model, with a long-term trend rate of 1.0% p.a.

The inflation risk premium (IRP) remains the same as the prior year at 0.4%.

Changes in the defined benefit obligation are as follows:

	2023 **£m**	2022 £m
At 1 April	**504.5**	528.9
Current service cost	**0.2**	0.4
Interest expense	**14.0**	10.3
Remeasurement: loss from change in financial assumptions	**(135.7)**	(18.5)
Benefits paid	**(16.4)**	(16.6)
Past service cost	**30.8**	-
At 31 March	**397.4**	504.5

Changes in the fair value plan assets are as follows:

	2023 **£m**	2022 £m
At 1 April	**427.5**	442.7
Interest income	**11.7**	8.7
Actuarial (losses)/gains	**(11.2)**	(8.0)
Contributions	**0.5**	0.7
Benefits paid	**(16.4)**	(16.6)
At 31 March	**412.1**	427.5

21. Pension commitments (continued)

Scheme assets	**2023 £m**	2022 £m
Cash	**9.7**	5.3
Equity	**287.6**	322.3
Private equity	**114.8**	99.9
	412.1	427.5

With the exception of cash, assets consist of pooled investment funds, which are not quoted on an active market, shown by the category in the table above. Of the total, assets with a fair value of £114.8 million are Level 3 financial assets (2022: £99.9 million); these are considered to be the least liquid and hardest to value and are therefore subject to a higher degree of estimation. See also the critical accounting estimates in note 1. Experience gains and losses are differences between the actual events as they have turned out and the assumptions that were made as at the date of the earlier actuarial valuation and changes in the actuarial assumption during the year.

Charges to the income statement and other comprehensive income are as follows:

	2023 £m	2022 £m
Income statement:		
Service costs	**0.2**	0.4
Interest costs	**2.2**	1.6
Exceptional pension increases	**30.8**	-
Total charged to the income statement	**33.2**	2.0
Other comprehensive income:		
Actuarial (loss)/gain on plan assets	**(11.2)**	(8.0)
Actuarial gain/(loss) on defined benefit obligation	**135.7**	18.5
Total credit/(charged) to the statement of comprehensive income	**124.5**	10.5

A past service cost of £30.8 million has been recognised during the year representing the award of pension increases under the 'best endeavours' clause in our pension scheme rules where full RPI increases are awarded if certain criteria are met. This has been recognised as an exceptional item as our defined benefit liability at 31 March 2023 provides for future pension increases above the 5% 'best endeavours' clause cap and as such any movement in estimate in future periods will be presented as Other Comprehensive Income as required under IAS 19. Further information on the recognition of the exceptional item is available in note 3 on page 43.

	2023 £m	2022 £m
Present value of funded obligations	**(397.4)**	(504.5)
Fair value of plan assets	**412.1**	427.5
	14.7	(77.0)
EFRBS unfunded liability	**(2.7)**	(3.7)
Net defined benefit liability recognised in the balance sheet	**12.0**	(80.7)

The difference between the two amounts is recognised as a surplus or obligation in the statement of financial position. Where this difference results in a defined benefit surplus, this is recognised in accordance with IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', on the basis that the Group has an unconditional right to any excess funds that may exist following the closure of the pension scheme once all members have left the plan and their benefits have been settled.

There were no special contributions paid in the year to 31 March 2023 (2022: £none).

	Change in assumption	**Movement in Liabilities £m**
Discount rate	0.30%	£17.1
Price inflation	0.30%	£17.1
Life expectancy	1 year	£9.6

21. Pension commitments (continued)

The above sensitivity analysis is based on isolated changes in each assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur, and there is likely to be some level of correlation between the movements in different assumptions. We have updated the above sensitivity to 0.3%, from 0.1% in the prior year, to reflect the present volatility seen in the markets.

Effect on future cash flows
The level of contributions is reviewed at each triennial valuation, the latest of which was 31 March 2022.

Under the current Schedule of Contributions, no deficit recovery contributions are expected to be paid for the year-ending 31 March 2024. Future service contributions (consisting of amounts payable by members and the Group) will be in the region of £0.2 million.

The duration of the Scheme's liabilities is approximately 14 years.

Regulatory Framework
The Scheme is funded and governed in line with the requirements of the Pensions Regulator. We have not made any allowance for any minimum funding requirements under IFRIC14.

The Scheme operates under Trust law and the corporate trustee (Welsh Water Pension Trustee Limited) is responsible for its day-to-day governance. The Trustee Directors are assisted in the management of the Scheme by experienced professionals such as actuaries, administrators, and investment consultants.

The Trustees have put in place a diversified investment strategy which aims to meet the liabilities of the Scheme. Details are set out in the Scheme's Statement of Investment Principles. Day-to-day decisions around asset selection have been delegated to BlackRock as their fiduciary investment manager.

High inflation
For most Scheme Sections, pensions in payment (and in some instances deferred benefits) are increased on 1 April each year by the Retail Prices Index ("RPI") as measured over the relevant period, being the annual change in RPI announced for the previous September, December or January.

As a result of current high levels of inflation, many Scheme sections received a full RPI increase in both April 2022 and April 2023 via a 'best endeavours' rule (broadly a pension increase cap that is waived if the Scheme can afford to pay higher increases without requiring Company contributions). The Trustee and Company also agreed to provide an 3% discretionary pension increase, on top of the capped increase of 5% to Scheme sections that have a cap and are not subject the best endeavours rule.

Reduction in duration
Since the preparation of the accounting disclosures at 31 March 2022, the duration of the Scheme's liabilities is expected to have fallen from 19 years to 14 years at 31 March 2023. This is due to an increase in the yields used to set the discount rate and the impact of a new actuarial valuation as at 31 March 2022.

22. Lessor

	2023	2022
Operating lease	**£m**	**£m**
Lease income	**0.1**	0.1

The Group leases land to Cardiff Council, currently the site of a composting facility which is operated by a fellow Group company, Welsh Water Organic Energy Limited, providing food and green waste services. The Group has classified this lease as an operating lease because it does not transfer substantially all the risks and rewards incidental to the ownership of the land. The lease payments are index-linked to RPI.

The remaining term of the lease is 9 years, with the total undiscounted current minimum lease receipts amounting to £0.9m.

23. Capital and other financial commitments

The Group's business plan at 31 March 2023 shows net capital expenditure and infrastructure renewals expenditure of £429 million (2022: £400 million) during the next financial year. While only a portion of this amount has been formally contracted for, the Group is effectively committed to a majority of the total as part of the capital investment programme approved by its regulator, Ofwat.

24. Related party transactions

In accordance with the exemption afforded by IAS 24 there is no disclosure in the consolidated financial statements of transactions with entities that are part of the Glas Cymru Anghyfyngedig group.

A wholly-owned subsidiary of the Group, Dŵr Cymru Cyfyngedig, paid costs during the year on behalf of two other members of the larger group headed by the ultimate parent undertaking, Glas Cymru Holdings Cyfyngedig. The outstanding balances are reported as intercompany balances: £25,419 (2022: £20,239) in respect of Cambrian Utilities Limited, £74,290 (2022: £18,901) in respect of Welsh Water Infrastructure Limited, £2,098,786 (2022: £1,153,352) in respect of Welsh Water Organic Energy (Cardiff) Limited), and £481,115 (2022: £55,131) in respect of Welsh Water Organic Waste Limited.

25. Share capital

	2023	2022
	£	£
Authorised		
10 (2022: 10) ordinary shares of £1 each	**10**	10
Allotted and fully paid		
10 (2022: 10) ordinary shares of £1 each	**10**	10

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group.

26. Elan Valley Trust Fund

In 1984 Dŵr Cymru Authority entered into a conditional sale and purchase agreement with Severn Trent Water Authority for the sale of the aqueduct and associated works by which the bulk supply to Severn Trent reservoirs is conveyed.

The sum of £31.7 million, representing the consideration for the conditional sale, was invested in a trust fund. The principal function of the fund was to provide an income to Dŵr Cymru Authority, whilst preserving the capital value of the fund in real terms. Dŵr Cymru Authority's interest in this fund was vested in Dŵr Cymru Cyfyngedig under the provisions of the Water Act 1989.

The assets of the fund are not included in these financial statements. As at 31 March 2023 the market value of the trust fund was £90.0 million (2022: £109.0 million). Interest receivable includes £3.5 million (2022: £3.2 million) in respect of distributions from the Elan Valley Trust Fund.

27. Immediate and ultimate holding company and controlling party

The immediate and ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales. The largest and smallest groups within which the results of the Company are consolidated are those headed by Glas Cymru Holdings Cyfyngedig and Glas Cymru Anghyfyngedig respectively. Both consolidated financial statements can be obtained from the Company Secretary at Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT.